Public Document Pack

Audit & Governance Committee

Tuesday, 29th November, 2022
5.00 pm
Meeting Room A

AGENDA

1. Welcome & Apologies

2. Minutes of the Meeting held on 28th June 2022

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3. Declarations of Interest

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4. External Audit - Audit Plan 2021/22

The Council's External Auditors will provide the Committee with a report on their plan for the 2021/22 statutory audit.

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5. Treasury Management Report - June to August 2022

The Director of Finance will provide the Committee with a report on Treasury Management activity including a Mid-Year Strategy Review for 2021/22.

Treasury Mgmt Report to Audit and Governance Cttee Appendix 6 - Treasury Mgmt Mid-Year Review 2022-23 FINAL **34 - 51**

6. Audit & Assurance - Progress & Outcomes to October 2022

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

AA Progress Report to 31 October 2022 Final **52 - 58**

7. Risk Management - 2021/22 Half Year Review

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

Risk Management 2022.23 Half-year Update **59 - 64**

8. Annual Governance Statement - Progress on 2021/22 Actions and Plan for 2022/23

The Head of Audit & Assurance will provide the Committee with a report on progress of actions relating to the significant issues identified in the 2021/22 Annual Governance Statement and the process for producing the 2022/23 Statement.

Annual Governance Statement 2021.22 Update and 2022.23 Plan Final **65 - 77**
Annual Governance Statement 2021.22 and 2022.23 Plan - Appendix 1 Progress re AGS Actions 2021.22

9. Arrangements for the Appointment of External Auditors

The Director of Finance will provide the Committee with a report on the arrangements for appointing External Auditors from 2023/24.

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Date Published: Friday, 18 November 2022
Denise Park, Chief Executive

AUDIT & GOVERNANCE COMMITTEE
Tuesday 28th June 2022

PRESENT – *Dave Harling (in the Chair.) Councillors Baldwin, Sidat, Imtiaz and Neil Slater.*

OFFICERS – *Dean Langton (Director of Finance), Colin Ferguson (Head of Service Audit and Assurance), Paul Conlon (Democratic Services),*

The Councils Auditors- John Farrar (Grant Thornton).

RESOLUTIONS

1. Welcome and Apologies

The Chair welcomed everyone to the meeting. Apologies for absence were submitted on behalf of Councillor Fielding.

2. Declarations of interest

No Declarations of interest were made by members of the Committee.

3. Minutes of the meeting held on 29th March 2022

The Minutes of the meeting held on 29th March 2022 were submitted.

RESOLVED – That the Minutes of the meeting held on 29th March 2022 be approved as a correct record and signed by the Chair.

4. Annual Health and Safety Report

A report was submitted relating to the Health and Safety team's activity during the period from April 2021 to March 2022. It highlighted the key areas of focus that were under way for the current financial year, most of which would focus on 'back to basics' in terms of health and safety management as the Council transitioned its focus from Covid to business and usual. To begin this, the Corporate Health & Safety Policy had been reviewed, updated and shared with employees.

During 2020/21, a lot of our work was still dominated by the effects of the pandemic and the team's efforts to support with achieving Covid security and ensuring appropriate advice and guidance, both internally to council services and externally to community settings, schools and external businesses during this time. As well as providing this ongoing support, the team worked hard to deliver an exceptional service to schools, undertaking full Health & Safety audits at 45 schools across the Borough. In addition, concentrated support was provided to higher risk services based at Davyfield Road depot and services within Adult Social Care, this included inspections, risk assessments reviews and training delivery.

RESOLVED- That the report be noted.

5. External Audit Annual Report 2020/21.

The Annual Letter summarised the key findings and other matters arising from the external audit work carried out for the year ended 31 March 2021. It provided a commentary of the results of the work and highlighted any issues to draw to the public's attention.

Work on the financial statements was substantially complete, except for a national issue that had arisen concerning infrastructure assets. A CIPFA task and finish group was considering this matter. Once its findings were available, External Audit would consider the impact on the financial statements.

The report also provided a commentary on the Council's value for money (VFW) arrangements under three specified criteria; Financial sustainability, Governance and Improving economy, efficiency and effectiveness. No risk of significant weaknesses were identified in any of these areas. Six improvement recommendations had been made. These were set out in the report and included management's responses. In addition, a commentary was provided on the impact of Covid-19 on the Council.

The following conclusions were set out in respect of each area.

Financial sustainability: The Council is well managed and there is a high level of understanding of its budgetary position, budgetary pressures and any saving required. There is an established process of regular budget reviews and issues reported to those charged with governance in a timely manner. Five opportunities for improvement were identified.

Governance: Overall, no evidence was found of significant weaknesses in the arrangements for ensuring the Council makes informed decisions and properly manages its risks. One opportunity for improvement was identified.

Improving economy, efficiency and effectiveness: Overall, the External Auditor was satisfied the Council has appropriate arrangements on place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources.

Covid-19 arrangements: No significant weaknesses were identified in the VFM arrangements for responding to the Covid -19 pandemic.

External audit noted that they did not have cause to use any of the formal powers that they had under relevant sections of the Local Audit & Accountability Act.

RESOLVED- That the report be noted.

6. Treasury Management Report- March 2022 to May 2022

A report was submitted which provided a summary of the treasury management activity and performance in the period. The Council had

approximately £65.8M invested at 31 May 2022 and short term loans of £25.0M.
Excluding the issue noted in the Treasury Management Annual Report later on the agenda, the activity was within the agreed Prudential and Treasury indicators set by the Council for the year.

RESOLVED-

That the Committee notes the Treasury Management position for the period.

7. Treasury Management Annual Report 2021/22

This report summarised the Treasury Outturn for 2021/22 against the Treasury Management Strategy agreed by Executive Board in March 2021. As at 31 March 2022, net borrowing was £119.6M compared to £165.4M at 31 March 2021. Total investments at the year-end were £42.2M. There was a technical breach of an approved lending limit at the end of March 2022 where the investment limit set in the Treasury Management Strategy was exceededby £135k for one of the Council's call accounts. This breach occurred due to an error with the warning alerts in the treasury management system, which was identified and fixed immediately. A transfer was made the next day to bring the balance back below the investment limit set. Excluding this issue, the activity was within the agreed Prudential and Treasury indicators set by the Council for the year.

RESOLVED-

That the Committee note the Treasury Management outturn position for 2021/22 as reported.

8. Audit & Assurance Progress & Outcomes 1 March 2022 to 31 May 2022

Members received a report which set out the progress on the audit work during the period compared to the approved audit plan. This covered corporate governance, counter fraud and internal audit activity, along with other audit related work carried out by Audit & Assurance staff. It included an update on progress of the outcomes of the follow up of data matches from the Cabinet Office led National Fraud Initiative and a summary of the eight red priority areas identified in the year-end Directors Exception/Dashboard reports.

The overall opinions for the five internal audits completed in the period were summarised, along with a commentary on the key issues noted in the part limited assurance opinion audit report. This limited opinion would not have a significant impact on the overall control environment in place within the Council.

RESOLVED-

That the outcomes achieved to May 31st 2022 against the annual audit and assurance plan 2022/23 be noted.

9. Outcome from Government Technical Consultation on the Local Audit Framework

The report set out the results of Government consultation on implementation of the recommendations of the Redmond Review of the local audit framework. The consultation concerned a broad range of matters, the majority of which related to the creation, governance and operation of a new body that would provide system leadership for local audit. The body would have overarching responsibility for the local audit quality framework and take over statutory responsibility for preparing and issuing the Code of Audit Practice and associated guidance notes, currently the role of the National Audit Office. This was the Code that the external auditors were required to comply with when carrying out their audit of the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources.

A key part of the consultation directly affecting local authorities were proposals relating to Audit Committees and strengthening the guidance on committees. The Chartered Institute of Public Finance & Accountancy (CIPFA) had recently published an updated Position Statement and supporting guidance on Audit Committees. The key outcome was that the Government would mandate that Councils must have an Audit Committee, with at least one independent member.

The Council was well placed on this matter with the Audit & Governance Committee having discharged the responsibilities of an Audit Committee for some time. The July Council Forum meeting would be asked to agree to co-opt two independent (non-voting) members onto the Committee to ensure compliance with the CIPFA guidance

RESOLVED - That the report be noted.

10. New CIPFA Guidance on Audit Committees

Members received a report which presented the CIPFA Position Statement: Audit Committees in Local Authorities and Police 2022 to the Committee for review and comment along with an assessment of the Council's current arrangements for the Audit & Governance Cttee against the new guidance. CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This would enable those bodies to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.

The results of the self-assessment indicated that, with the exception of having two co-opted independent Committee members, the Council's arrangements were in line with the guidance.

RESOLVED-

1. That the report be noted.

2. That the Committee note the assessment of the current arrangements against the new position statement.

11. Annual Risk Management Report 2021/22

The Committee received the Annual Risk Management Report to support it in fulfilling its responsibility, under its terms of reference, to ensure there are adequate risk management arrangements in place, which had operated effectively during the previous year.

The report provided a summary of the risk management activity and key achievements for the year ended 31 March 2022 along with planned developments for the next twelve months. The risk management framework and associated systems and procedures should ensure the Council had adequate and effective risk management and resilience arrangements in place to ensure that key business objectives were met. Commentary on the changes in corporate risks was also provided.

The report covered the following areas:

- Risk Management;
- Resilience - Emergency Planning and Business Continuity;
- Events;
- Information Governance; and
- Insurance.

The report provided evidence to the Committee that, overall, the Council had adequate risk management arrangements in place and these had operated effectively during the year ended 31 March 2022.

RESOLVED-

1. That the report be noted

2. That the conclusions on the overall effectiveness of the risk management arrangements in place during 2021/22 be agreed.

12 Annual Counter Fraud Report 2021/22

A report was submitted which provided a summary of the counter fraud activity during 2021/22. This included the successful prosecution of a direct payments fraud and the results of work to the end of March 2022 to follow-up data matches identified from the National Fraud Initiative 2020/21, which was co-ordinated by the Cabinet Office and was currently on going.

The report provided assurance that there were effective measures in place within the Council to enable the prevention and detection of fraud and irregularities.

RESOLVED- that the Counter Fraud annual report be noted.

13. Head of Internal Audit Annual Opinion Report 2021/22

The Head of Audit was required to produce an annual report providing an overall opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control that meets the requirements of the Public Sector Internal Audit Standards. The report included a summary of the work carried out during the year against the audit plan approved by the A&G

Committee in June 2021, and the opinions provided for each audit review finalised during the year. The details of the individual audits had previously been reported to the Committee during the year as part of the regular Audit & Assurance progress reporting arrangements. Details of other sources of assurance with support the overall opinion were also summarised.

The report noted that:

- Whilst there Council had had reduced capacity to be fully audited during the year, and resources have had to be redeployed in some instances to respond effectively to the pandemic, sufficient evidence has been obtained to support the overall opinion for the year.
- Overall, the Council had adequately designed systems of risk management, control and governance, which are being operated effectively during the year.
- No limitations were placed on the scope of work carried out by Internal Audit during 2021/22;
- None of the qualifications from the audit reviews completed during the year that informed the annual internal audit opinion constituted a material weakness in the Council's overall governance framework that required disclosure in the 2021/22 Annual Governance Statement (AGS) ; and
- The outcome of the Ofsted Inspection of Children's Services, which concluded that overall effectiveness required improvement to be good, which was a significant issue which required inclusion in the AGS.

RESOLVED-

1. That the content of the Annual Internal Audit Opinion Report for 2021/22 (as set out in Appendix A) be noted;
2. That the overall annual opinion of the Head of Audit & Assurance, which is that **adequate assurance** can be placed upon the Council's framework of governance, risk management and internal control be agreed; and
3. That the internal audit work that supports this opinion has been delivered in accordance with the Public Sector Internal Audit Standards (PSIAS) and that there are no significant areas of non-conformance be noted.

14. Annual Governance Statement (AGS) for 2021/22

The AGS was a statutory requirement for local government bodies set out in the Accounts & Audit Regulations 2015. It was an accountability statement from the Council to stakeholders on how well the Council had delivered on governance over the previous year. It explained the key governance processes and procedures in place to enable the Council to carry out its functions effectively during the 2021/22 financial year and up to the date of the June Committee meeting. It included an update on the actions to address the three significant governance issues identified in the 2020/21 AGS and an action plan to address those significant governance issues identified during 2021/22.

The Committee was required to consider the draft AGS before it was signed by the Leader and Chief Executive. It would then be published alongside the Council's 2021/22 Statement of Accounts.

The following significant issues were noted for 2021/22:

- Children’s Services Financial Position;
- Adult Social Care Commissioning;
- The long term financial sustainability of the Council;
- Children’s Services Ofsted Inspection Findings;
- Teachers’ Pension Agency Year End Certification and audit; and
- Performance Management System.

RESOLVED-

That the Draft Governance Statement be approved.

15. Audit & Governance Committee Annual Report 2021/22

The report provided a summary of the Committee’s performance during the last year and in accordance with the CIPFA guidance for Local Authority and Police Audit Committees. The report provided details of the work of the Committee and reports it received which evidenced that the Committee had been effective in fulfilling its terms of reference during 2020/21. It also included the results of the self-assessments against the CIPFA guidance for Audit Committees.

The details provided demonstrated that adequate consideration had been given to all the core areas identified to enable the Committee to fulfil its role and responsibilities

RESOLVED-

1. That the Committee’s Annual Report be approved and;
2. That the report to Full Council for endorsement.

signed: ………………………………………………….

Date: ……………………………………………………
Chair of the meeting
at which the minutes were confirmed

DECLARATIONS OF INTEREST IN

ITEMS ON THIS AGENDA

Members attending a Council, Committee, Board or other meeting with a personal interest in a matter on the Agenda must disclose the existence and nature of the interest and, if it is a Disclosable Pecuniary Interest or an Other Interest under paragraph 16.1 of the Code of Conduct, should leave the meeting during discussion and voting on the item.

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

MEETING: **AUDIT & GOVERNANCE COMMITTEE**

DATE: **29TH NOVEMBER 2022**

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)

Blackburn with Darwen Council
Audit Plan

Year ending 31 March 2022

Blackburn with Darwen Council

13 September 2022

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

Factors

Auditing Developments

We have continued to hold regular meeting with the Council's finance team. During these meetings we discuss a range of key issues regarding general developments, current and projected financial performance and emerging financial reporting issues.

The Department for Levelling Up, Housing and Communities (DLUHC) asked CIPFA to consider changes to the Code to help alleviate delays to publication of audited financial statements. In response CIPFA LASAAC issued an exceptional consultation which explored possible changes to the 2021/22 and 2022/23 Codes. We have discussed such issues with the Council's finance team in advance of the preparation of the 2021/22 statement of accounts.

Accounting for Infrastructure Assets

A national issue has arisen regarding the accounting for infrastructure assets. Specifically where authorities have incurred expenditure on the replacement or enhancement of existing infrastructure assets authorities may not readily be able to identify the cost and accumulated depreciation relating to original asset components being replaced or enhanced. In addition, some local authorities are not considering or accounting for impairments of infrastructure assets and some may not be identifying and applying appropriate useful lives to calculate depreciation.
Whilst this is a national issue the Council has infrastructure assets of £141.2m. We are liaising with management regarding Blackburn's treatment and also liaising with CIPFA, DLUHC, the NAO and the FRC on this issue.

Recovery from Covid 19 pandemic

The Covid-19 pandemic has impacted upon all of ours lives. While there has been some relaxation of 'business as usual' arrangements, public sector bodies are still required to abide by the stewardship requirements of Managing Public Money and have a statutory duty to carry out their function effectively, efficiently and economically.

The outbreak of the coronavirus pandemic has had a significant impact on the normal operations of all public sector bodies. The Council has faced many front-line challenges including the administration of grants to businesses and ensuring adherence to new government guidelines. The government has provided a range of financial support packages throughout the pandemic. These include additional funding to support the cost of services, offset the deficit on collection fund and other income losses.

Our assessment is that the Council has developed a good understanding of its financial and wider governance risks associated with the pandemic.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our Value for Money audit work.
- Where any actions have been agreed in respect of matters identified through previous audit work, either on the financial statements or in respect of work on arrangements to secure VFM, we will include reference to consideration of progress against previously agreed recommendations.
- We will review the accounting treatment for Covid-19 funding for compliance with the Code and appliable financial reporting standards.
- We will continue to provide you with sector updates via our Audit Committee updates.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Blackburn with Darwen Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Blackburn with Darwen Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls;
- Valuation of land and buildings; and
- Valuation of pension fund net liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £6.8m (PY £6.8m), which equates to 1.8% of your prior year gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.34m (PY £0.34m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weaknesses at the planning stage of our audit.

Audit logistics

Our audit planning took place in July 2022 and our final accounts audit will take place in October through to December 2022. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £136,186 for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the Council's financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override 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 for the Council, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test 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; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of Land and Buildings	The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£230.6m in the Council's 2020/21 financial statements), and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets), at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to and discuss with the valuer the basis on which the valuation was carried out; • engage an auditors expert to challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

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Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the 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 (£325.2m as at 31 March 2021). The pension fund net liability is considered a significant estimate due to the size of the numbers involved 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.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of the Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Significant risks identified

Risk	Reason for risk identification
ISA240 revenue and expenditure recognition risk	<u>Revenue</u> ISA (UK) 240 includes a rebuttable presumed risk that revenue recognition may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted because: • there is little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Blackburn with Darwen, mean that all forms of fraud are seen as unacceptable. <u>Expenditure</u> In the public sector, whilst it is not a presumed significant risk, in line with the requirements of Practice Note (PN) 10: Audit of financial statements of public sector bodies in the United Kingdom we also consider the risk of misstatement as a result of improper recognition of expenditure. This risk is rebuttable if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition. Based on our assessment we consider that we are able to rebut the significant risk in relation to expenditure, but will nevertheless, and in line with PN10, recognise the heighted inherent risk of 'other service expenditure' in our audit scoping and testing assessment.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified a number of issues in our 2020/21 audit in relation to the Council's estimation process for the valuation of land and buildings.

Introduction

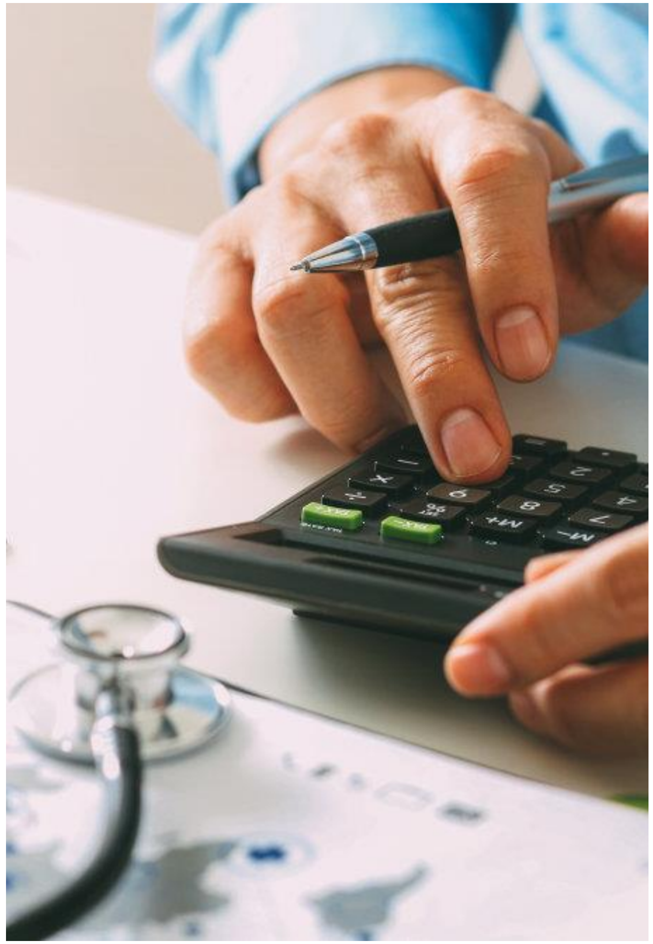
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- PFI disclosures
- Valuation of defined benefit net pension fund liabilities.

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- all accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- there are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- how management understands the degree of estimation uncertainty related to each accounting estimate; and
- how management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **what the assumptions and uncertainties are;**
- **how sensitive the assets and liabilities are to those assumptions, and why;**
- **the expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **an explanation of any changes made to past assumptions if the uncertainly is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of management requesting written responses from the Council across a range of areas and issues including on the approach taken to derive key accounting estimates.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- we read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- we carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- we carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- we consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- we certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Materiality

The concept of materiality

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

Materiality for planning purposes

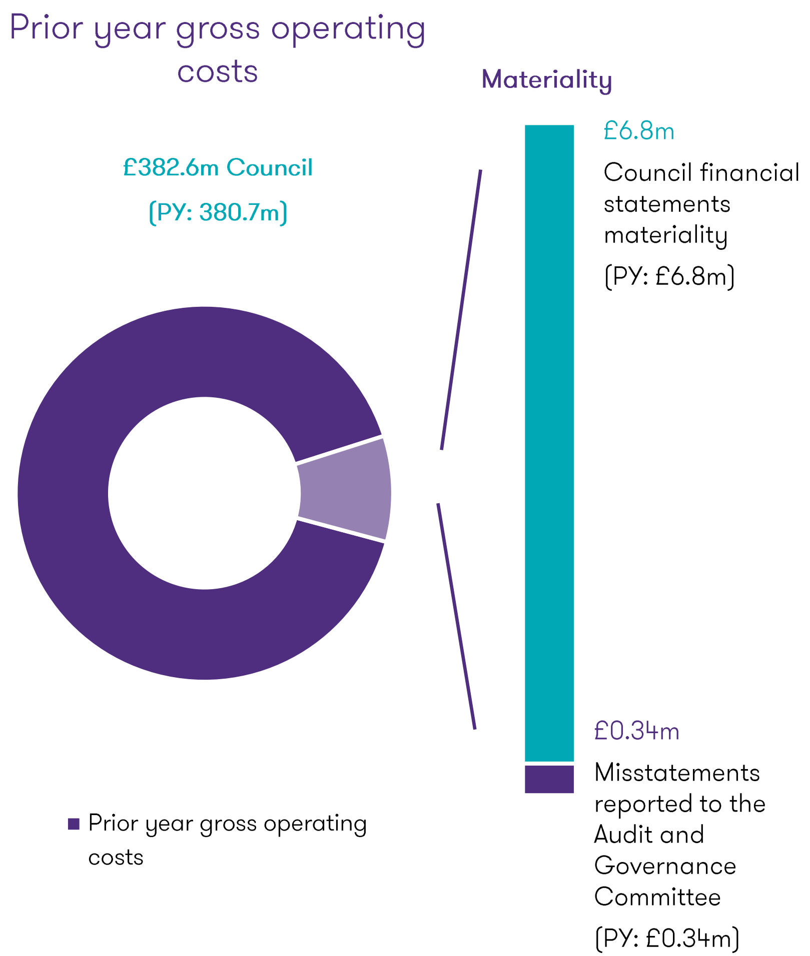
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £6.8m (PY £6.8m), which equates to 1.8% of your prior year gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £0.020m for senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.34m (PY £0.34m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.



IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Civica Financials	Financial Reporting	• Streamlined ITGC design assessment which involves a review of controls associated with the Council's IT systems including security management, the technology infrastructure and the development and maintenance of the Civica system.
Northgate	Council Tax, Business Rates, Benefits	• Streamlined ITGC design assessment which involves a review of controls associated with the Council's IT systems including security management, the technology infrastructure and the development and maintenance of the Northgate system.

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office(NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

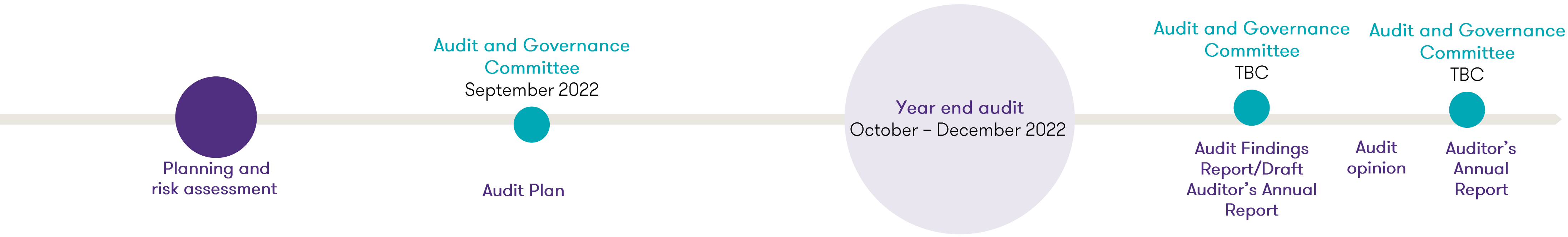
Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Audit logistics and team



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John Farrar, Engagement Lead

Key contact for senior management and Audit and Governance Committee.

John will oversee the implementation and delivery of the audit and will be the audit signatory. He will meet with senior management to help identify risks for the audit and provide advice and assistance as required.

Gareth Winstanley, Audit Manager

Gareth will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. He will also lead completion of the VFM assessment. He will attend Audit and Governance Committee with John, and will undertake reviews of the team's work and draft clear, concise and understandable reports.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2017, PSAA awarded a contract of audit for Blackburn with Darwen Council to begin with effect from 2018/19. The fee agreed in the contract was £79,186. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on pages 9 to 11 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. This year we will engage an audit expert to improve the level of assurance we require for property valuation estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2021/22, as set out below and has been agreed with the Director of Finance.

	Actual Fee 2019/20	Actual Fee 2020/21	Proposed fee 2021/22
Blackburn with Darwen Council Audit	£108,223	£TBC	£136,186
Total audit fees (excluding VAT)	£108,223	£TBC	£136,186

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements , supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

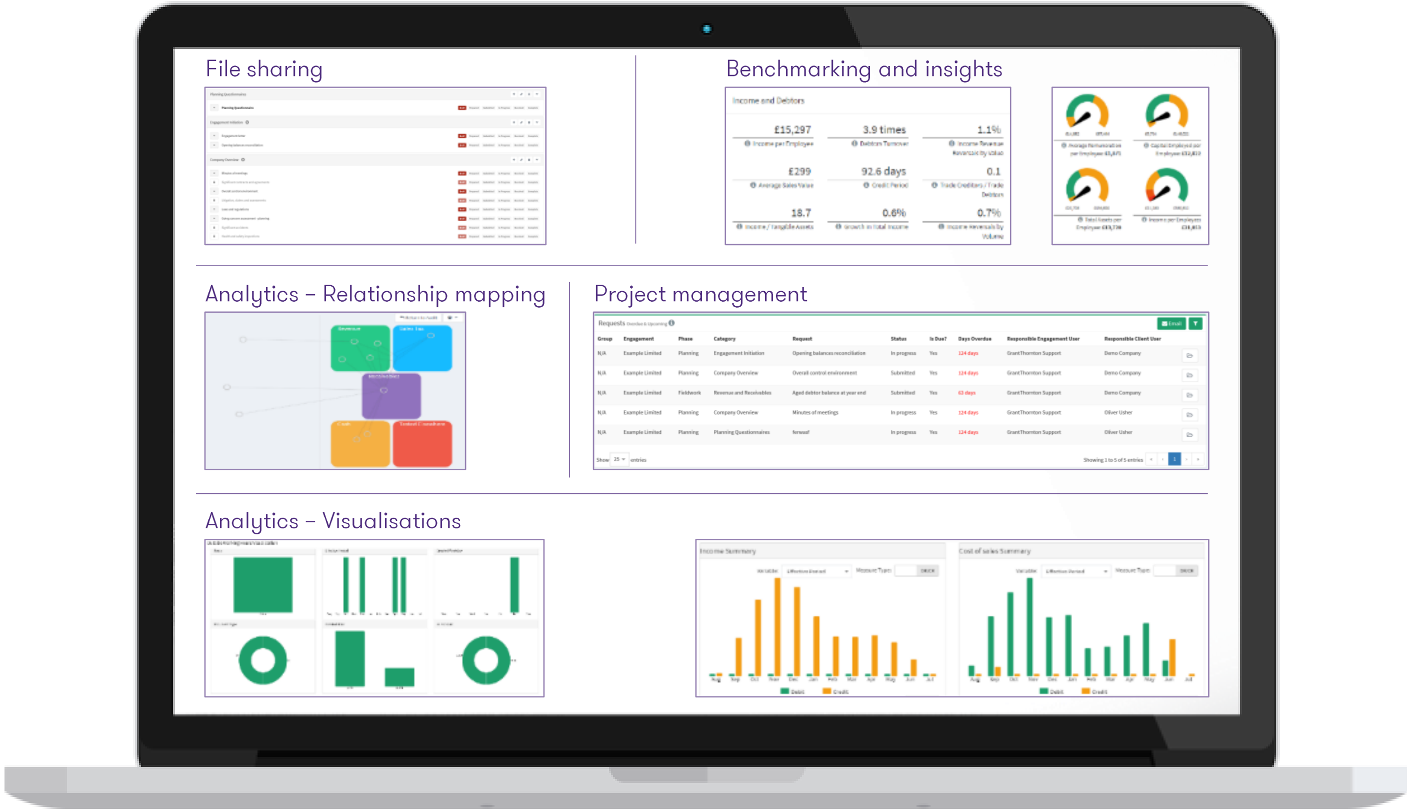
None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy	15,400	Self-Interest	The level of this recurring fee taken on its own is not considered a significant threat to independence as the total fee for this work is £22,900 in comparison to the total fee for the audit of £136,186 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.
Teachers Pension Return	7,500		
Total	£22,900		

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

Project management

- Facilitates oversight of requests
- Access to a live request list at all times

Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendices

A - Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October 2021, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: [FRC AQR Major Local Audits October 2021]

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

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Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have shown compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

A - Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Grant Thornton

grantthornton.co.uk

BRIEFING PAPER

REPORT to :	Audit and Governance Committee
LEAD OFFICER:	Director of Finance
DATE:	29th November 2022

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2022/23

Based on monitoring information for the period 1st June 2022 – 30th September 2022

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 and notes the Mid-Year Treasury Management Strategy Review.

3. BACKGROUND

3.1 The Treasury Management Strategy for 2022/23, approved at Executive Board in March 2022, 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 An update to the Treasury Management indicators was approved at Executive Board in September 2022 and Council in October 2022.

3.3 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.

3.4 A glossary of Treasury Management Terms is appended to this paper.

4. KEY ISSUES

4.1. Bank of England Bank Rate

4.1.1. The Bank of England Bank Rate was increased three times during the period. At the start of the period, the Bank Rate was 1.00%, rising firstly to 1.25% on 16 June 2022, increasing further to 1.75% on 4 August 2022 and finally rising to 2.25% on 22 September 2022.

4.2. Investments Made and Interest Earned

4.2.1. 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 across the period, ranging between £55M and £85M. Investment balances continued to be unusually high during this period, largely due to funds received from central government and grants received in advance of spend being incurred. Funds received from central government included additional funds in relation to the cost of living assistance. It is intended that investment balances will ultimately reduce in future to between £10M and £20M.

4.2.2. Investments made in the period were mainly in “liquid” (instant access) deposits, either bank “call accounts” or Money Market Funds (MMFs). Returns on MMF holdings have continued to rise over the period, following the Bank Rate increases, averaging around 1.31% throughout the period. Bank deposit account rates have also increased during the period, rising to 0.50% by the end of September 2022.

4.2.3. For limited periods, funds were also placed with the Government’s Debt Management Account Deposit Facility (at 0.80 - 2.00%). The other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
16-Feb-22	21-Mar-22	Thurrock MBC	£5,000,000	0.75%
21-Mar-22	11-May-22	Thurrock MBC	£5,000,000	0.95%
11-May-22	16-Jun-22	Thurrock MBC	£5,000,000	1.10%
16-Jun-22	20-Jul-22	Thurrock MBC	£5,000,000	1.35%
17-Dec-21	19-Sep-22	Moray Council	£5,000,000	0.08%
20-Sep-22	18-Sep-23	Moray Council	£5,000,000	2.00%
12-May-22	11-Aug-22	Cornwall Council	£5,000,000	0.93%
12-Aug-22	14-Nov-22	Cornwall Council	£5,000,000	1.68%
22-Aug-22	21-Aug-23	West Dunbartonshire Council	£5,000,000	2.10%

4.2.4. At 30th September, the Council had approximately £57.9M invested, compared to £65.8M 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 1.22%. For comparison, the Sterling Over Night Rate (SONIA) increased over the period, averaging 1.45%.

4.3. Borrowing Rates

4.3.1. The cost of long-term borrowing through the PWLB (Public Works Loan Board) is linked to central government's own borrowing costs.

4.3.2. The cost of short-term borrowing, based on loans from other councils, has risen during the period, following the Bank Rate rises. Interest rates on loans from 3 months out to a year were priced at rates between 3.00% to 4.10% by the end of the period.

4.3.3. The Council has not needed to replace short term borrowing and has therefore repaid those loans as they have matured, resulting in balances falling over the period. Short term borrowing rates have remained below those of long term borrowings, therefore should we need to borrow over the longer term this may be more expensive. Should the need arise, we will review the options available.

4.4. Short Term Borrowing in the 3 Month Period

4.4.1. 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.

4.4.2. 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.

4.4.3. Up to the end of September 2022, there was a decrease in short-term borrowing of £15M, as loans of £15M were repaid and no new loans were taken.

4.5. Current Debt Outstanding

	31st May 2022		30th September 2022	
	£'000	£'000	£'000	£'000
TEMPORARY DEBT				
Less than 3 months	10,000		5,000	
Greater than 3 months (full duration)	15,000		5,000	
		25,000		10,000
LONGER TERM DEBT				
Bonds	18,000		18,000	
PWLB	125,528		121,754	
Stock & Other Minor Loans	22		22	
		141,550		139,776
Lancashire Council County – Transferred Debt		13,039		12,768
Recognition of Debt re PFI Arrangements		59,559		58,635
TOTAL DEBT		**239,148**		**221,179**
LESS: TEMPORARY LENDING				
Fixed Term		(35,255)		(39,300)
Instant Access		(30,540)		(18,636)
NET DEBT		**173,353**		**163,243**

4.5.1. 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. LOBO loans are where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The individual loans remaining range from 4.35% to 4.75%, at an average of around 4.4%. Given recent movements in interest rates, the likelihood of options being exercised on these loans is increasing. The Council holds £8M of LOBO loans with option dates within the next 6 months. The Council continues to review these loans and the opportunities available, should the options be exercised.

(b) £121.8M 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 2.20%.

(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

4.6.1. Appendix 3 shows the current position against the Prudential and Treasury Indicators set by the Council for the current year.

4.6.2. **IFRS16:** The implementation of the new IFRS 16 Leases accounting standard was due to come into for force for local authorities from 1st April 2022. Following a consultation CIFPA/LASAAC announced an optional two year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The Authority intends to adopt the new standard on 1st April 2024.

4.6.3. The original operational and authorised borrowing limits for 2022/23 included an element in respect of these changes to accounting for leases. At Executive Board in September 2022 a report amending the Prudential and Treasury Indicators for 2022/23 onwards was approved, to reflect the delay in adoption of IFRS 16 Leases accounting standard.

4.6.4. 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 September 2022 was £221.4M, which is below both our revised Operational Boundary (£319.4M) and our revised Authorised Borrowing Limit (£329.4M) for 2022/23.

4.6.5. 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 – any borrowing cannot be taken if this Limit is (or would be caused to be) breached.

4.6.6. 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.

4.6.7. The Council still holds part of its debt portfolio in loans of less than a year's duration – short-term loans currently still represent a cheaper way to fund marginal changes in the Councils debt. This remains under review, with regular updates from the Council's treasury management advisors, Arlingclose.

Interest Risk Exposures

4.6.8. Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at -£34.9M, against the revised **limit** set for this year of £100.5M.

4.6.9. 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).

4.6.10. Our **Fixed Interest Rate Exposure** was around £126.8M, against the revised **limit** of £228.3M. 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.

4.6.11. 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. Codes of Practice and MRP – Consultation and Proposed Changes

4.7.1. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

4.7.2. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. The Council has taken advantage of the option to defer introducing the revised reporting requirements until the 2023/24 year.

4.7.3. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

4.7.4. Borrowing is permitted for cash flow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

4.7.5. Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version. The Authority will follow the same process as the Prudential Code, i.e. delaying changes in reporting requirements to the 2023/24 financial year.

4.7.6. Government have recently consulted on changes to the capital framework: Minimum Revenue Provision. The outcome of this consultation is unlikely to have an impact on the Council, this will be reviewed in detail once the outcome of the consultation is issued and an update will be provided in due course.

4.8. <u>Mid-Year Treasury Management Strategy Review</u>

4.8.1. Executive Board approved the Treasury Management Strategy for 2022/23 on 10th March 2022, and approved the update to the Treasury Management and Prudential Indicators on 8th September 2022. A mid-year review has been undertaken, a copy of which is appended (Appendix 6), which was approved by Executive Board on 10th November 2022, as part f the budget monitoring process.

4.8.2. The conclusion of the review is all Investment Criteria set before the start of the financial year, and revised Treasury Management and Prudential indicators approved by Executive Board in September 2022 can remain unchanged.

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

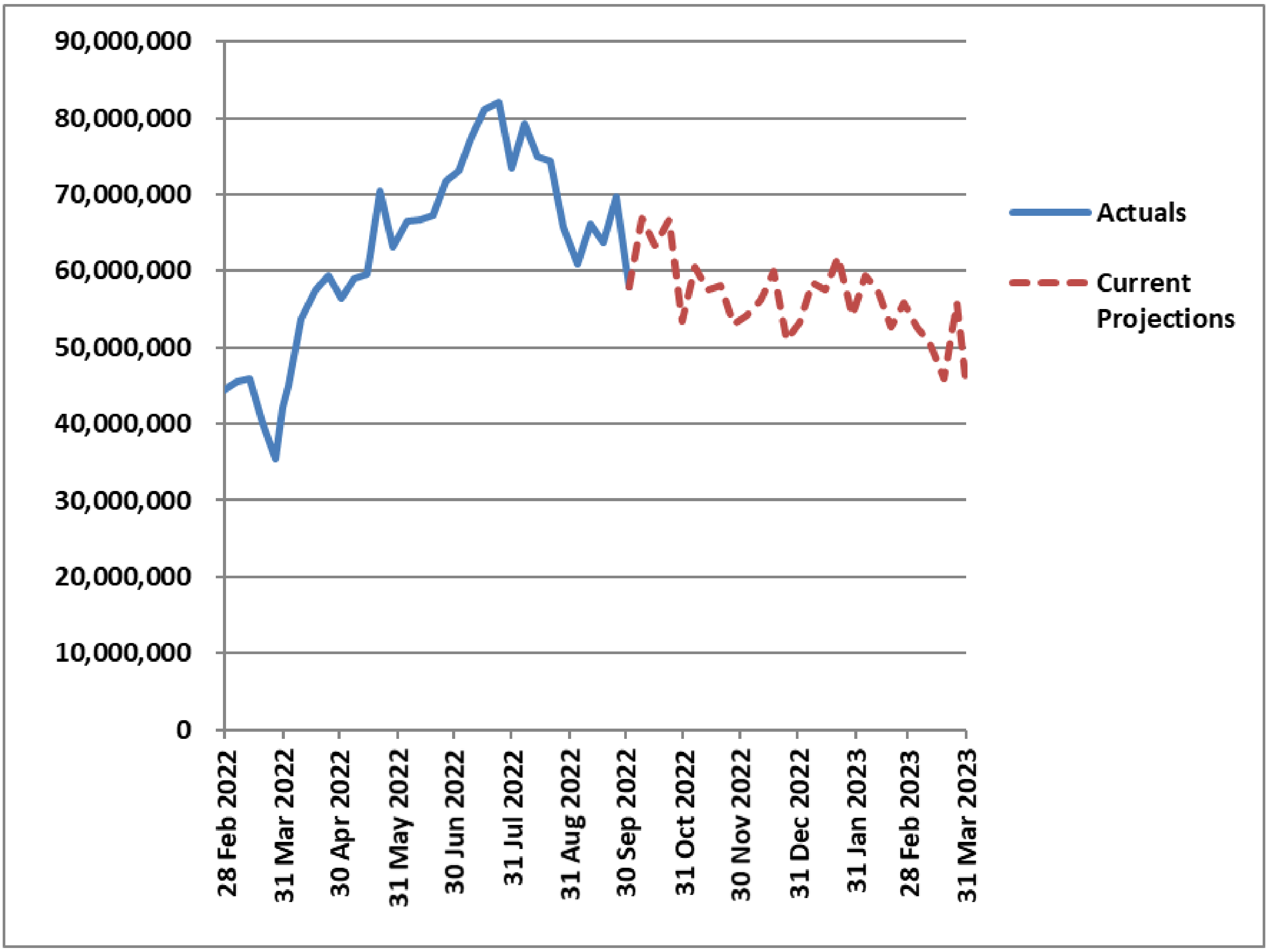
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council’s Code of Corporate Governance.

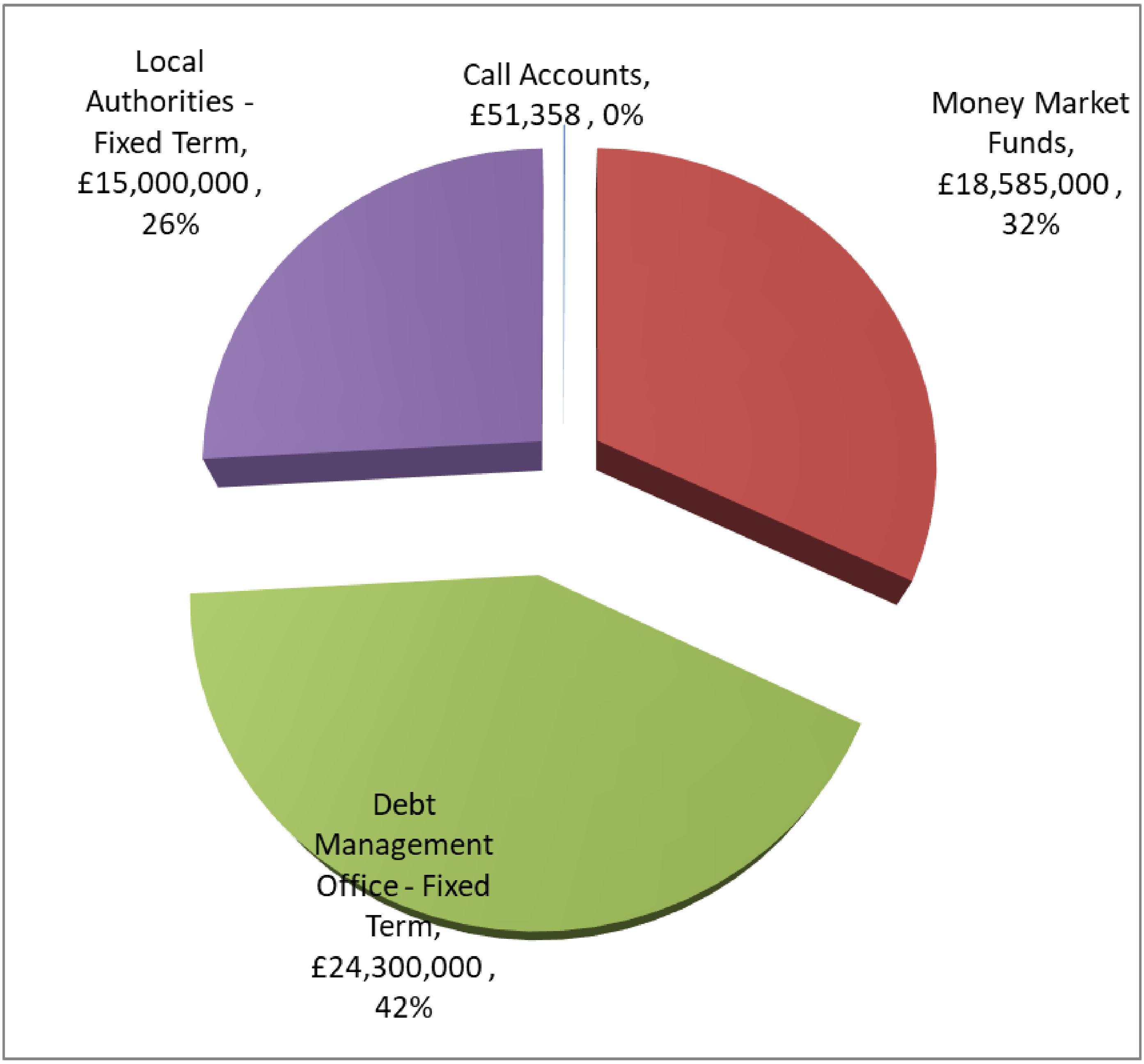
VERSION:	0.01

CONTACT OFFICER:	Jody Spencer-Anforth – Finance Manager extn 507748 Dean Langton – Director of Finance extn 666703
DATE:	October 2022
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy for 2022/23 approved by Executive Board 10th March 2022 – Review of the Policy for Minimum Revenue Provision and Prudential and Treasury Management Indicators approved by Executive Board 8th September 2022 and Council on 6th October 2022

Weekly Investment Balances **Appendix 1**

2022/23 (Feb 22 to Mar 23)



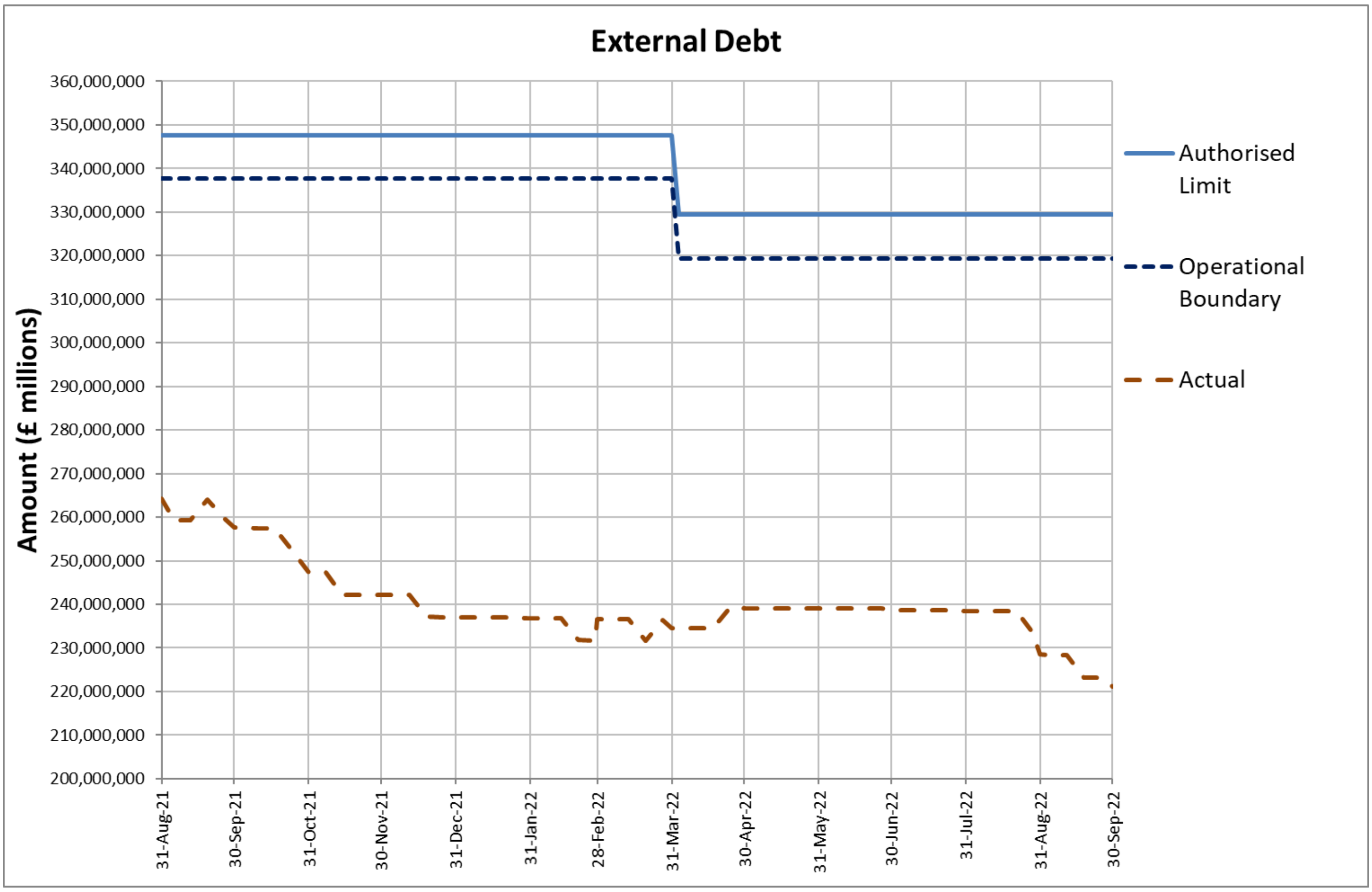

Local Authorities - Fixed Term, £15,000,000 , 26%
Call Accounts, £51,358 , 0%
Money Market Funds, £18,585,000 , 32%
Debt Management Office - Fixed Term, £24,300,000 , 42%

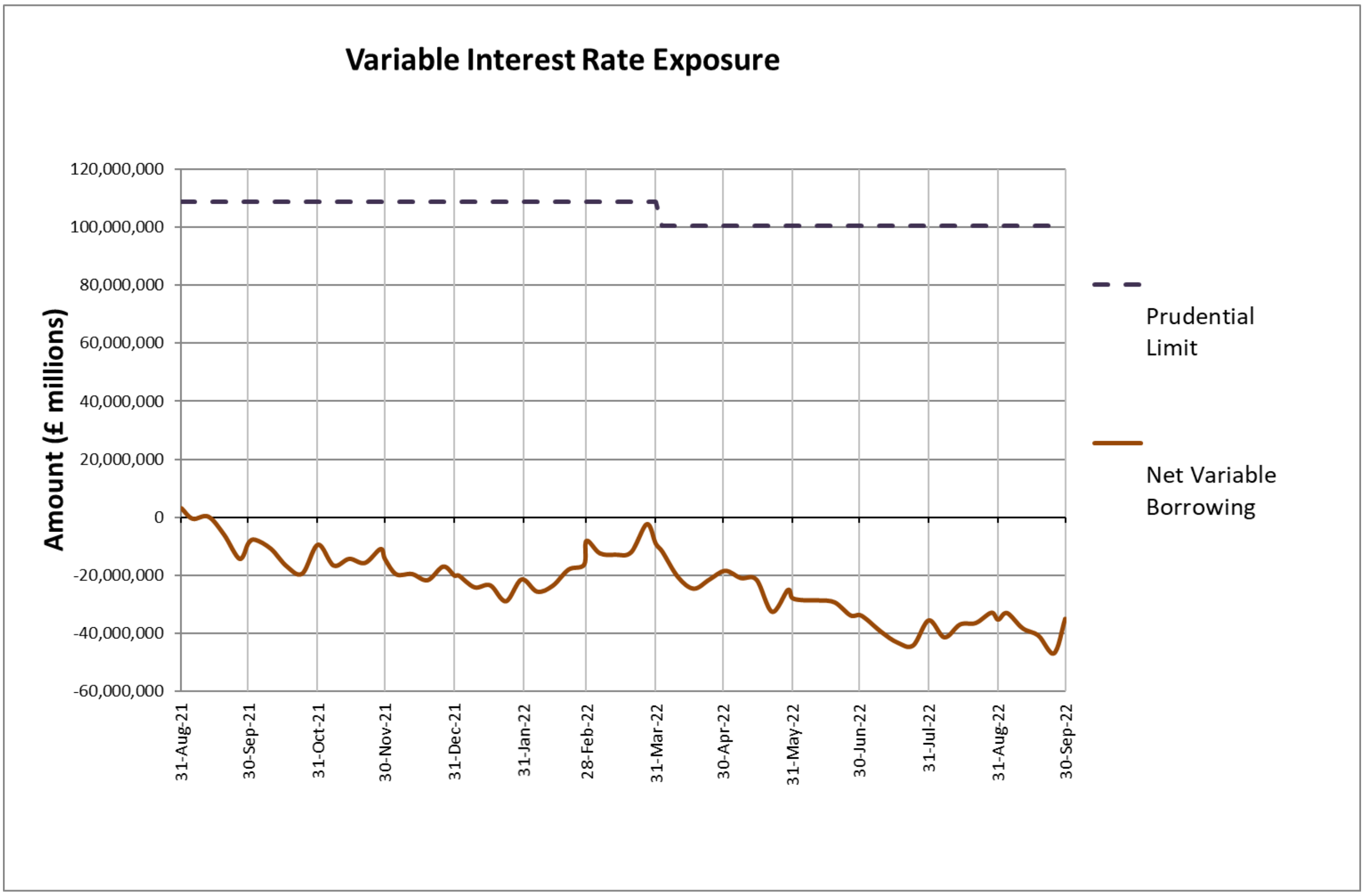
<table>
<tr><th></th><th>Indicator 2022/23</th><th>As Approved Mar 22</th><th>Current Monitoring</th><th>Commentary</th></tr>
<tr><td></td><td>Estimated Capital Expenditure</td><td>£35.7M</td><td>£52.9M</td><td></td></tr>
<tr><td></td><td>Estimated Total Capital Financing Requirement at End of Year</td><td>£341.7M
(incl projections re LCC debt £14.8M, PFI debt £68.9M and lease debt £45.0M)</td><td rowspan="2">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.</td><td></td></tr>
<tr><td></td><td>Estimated Ration of Financing Costs to Net Revenue Stream</td><td>14.3%</td><td></td></tr>
<tr><td></td><td>Outturn External Debt Prudential Indicators</td><td><table><tr><td>LCC Debt</td><td>15.0M</td></tr><tr><td>PFI Elements (no lease)</td><td>69.2M</td></tr><tr><td>Remaining Elements</td><td>235.2M</td></tr><tr><td>Operational Boundary</td><td>319.4M</td></tr><tr><td>Authorised Borrowing Limit</td><td>329.4M</td></tr></table>These are the revised limits presented to Executive Board in September 2022</td><td><table><tr><th>Borrowing to Date</th><th>£M</th></tr><tr><td>LCC Debt</td><td>12.8</td></tr><tr><td>PFI Elements</td><td>58.6</td></tr><tr><td>BwD</td><td>149.8</td></tr><tr><td>Total</td><td>221.2</td></tr></table></td><td>The Council has chosen to delay changes to accounting for leases therefore lease borrowings will now not be included until 1 April 2024

Operational boundary and authorised borrowing limit have not been breached during the year</td></tr>
<tr><td></td><td>Variable Interest Rate Exposure</td><td>£100.5M
This is the revised limit presented to Executive Board in September 2022</td><td>Exposure to Date -£34.9M</td><td>Limit not breached during the year</td></tr>
<tr><td></td><td>Fixed Interest Rate Exposure</td><td>£228.3M
This is the revised limit presented to Executive Board in September 2022</td><td>Exposure to Date £126.8M</td><td>Limit not breached during the year</td></tr>
<tr><td></td><td>Prudential Limits for Maturity Structure of Borrowing</td><td><table><tr><th>Lower Limit</th><th>Upper Limit</th><th>Period (Years)</th></tr><tr><td>0%</td><td>50%</td><td><1</td></tr><tr><td>0%</td><td>30%</td><td>1-2</td></tr><tr><td>0%</td><td>30%</td><td>2-5</td></tr><tr><td>0%</td><td>30%</td><td>5-10</td></tr><tr><td>25%</td><td>95%</td><td>>10</td></tr></table></td><td><table><tr><th colspan="3">Actual Maturity Structure to Date</th></tr><tr><th>Period (Years)</th><th>£M</th><th>%</th></tr><tr><td><1</td><td>21.6</td><td>14%</td></tr><tr><td>1-2</td><td>13.2</td><td>9%</td></tr><tr><td>2-5</td><td>19.6</td><td>13%</td></tr><tr><td>5-10</td><td>21.6</td><td>15%</td></tr><tr><td>>10</td><td>73.8</td><td>49%</td></tr><tr><td>Total</td><td>149.8</td><td>100%</td></tr></table></td><td></td></tr>
<tr><td></td><td>Total Investments for Longer than 364 Days</td><td>£7M</td><td>No Long Term Investments Made</td><td></td></tr>
</table>

Movements in Prudential Indicators – Total Debt and Variable Interest Exposure Year to 30th September 2022

Appendix 4





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

A Money Market Fund is a 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).

MID-YEAR TREASURY MANAGEMENT STRATEGY REVIEW 2022/23

1 Original Strategy for 2022/23

1.1 The Treasury Management Strategy for 2022/23 was approved by Executive Board on 10th March 2022. An update to the Prudential and Treasury Management Indicators, following the decision to delay the adoption of the new IFRS 16 Leases accounting standard, was approved by Executive Board on 8th September 2022.

The broad strategy continued the approach of looking to minimise borrowing costs, in the context of the Council's long-term debt being considerably lower than its accumulated Capital Financing Requirement, with the difference covered by the use of short-term borrowing and any available balances. This approach had generated savings on interest costs over the last few years.

At the time, it was expected that interest rates would remain relatively consistent, but it was noted that the benefit of internal and short-term borrowing would be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

1.2 The Original 2022/23 Investment Limits were set by reference to amount, duration and credit rating – and distinguished between Unsecured Deposits, which would be subject to greater risk of credit loss, and Secured Deposits, in which there was less risk. The limits set were largely comparable to those applying in previous years.

2 Economic Review 2022/23

2.1 The surge in global demand as the effects of the Covid-19 Pandemic have started to diminish along with the ongoing conflict in Ukraine have continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. This, combined with the recent instability in the financial markets following the Government's 'mini budget' increased uncertainty further.

2.2 The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

2.3 Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

2.4 UK inflation remains extremely high. Annual headline CPI (Consumer Price Index) hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August and then rising back above 10% in September. RPI (Retail Price Index) registered 12.3% in both July and August remaining above 12% in September. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £31 billion of support to limit domestic energy bills to £2,500 at least until March 2023 (with a further £29 billion of support for Business energy bills, again until at least March 2023).

2.5 The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and –2.8% for regular pay.

2.6 The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. The September vote was 5-4, with five votes for a 0.5% increase, three for a 0.75% increase and one for a 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further significant Bank Rate rises should be expected.

2.7 On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left some pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

2.8 Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

2.9 Over the April-September period short term PWLB rates rose dramatically, particular in late September after the Chancellor's 'mini-budget'. Exceptional volatility threatened financial stability, requiring Bank of England intervention in the gilt market. Over a twenty-four-hour period some PWLB rates increased to 6%, before the intervention had the desired effect, bringing rates back down by over 1 percentage point for certain maturities. Interest rates rose by over 2 percentage points during the period in both the long and short term.

2.10 As ever, the institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review.

3 Treasury Performance to date

3.1 Thus far, cash balances have ranged between £40M and £85M, continuing to be higher than in previous years as a result of grants received in advance from central government. These investment levels have also been supported by short-term borrowing (at rates averaging around 0.65%). No further long-term borrowing has been taken, while short-term borrowing levels have fallen since the start of the year.

Analysis of Debt Outstanding	31st March 2022 £m		30th September 2022 £m	
Short-Term Debt		25.0		10.0
Longer-Term Debt:				
Public Works Loan Board (PWLB)	123.5		121.8	
Market Loans	18.0		18.0	
Other Market Debt	0.3		-	
		141.8		139.8
Lancashire County Council (LCC) Debt		13.0		12.8
Debt re PFI Arrangements		59.7		58.6
Gross Borrowings		**239.5**		**221.2**
This was offset by investments of:		42.2		57.9
Net Borrowing (gross borrowing less investments)		**197.3**		**163.3**
Net Borrowing (if LCC and PFI debt are excluded)		**124.6**		**91.9**

3.2 Investments have continued to be made with a limited range of banks and Money Market Funds, along with other local authorities and the Government's Debt Management Office (DMO). Interest rates have continued to increase over the first half of this year (driven largely by the Bank Rate changes referred to above), with the average interest earned on investment balances being around 1.06%. It is likely that investment returns will continue to increase over the second half of the year (as Bank Rate continues to change).

3.3 Decreased net interest costs have been reported through corporate monitoring, reflecting the higher interest rates achieved on investments and lower levels of short-term borrowings taken this year.

4 Investment and Borrowing Strategy for the rest of the year

Investment

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

4.2 The Council's Investment Criteria allow investment in a range of other organisations and structures, but as there are limited opportunities for straightforward trading in Secured Deposits, and as priority is given to maintaining liquidity, short-dated and simpler options are mainly used. Investments are made in: fixed term deposits and instant access accounts with banks and building societies; instant access Money Market Funds; and fixed term deposits with local authorities and the UK Government's Debt Management Office. It is expected that these will continue to be the main investment options taken up across the remainder of the year.

4.3 It is proposed that there be no changes to the existing Investment Criteria and Investment Counterparty Limits.

Borrowing

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

4.5 In keeping with these objectives, no new long term borrowing was undertaken in the first half of the year, while £15.0M of existing short term loans were allowed to mature without replacement. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

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

5 Risk Management

5.1 The Council's main objective for the management of its investments is to give priority to the security and liquidity of its funds before seeking the best rate of return. Therefore, most surplus cash is held in short-term investments with government bodies, and with highly rated banks and pooled funds. In addition, the Council can hold investments that entail a slightly higher level of risk, but such risks are mitigated by limiting the amount and duration of exposure.

5.2 The Council's main objective for the management of its debt is to ensure its long-term affordability. The largest part of its loans is from the PWLB at long-term fixed rates of interest.

5.3 Another significant element of the Council's long-term debt is £18M of loans from banks and other institutions. £13M worth are "lender's option, borrower's option" (LOBO) loans, under which the Lender can, at pre-determined times, exercise an Option to increase the rate payable on the debt, and the Borrower has the Option to either accept the proposed increase or repay the whole loan.

These loans have interest rates fixed at levels that were relatively low when they began, but if the Lender Option is exercised, the Borrower would have to deal with whatever interest rates are at a later date. This exposes the Council to some risk of rising long-term interest rates, but that is mitigated by the fact that £5M of this debt (forming a large part of the lowest interest rate elements) can only be "called" once in every five years. Recent movements in interest rates have increased the likelihood of the options on these loans being exercised. The Council holds £8M of LOBO loans with option dates within the next 6 months. The Council continues to review these loans and the opportunities available, should the options be exercised.

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

5.5 Part of the debt portfolio - of around £10M in short-term loans from other local authorities - does raise potential interest rate risk issues. The Council has not needed to replace short-term borrowing for the first half of the year and has therefore repaid those loans as they have matured, resulting in balances falling over the period. As the cost of short, medium and long-term debt has risen sharply, should the Council need to replace or renew any of the short-term loans it would have to cope with an increased cost of borrowing. This issue is kept under review, with regular updates from Arlingclose.

6 Indicators

6.1 The previously approved Indicators were set at cautious levels and can remain unchanged.

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

7 Codes of Practice and MRP – Consultation and Proposed Changes

7.1 CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

7.2 The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. The Council has taken advantage of the option to defer introducing the revised reporting requirements until the 2023/24 year.

7.3 To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

7.4 Borrowing is permitted for cash flow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

7.5 Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version. The Authority will follow the same process as the Prudential Code, i.e. delaying changes in reporting requirements to the 2023/24 financial year.

7.6 Government have recently consulted on changes to the capital framework: Minimum Revenue Provision. The outcome of this consultation is unlikely to have an impact on the Council, this will be reviewed in detail once the outcome of the consultation is issued and an update will be provided in due course.

TO:	Audit & Governance Committee
FROM:	Head of Audit & Assurance
DATE:	29 November 2022

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Audit & Assurance - Progress and Outcomes to 31 October 2022

1. PURPOSE

To inform Committee Members of the achievements and progress made by Audit & Assurance in the period from 1 June 2022 to 31 October 2022.

2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the internal audit outcomes achieved to 31 October 2022 against the annual Audit & Assurance Plan 2022/23, as approved by the Committee on 29 March 2022.

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 identified by the internal audit team 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 for their particular

areas of responsibility throughout the year.

5. KEY ISSUES

Outcomes achieved in the year to 31 October 2022:

Counter Fraud Activity

National Fraud Initiative (NFI)

Work on the National Fraud Initiative exercise (NFI 2020/21) is now complete. In total 1,641 matches have been processed and 1,050 errors have been identified resulting in total savings of £95,681. Arrangements are in place to recover this money from the individuals concerned where applicable. The table below sets out the areas of activity and the savings that have been identified.

Summary of Results

Area	No. of Errors	Value (£)
Benefits (Housing/Council Tax Support)*	23	£43,507
Resident Parking Permits**	1	£0
Blue Badge Parking Permits***	50	£28,750
Concessionary Travel Passes****	976	£23,424
TOTAL	**1,050**	**£95,681**

* Includes Cabinet Office 'forward estimate savings' figures

** Residents parking permits cancelled and system updated as a result of NFI information

*** The value attached to the Blue Badges Parking Permits has been determined by the Cabinet Office, which considers the average loss of fraud/error to be £575 per case. These permits have either been recovered and destroyed or are in the process of being recovered.

**** The value attached to the Concessionary Travel Passes has been determined by the Cabinet Office, which considers the average loss of fraud/error to be £24 per case. These passes have been cancelled and can no longer be used.

Preparations for the NFI 2022/23 exercise are underway and all datasets have been provided to the Cabinet Office for the next round of data matching. The Council can expect to receive the output from these reports towards the end of the year. Appropriate action will then be taken to review & progress these data matches.

Internal Audit

A summary of the 17 audits completed and finalised since the last report to Committee are detailed below:

Risk, Control & Governance Reviews	Assurance Opinion		Recommendations Agreed
	Environment	Compliance	
IT Network & Systems - Business Continuity / Disaster Recovery	Adequate	Limited	3
IT Software Licensing	Limited	Adequate	6

Fleet Management	Adequate	Adequate	5
Fleet Procurement	Adequate	Adequate	3
Achievement of Department for Transport Highway Asset Management Level 3 Funding	Adequate	Adequate	4
Main Accounting System Reconciliation Processes	Adequate	Adequate	6
Retail, Hospitality & Leisure and Small Business Rate Covid-19 Grant Payments	Adequate	Adequate	3
Council Tax Rebate – Energy Costs	Adequate	Adequate	1
Members Allowance & Induction	Adequate	Adequate	6
Leasing Arrangements for Commercial & Industrial Properties	Limited	Limited	2
Asset Management System	Adequate	Limited	16
Budget Setting	Substantial	Substantial	2
Highways Inspection – Walls & Structures	Adequate	Adequate	9
Section 17 Payments/ Financial Support for Families	Adequate	Adequate	7
Growth Programme Tender Arrangements - Carl Fogarty Way	Adequate	N/A	2
Corporate & Departmental Governance Arrangements	Adequate	Limited	6
Governance Arrangements	Substantial	Adequate	5

A brief commentary on the audit assignments where we have provided a part limited assurance opinion are set out below.

IT Network & Systems - Business Continuity/Disaster Recovery - The final report provided an adequate opinion for the control environment in place and limited assurance regarding compliance with the controls identified in respect of the areas covered during the review.

A number of areas of good practice were identified during the review. These included the following:

- A maintenance schedule is in place for the data centre infrastructure;
- The Digital & Business Change Service's Risk Register is reviewed and updated on a regular basis; and

- An appropriate schedule is in place for the backup of data, which is stored securely and remotely.

Issues noted leading to the part limited opinion included:

- The Disaster Recovery Plan and Business Continuity Plan have not been reviewed since February 2020;
- No testing of the above plans has been carried out during the last year; and
- While the back up of systems and file servers is being performed regularly, there is no testing of back up of independent systems that has been carried out.

IT Software Licensing - Limited assurance was provided for the control environment and adequate assurance for compliance with the controls and procedures in place to minimise the key risks associated with IT Software Licensing.

The review highlighted areas of weakness which led to a limited assurance opinion regarding the control environment in place, in particular:

- The IT Asset Management Policy was still in draft form;
- There was no specific reference to roles and responsibilities regarding software licensing in the Asset management Policy; and
- There was no central monitoring of the software licensing compliance across the Council.

Leasing Arrangements for Commercial & Industrial Properties - The audit noted that progress has been made to implement the recommendations made arising from the review of the East Z East lease arrangements. However limited assurance could only be provided as the recommendations from that review had not yet been fully implemented at the time of the follow-up.

Asset Management System - Adequate assurance was provided for the control environment. However limited assurance was provided for compliance with the controls identified for the management of this area.

Issues noted leading to the part limited opinion included:

- The current Asset Management Plan was last approved in August 2015; it needed to be revised to reflect the current post Covid economic climate.
- Some properties, which have been either sold or revalued, were still appearing in Concerto as either owned or at their old values before the latest revaluation.
- Some of the statutory inspections required under different regulations were not being performed, instead only maintenance/servicing was taking place as per the planned preventive maintenance schedule.

Corporate & Departmental Governance Arrangements – The review highlighted the following areas of weakness which led to a limited assurance opinion being reached regarding compliance with controls processes, based on the results of the testing carried out:

- Authorised Signatories Lists were not in place within departments and up to date in accordance with Standard Financial Instruction (SFI) 17.
- Audit testing showed limited compliance with the requirement for departments to ensure that Registers of Personal Interest (SFI 12) and Gifts and Hospitality (SFI 21) were kept up to date.
- There was low levels of Member engagement with the 3 mandatory online

training courses.

During the period, Audit & Assurance staff have also completed work to enable the certification of the following grants:

- Local Authority Test and Trace Contain Outbreak Management Fund Surge Funding Grant 2020/21 and 2021/22;
- Local Authority Bus Subsidy Ring-Fenced (Revenue) 2021/22;
- Local Transport Settlement 2021/22; and
- Universal Drug Treatment Statement of Grant Usage 2021/22.

The relevant declarations or certifications were signed by the Chief Executive and/or Head of Audit & Assurance. The results of the work confirmed that, in our opinion, the conditions attached to the grant determinations had been complied with in all significant respects.

Staff have also provided advice and support to departments during the period. This has included a brief review of the system and processes in place to record bulk fuel deliveries and fuel dispensed to Council fleet to ensure that the stock records were accurate and up to date and recharges were correctly calculated transactions were

Current internal audit reviews

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

- Children's Centres;
- Fostering Recruitment and Payments to Foster Carers;
- Children's Services Protocol ICS System;
- iTrent Implementation Testing;
- Value for Money Audit ;
- Regulation of Investigatory Powers Act (RIPA) Processes and Procedures;
- Inspections of Homes of Multiple Occupancy;
- Legal Case Management;
- Planning Enforcement; and
- Sport England Grant Management Arrangements;
- Lower Darwen Primary School; and
- Longshaw Infants School.

<u>Internal Audit Performance</u>

The Departmental Business Plan includes seven targets to achieve our strategic aims. The defined targets and actual performance for the latest period and the previous period are as follows:

Performance Measure	**Target**	**Q2 2022/23**	**Q1 2022/23**
1. Delivery of Priority 1 Audits (Annual)	100%	N/A	100%
2. Planned Audits Completed Within Budget	90%	**76%**	**80%**
3. Final Reports Issued Within Deadline	90%	100%	100%
4. Follow Ups Undertaken Within Deadline	90%	100%	100%

5. Recommendations Implemented	90%	92%	82%
6. Client Satisfaction	75%	100%	100%
7. Compliance with PSIAS (Annual)	95%	100%	100%

We have provided a brief commentary on the measure where performance in the period has fallen below the agreed target:

2. Planned Audit Completed Within Budget

Four of the 17 audits completed during the period required additional time due to the following:

- remote working arrangements that the Council had in place during the period;
- additional time for planning, preparation and testing for new audit areas; and
- additional time liaising with departments to finalise reports.

5. Recommendations implemented

Eighty nine of 97 recommendations due for implementation on or before 31 October (92%) had been fully or partly implemented. Two outstanding recommendations were graded as 'must'. These had been delayed as a funding bid had been successful and work will now be done with this funding and reflect new capability with this spend.

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. STATEMENT OF COMPLIANCE

The recommendations in this report are made further to advice from the Monitoring Officer. 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.

12. CONSULTATIONS

Directors

Contact Officer: Colin Ferguson, Head of Audit & Assurance– Ext: 5326
Date: 19 November 2022
Background Papers: Audit & Assurance Plan 2022/23, approved by the Audit & Governance Committee on 29 March 2022.

TO:	**Audit & Governance Committee**
FROM:	**Head of Audit & Assurance**
DATE:	**29 November 2022**

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Risk Management – 2022/23 Half-year Update

1. PURPOSE

To provide the Committee with details of the risk management activity that has taken place in the period from 1 April 2022 to 30 September 2022.

2. RECOMMENDATIONS

The Committee is asked to:

- Discuss and review the Corporate Risk Register as at the end of September 2022;
- 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 service plan 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 20 open risks at 30 September 2022.
A summary of the corporate risk details is set out in Appendix 1 of this report.
The following changes have been made to the risk register during the period:

- The residual risk score for risk corporate risk 14 (High profile serious/critical safeguarding incident/case that is known to Council services) has been reduced. Whilst the impact on the Council remains high if a serious safeguarding incident occurs, management considers that the level and strength of the controls in place to manage this risk effectively are good and therefore the likelihood of such an event occurring has reduced because of this. The reduced score better reflects this.
- Corporate Risk Number 18 (Insufficient budget for service delivery if MTFS income targets from the Growth Agenda are not met). The residual score for this risk has been increased from medium to high. This is considered a high risk area given the prevailing market conditions of high inflation and increasing interest rates, as well as the Bank of England signalling a recession next year. Income generation is directly linked to securing capital receipts from the disposal of sites for house building and for commercial developments. If the predicted recession does occur it is likely to significantly impact this area.
- Corporate Risk Number 22 (Failure to recruit, adequately develop and retain an adequately experienced and appropriately qualified workforce …). The residual score for this risk has reduced from medium to low. All four work streams of the Organisational Development programme are contributing to reducing the risk, although there is still have a way to go on cultural change. Appropriate actions are all in place and by taking different strategies towards recruitment and retention it is considered that we can continue to mitigate this risk effectively. However, it is should be noted that there are some areas where there are national shortages. It may be more impactful if those departments affected add these to their own risk register showing the actions they are taking to address the issues e.g. children’s social work.
- A new risk has been added relating to the impact of cost of living increases on the local community and the implications of this on Council services and budgets. Increases in the cost of energy and the high inflation rate have seen the cost of living significantly increase for most residents of the borough. Coupled with high deprivation and low disposal incomes, this issue is expected to adversely impact Blackburn with Darwen residents, businesses and Council budgets and services over the medium term. There is particular concern regarding the overall health and wellbeing of residents and potential increase in safeguarding matters. Any increase in these areas would add increased pressure on Council services and potentially increase costs. It is also expected that the Council’s income will also be impacted following the cost of living pressures on households and businesses
- A new risk has been included relating to the implications for the Council if it fails to implement the Government's planned Adult Social reforms including charging, care cap, cost of care and regulatory reforms as required by the Health and Care Act 2022. Failure in this area could result in the Council’s statutory requirements not being fulfilled. There is a risk that funding could be reduced, care sector settings may not be financially sustainable or Government intervention could occur as a result.
- A new risk has been added relating to the potential impact on the Council’s as a result of the Public Inquiry into the Covid-19 pandemic.

As at 30 September 2022 the Council's top corporate risks were:

- Risk Ref 1 - 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;
- Risk Ref 14 - A high profile serious or critical safeguarding case that is known to the Council services, in light of Covid-19 working arrangements;
- Risk Ref 18 - Insufficient budget for service delivery if MTFS income targets from the Growth Agenda are not met; and
- Risk Ref 24 - Failure to respond effectively and proportionately to develop and implement plans/adaptations, within the scope of the Council's control and influence, in pursuit of its ambition to be a Carbon Neutral borough.

As part of the Council's Risk Management process corporate risks are reviewed and monitored on a regular basis to ensure that we have appropriate, properly assessed corporate risks identified going forward. The Corporate Leadership Team (CLT) 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.

During the period colleagues from Zurich Risk Engineering have provided a tailored package of risk management training and awareness sessions to the senior officers, following the implementation of the Corporate Risk Management Policy Statement and updated Risk Management Strategy & Framework. A Member risk management training session is scheduled for 7 December.

Zurich Cyber Risk consultants have also recently completed a Cybersecurity Health Check. The review assessed the Council's cyber maturity and considered risks across three dimensions, exposure, hazards and controls, and graded the results across 23 risk factors. The overall cyber risk grading score was 145, which indicates that the Council's present setup and cyber controls are fair but close to the poor zone. This score is neither better nor poorer than other councils in UK which Zurich have assessed, being in the 50th percentile. This benchmarking is based upon all councils that have been graded, which will include councils of a larger size and budget.

Following the risk analysis, the two main cyber risks faced by the Council are:

- targeted attacks leading to business interruption; and
- privacy breach leading to regulatory fines as well as loss of public trust.

Management are developing an action plan to implement the recommendations set out in the report. Once implemented the overall residual cyber risk could reduce significantly, and would move further into the fair zone.

A review of the Council's arrangements for the control of vibration at work and manual handling have been agreed with colleagues from Zurich Risk Engineering. This will be carried out during January 2023. It will consider policies, training, risk assessments and other arrangements in place to manage/monitor Hand Arm Vibration (HAVS) and the arrangements for undertaking manual handling assessments, staff training and occupational health support relating to this area.

We have also continued to liaise with departments and our underwriter to respond to policy related queries relating to a variety of topics, including Covid related matters, as well as to arrange additional insurance cover where required.

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. STATEMENT OF COMPLIANCE

The recommendations in this report are made further to advice from the Monitoring Officer. 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.

12. CONSULTATIONS

The Corporate Risk Register has been reviewed by Risk Owners and Key Contacts, and agreed by Corporate Leadership Team.

Contact Officer:	Colin Ferguson Head of Audit & Assurance – Ext: 5326
Date:	18 November 2022
Background Papers:	Corporate Risk Management Strategy 2021/2026, 2020/21 Annual Risk Management Report (including Quarter 4 Review)

Appendix 1

Summary Risk Register

Update Create Insert

Directorate:
Department: Corporate Risk Register
Service:
Quarter and Year: Quarter 2 - 2022/23 | Date of last review: 30-Jun-22
Date: 30-Sep-22 | Date of next review: 31-Dec-22

Risk No	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-appointed Commission taking control of the Council	26-Jan-15	Fair	5	5	HIGH	3	5	HIGH	1	3	LOW	Dean Langton	Simon Ross	Open	28-Oct-22	3	5	HIGH	-
2	Failure of the Counicl's 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	Rob Addison, Dwayne Lowe, Michael Hardman	Open	20-Apr-22	2	4	MEDIUM	-
4	The Council is not able to 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	Mohsin Mulla / Katherine White	Open	28-Oct-22	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	Asad Laher	Asad Laher	Open	27-Jul-22	2	2	LOW	-
7	Ensure BwD delivers its CCA statutory functions of risk assess, emergency planning, response, recovery, 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	Corinne McMillan, Jenna Russett-Knott, Sarah Riley	Open	19-Oct-22	1	5	LOW	-
7b	Ensure the delivery of the CCA Business Continuity Management (BCM) and Business Continuity Promotion (BCP) arrangements are in place. Encorporating preparedness, validating training/exercising of procedures and plans in order to protect BwD and enhance community resilience. Corp Obj 1,2,5,6 link	22-Sep-16	Good	3	4	MEDIUM	2	4	MEDIUM	1	3	LOW	Denise Park	Paul Fleming, Corinne McMillan, Jenna Russett-Knott, Sarah Riley	Open	19-Oct-22	2	4	MEDIUM	-
10	Due to the breakdown of community relations or a deterioration of community cohesion, greater risk of hate crime, extremism, radicalisation or polarisation of communities.	07-Feb-12	Good	4	5	HIGH	2	3	LOW	1	3	LOW	Denise Park	Katherine White /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	03-Oct-22	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	24-Jun-22	3	3	MEDIUM	-
14	High profile serious/critical safeguarding incident/case that is known to Council services	20-Aug-13	Fair	4	5	HIGH	3	5	HIGH	2	5	MEDIUM	Mark Warren (DASS) / Jayne Ivory (DCS)	Katherine White/Lynn Fields	Open	04-Oct-22	4	5	HIGH	Down
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.	01-Apr-20	Fair	4	4	HIGH	3	3	MEDIUM	2	3	LOW	Corinne McMillan	Jenna Russett-Knott	Open	19-Oct-22	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	Michael Ahern	Open	28-Jul-22	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	5	HIGH	3	4	MEDIUM	Martin Kelly	Simon Jones	Open	27-Jul-22	3	4	MEDIUM	Up
21	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, due to financial impacts, high staff absences and a failure of effective business continuity management.	04-May-20	Fair	5	4	HIGH	4	3	MEDIUM	1	3	LOW	Denise Park/Corinne Mcmillan (Resilience & Emergency Planning Service)	Richard Brown / Jenna Russett-Knott	Open	19-Oct-22	4	3	MEDIUM	-
22	Failure to recruit, adequately develop and retain an adequately experienced and appropriately qualified workforce may lead to the Council failing deliver its corporate plan priorities and to fully meet the needs of services users, the community and other stakeholders.	27-Jan-22	Fair	3	4	MEDIUM	2	3	LOW	2	2	LOW	Corinne McMillan/Mandy Singh/Jill Readfern	Mandy Singh/Jill Readfern	Open	25-Oct-22	2	4	MEDIUM	Down

				Inherent			Residual			Target							Previous Residual			
Risk No	Risk Description	Date Raised	Strength of Existing Controls	L	I	Risk Rating	L	I	Risk Rating	L	I	Risk Rating	Risk Owner(s)	Key Contact(s)	Risk Status	Last Risk Review Date	L	I	Risk Rating	Change in Score
23	Failure to have an inclusive public health Covid-19 recovery plan that focusses on those most impacted by the pandemic and plan effectivelyon COVID and influenza.	12-Jan-22	Fair	4	5	HIGH	3	4	MEDIUM	2	3	LOW	Abdul Razaq	Laura Wharton / Catherine Taylor	Open	03-Nov-22	3	4	MEDIUM	-
24	Failure to respond effectively and proportionately to develop and implement plans/adaptations, within the scope of the Council's control and influence, in pursuit of its ambition to be a Carbon Neutral borough.	07-Apr-22	Good	5	5	HIGH	4	4	HIGH	3	3	MEDIUM	Martin Eden	Gwen Kinloch	Open	17-Oct-22	4	4	HIGH	-
25	The impact that the cost of living crisis may have on local businesses and the residents and the implcations that this may have on Council staff, services and budgets.	05-Apr-22	Fair	5	5	HIGH	3	4	MEDIUM	2	3	LOW	Paul Fleming	Beth Wolfenden, Andy Ormerod	Open	22-Sep-22				-
26	Failure to implement the Government's planned Adult Social reforms including : charging, care cap, cost of care and regulatory reforms as required by the Health and Care Act 2022 will result in the Councils statutory requirements not being fulfilled.	17-Aug-22	Fair	5	5	HIGH	3	3	MEDIUM	3	3	MEDIUM	Mark Warren	Katherine White/Zoe Evans	Open	14-Nov-22				-
27	BwDBC response to the LGA (Inquiry core participant) with the necessary evidence in relation to the Covid-19 Public Inquiry. Encouraging preparedness for future asks by the LGA and also directly from the Covid-19 Public Inquiry.	02-Nov-22		4	4	HIGH	2	2	LOW	2	2	LOW	Corinne McMillan	Mohsin Mulla	Open	01-Nov-22				-

The following risks are currently closed:

Risk 3: IT Infrastructure (Resilience) – Old Town Hall.
Risk 6: Failure to deliver the management, workforce and organisational objectives for workforce reviews within the agreed budget.
Risk 8: Failure to contribute effectively to economic growth within Blackburn with Darwen.
Risk 9: Failure to improve health outcomes within Blackburn with Darwen could result in the communities' health and wellbeing position or conditions deteriorating.
Risk 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 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.
Risk 19: EU Exit - Risk of inadequate planning/preparedness at a national & local level for a "no deal" exit from the EU arrangements.
Risk 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.

BLACKBURN with DARWEN BOROUGH COUNCIL

TO:	**Audit & Governance Committee**
FROM:	**Head of Audit & Assurance**
DATE:	**29 November 2022**

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Annual Governance Statement (AGS) – Progress of the 2021/22 Actions and 2022/23 Approach/Timetable

1. PURPOSE

To inform Members on progress of the actions taken to address the significant governance issues identified in the 2021/22 AGS and the planned approach and timetable for producing the 2022/23 Statement.

2. RECOMMENDATIONS

The Committee is asked to:

- review the progress made to address the significant actions identified in the 2021/22 AGS; and
- note the approach/timetable for producing the 2022/23 AGS.

3. BACKGROUND

The Accounts & Audit Regulations require the Council to 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 delivery of agreed outcomes 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 must be 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.

<u>Actions from the 2021/22 AGS</u>

The following significant issues were noted in the 2021/22 AGS:

- Children's Services financial position;
- Adult Social Care commissioning;
- Long term financial sustainability of the Council;
- Children's Services Ofsted inspection findings
- Teachers' Pension Agency Year End Certification and audit; and
- Performance Management System.

Details of the progress made to 30 August for each of these areas is provided in Appendix 1. These show that appropriate steps are being taken by senior officers and managers in respect of the issues identified. However, the commentary notes that there are still continuing demands leading to budget pressures and related challenges in key areas that are being monitored and managed by the relevant management teams and it is still too early to assess the impact of the measures in some areas.

There is also a level of uncertainty as to the impact of government Social Care reforms and the on-going impact of the pandemic, the cost of living crisis and winter demand pressures on key Council services. Whilst the Council is currently forecasting an overspend at the year-end, delivery of the 2022/23 budget is critical to the sustainability of the Council's financial position. Work is continuing to find ways of containing the overspend wherever possible. Regular budget monitoring reports will be considered by the Executive Board as the year progresses.

<u>*Approach for the 2022/23 AGS*</u>

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 of the returns, provide appropriate challenge to the process, with significant "red" issues identified reported to the Corporate Leadership Team and Audit & Governance Committee for consideration.

There is a year-end process (co-ordinated 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 2022/23 AGS Completion and Related Processes

Deadline	Action
13 March 2023	Circulation of director annual statement of assurance templates.
14 April 2023	Completion and return of Year-end MAF Directors Exception/Dashboard reports.
24 April 2023	Receipt of signed director annual statements of assurance. Receipt and collation of annual governance core principle evidence.
23 May 2023	Year-end MAF significant “red” issues reported to Corporate Leadership Team.
24 May 2023	AGS evidence and statements considered by Statutory Governance Officers Group (SGOG).
7 June 2023	Production and agreement of final draft 2020/21 AGS by SGOG for consideration by Corporate Leadership Team.
27 June 2023	Year-end MAF significant “red” issues reported to Audit & Governance Committee. Approval of AGS by Audit & Governance Committee.
27 June 2023	AGS signed by Chief Executive and Leader of the Council.
30 July 2023	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

Strategic Directors of Adults & Health, Children's & Education and Resources, Director of Finance and Assistant Director, Chief Executives.

12. 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.

Contact Officer:	Colin Ferguson, Head of Audit & Assurance – Ext: 5326
Date:	18 November 2022
Background Papers:	2021/22 AGS approved by Audit & Governance Committee on 28 June 2022.

Annual Governance Statement (AGS): Progress on Addressing 2021/22 AGS Significant Issues Identified

Issue	2021/22 Issue/Actions to be taken	Responsible officer(s)	2022/23 Progress Update – August 2022
1. Children's Services Financial Position	We are currently working through the year end closure of accounts and as such the final outturn is not yet known, however the portfolio is expected to return an overspend in the region of £2,000,000. This would be an increase on the position reported at quarter 2. The demand pressures that existed in 2020/21 continued into 2021/22 with the largest overspends being seen within Placement Services, specifically Special Guardianship Orders, Commissioned Placements and Foster Care. Additional pressures have been seen against our Home to School and SEN Transport budgets. There is an issue with placement sufficiency and cost pressures on external placements. These placements are closely monitored. There is a national crisis in the availability of placements for cared for children who have social, emotional and mental health issues who have sexually harmful and other risk taking behaviours and the impact of the added requirement for post-16 regulation of suitable accommodation. The implications of the Integrated Care System the pan Lancashire and South Cumbria approach to joint funding of children with complex needs and the implementation of the Individual Patient Allowance needs to be assessed. Consideration is being given to sub regional commissioning, along with a review of the	Strategic Director Children's Services & Education	The Children's Services budget continues to experience significant pressures in 2022/23. Those pressures are again predominantly centred on Commissioned Placements and Foster Care, as well as both Home to School and SEN Transport. The portfolio has introduced a series of weekly meetings to focus on individual commissioned placements. The goal is to ensure that placements are routinely challenged and progress kept on track, with the intention that costs are incurred for no longer than absolutely necessary. Recruitment and retention of in-house foster carers remains a priority and to that end it is the intention to review the current financial package offered to our foster carers to ensure that we remain competitive within the market. Any increase in the number of in-house carers would result in a reduction in the reliance on costly external placements. The pressures on the school transport budgets are expected to increase over the course of the year as the current rates of inflation being experienced on fuel prices will trigger uplifts to the agreed costs of contracts with transport providers. The implications of the Integrated Care System and the pan Lancashire and South

Issue	2021/22 Issue/Actions to be taken	Responsible officer(s)	2022/23 Progress Update – August 2022
	internal provision. The independent review into children's social care will a view on this. The budget pressures associated with Special Guardianship Orders have been addressed as part of the Medium Term Financial Plan, with additional funding of £1,000,000 allocated against this budget in 2022/23.		Cumbria approach to joint funding of children with complex needs is still being assessed. Since July the joint commissioning panel has been operating using a different model and all currently approved cases now need to be taken back to panel for a funding review. In view of this the level of financial contribution that we can expect to receive from Health remains uncertain and will only become clear as and when the previously agreed cases are reviewed. It is too early to say if the measures will have an impact on the forecasted overspend. The weekly review meetings are a new initiative. There have only been 3 meetings held to date so no changes have been seen to placements as yet. Likewise, the review of foster care payments has commenced but it is still in the information gathering stage and no proposals have yet been made. In the short term any revision of the rates is only going to increase expenditure for our existing carers without any increase in the number of new carers being approved as there will understandably be a time lag before the benefits are seen. The latest SPT report at period 4 is forecasting a £3m overspend at year end, which is an increase compared to the 2021/22 year end position. A business case is being presented to increase the Foster care rates which it is

Issue	2021/22 Issue/Actions to be taken	Responsible officer(s)	2022/23 Progress Update – August 2022
			hoped would be classed as an invest to save initiative and could be considered for additional funding from the invest to save reserve. If successful then it would not result in an increased overspend on the Foster Care element as the budget would be increased accordingly.
2. Adult Social Care Commissioning	The Department is beginning to see escalating costs in the commissioning budget as a result of increased numbers of domiciliary care packages and increased acuity of need. However the commissioning budget is forecasting an underspend due to one off income in year. Our ongoing engagement with care providers continues to highlight the significant challenges they face following the pandemic (including low occupancy, insurance cost, Infection control, staffing and now escalating fuel and energy costs). These issues are highlighted across the sector at a national level. We have now consulted with providers and finalised our agreed provider fee increases for 2022/23, which allow for the increase in National Living Wage, Employer NI contributions and other inflation. However, the increases are unlikely to fully address the issues faced by providers as our agreed increases are obviously balanced against affordability within the Council's Medium Term Financial Plan. The Government have announced a Market Sustainability and Fair Price for Care Grant for 2022/23, which requires local authorities to	Strategic Director for Adults and Health	The final outturn for the financial year 21/22 was £2.4m underspent. During the course of last financial year pressures continued within the commissioning budget due to the additional demand and cost of care, however the majority of the underspend was as a result of one-off income relating to Covid-19 health funds for Discharge to Assess, additional one-off unplanned receipts and associated budget adjustments for Continuing Health Care contributions, ordinary residence disputes which have been resolved and reclaims of individual direct payment budgets (some of which could not be utilised during the pandemic). As such an underspend position into 22/23 is unlikely to be sustained. The increased demand pressures in extra care and domiciliary care experienced during 21/22 as well as the cost of individual care packages due to acuity of needs continues into 2022/23. The portfolio are therefore anticipating a budget overspend in year. This forecast also includes an estimated increase for winter demand pressures

Issue	2021/22 Issue/Actions to be taken	Responsible officer(s)	2022/23 Progress Update – August 2022
	undertake a cost of care exercise and publish market sustainability plans. This exercise will be undertaken early in the new financial year and it is anticipated there may be further budget pressures in commissioning which arise from the review in terms of managing the market and the risks associated with provider failure and our ability to deliver statutory care services. The Government have announced Social Care reforms, which will have a very significant impact on numerous aspects of our service including how we assess and commission care, client contributions and our existing systems and processes. At this stage it is difficult to quantify the impact on the commissioning budget. However, it is essential to highlight that the scale of reform changes and pace at which these have to be introduced will have a significant impact on the department at the same time as our preparations for full CQC inspection. The Government have stated that Social Care Reforms should result in additional funding for Social Care but the details are yet to be confirmed.		which are expected to be much higher in 22/23 due to the impact of the pandemic and cost of living crisis. We anticipate an increase in individuals needing statutory care and a requirement to enhance our commissions to support providers to meet demand, workforce pressures and the escalating costs of delivering care in the current climate. In addition there are a number of transitions from Children's anticipated in year. The Fair Cost of Care (FCoC) exercise is well underway with our providers of care and our engagement with the sector has provided a response rate of over 40% for both Domiciliary and Residential/Nursing care. This is comparable with other LA's in the region. Early indications suggest a significant difference between our existing rates for providers and the FCoC rates. The department is developing our Market Position statement and our Market Sustainability plan which will outline how we intend to move towards the FCoC and manage sustainability of the care market, including increased National Living Wage/Real Living Wage and inflationary costs. The outcome of the FCoC and Market Sustainability plans will need to be quantified and the affordability of plans factored into the Medium Term Financial Plan and commissioning budgets in future

Issue	2021/22 Issue/Actions to be taken	Responsible officer(s)	2022/23 Progress Update – August 2022
			years. Further work is also underway to develop our plans for the Charging Reform elements of Social Care Reform. This includes the care cap and more generous means test for financial assessment of ASC service users. Both of these will have a very significant impact on the Adults Commissioning budget in terms of cost of care and client contributions as the cost of care will shift from the individual to the LA. This has been the subject of reports to Executive Board and updates will be provided as the new legislation is introduced. The Government have stated that Social Care Reforms should result in additional funding for Social Care but the details are yet to be confirmed. Finally it is important to note that the Social Care Reforms are to be implemented at the same time as other significant legislative change for Adults, including Liberty Protections Safeguards and CQC Assurance. All these areas impact directly on the Commissioning budget and our systems, processes and workforce.
3. **Long term financial sustainability of the Council**	Underpinning the development of the 2022/23 budget (and the Financial Strategy and 2022/25 Medium Term Financial Plan) is the continuing impact of austerity. Although the Council's Core Spending Power for 2022/23 has increased, that increase is neither sufficient to make up for the funding reductions the Council has	Chief Executive and Directors	As part of the process of setting the Council's budget for 2022/23, Councillors agreed a Financial Strategy for the period to 2025/26. The strategy is based around the themes of 'Grow, Charge, Save and Stop' and is aimed at delivering a

Issue	2021/22 Issue/Actions to be taken	Responsible officer(s)	2022/23 Progress Update – August 2022
	experienced since 2010 nor reflective of the significant changes in demand for services. Consequently, the Council's Medium Term Financial Plan still shows a forecast funding deficit for which action will need to be taken to ensure the Council remains financially sustainable. The generally accepted view is that the increase in Core Spending Power set out in CSR21 is unlikely to be enough to keep pace with rising demand for Adult Social Care, meaning further pressure on other services that have already borne the brunt of a decade of austerity. In addition there are ongoing income losses from the COVID pandemic as footfall and demand have not risen back to pre-pandemic levels. Further uncertainty has been created by rising inflation and the cost of living crisis and the projected increases in the national living wage will put further pressure in the Council's salary budgets. The February Finance Council meeting approved a Finance Strategy the aim of which is to provide a 'route map' for a balanced sustainable budget over the medium term planning period whilst ensuring that resources are applied in the most effective, efficient and economical way ensuring that the Council's Strategic Plan is achieved. There are four key themes to the Strategy; Grow (the Council's tax bases), Charge (for services where possible), Save (costs through		sustainable budget over the medium term. The 'Grow' theme is predicated on the Council's ambitious economic and housing growth programme. Examples of this include the Darwen Town Deal and the emerging Levelling Up Fund Projects for Blackburn. The 'Charge' theme includes reviewing all fees and charges to ensure the Council is maximising its income and is supported by a Fees and Charges Policy. For the 'Save' and 'Stop' themes, the Council is working on a programme of 8 workstreams, being: • Organisational review; • Asset Review (Phase 1 being Accommodation Assets and Phase 2 being Operational Assets); • Alternative Delivery Models; • Children's and Education Services; • Adult Social Care Services; • Income and Commercial (to tie in with the 'Charge' theme); • Back-Office Efficiency; and • Procurement. Underpinning these workstreams are enabling functions such as Finance, digitial (transformation) and Human Resources. The success or otherwise of these workstreams will depend largely on the identification of budget reduction options for

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	transformation) and Stop (providing services where others are capable of providing them in place of the Council).		Councillors to consider as part of their deliberations on the Council's budget.
4. Children's Services Ofsted Inspection Findings	The Ofsted ILACS inspection in February/March 2022 acknowledged that there were areas of good practice in place but found that improvement was required to be good across the four categories inspected. The inspectors identified that that further work was needed to embed the full Quality Assurance Framework to drive forward practice. The outcome of the inspection, and key priorities, were reported to Executive Board in April. The report noted that additional investment would be required to cover improvement activity. A costed improvement plan has been developed and is due to be submitted to Ofsted by 1st July 2022. The plan will be driven by a multi-agency 'Achieving Excellence' Partnership Board which is being be chaired independently to oversee the delivery of the response and actions identified. The Board has now met and had sight of the plan, which will now be approved by Executive Board prior to submission to Ofsted. It will continue to build on the Council's commitment to supporting the most vulnerable. The plan will address the key concerns around multi-agency strategy discussions, data and assurance, and our services and support for care leavers up to the age of 25.	Strategic Director Children's Services & Education	Two detailed improvement action plans were submitted to Ofsted ahead of the 1st July deadline. The first to address all 10 areas of recommendation and the second to provide a focus on the three priority areas: • The multi-agency response to concerns that a child is suffering or is likely to suffer significant harm, particularly timely strategy discussions. • The effectiveness and impact of internal auditing & monitoring processes. • The quality of support, advice and guidance offered to care leavers. Progress against the 3 priority action areas were shared as part of the submission. Following the submission, positive feedback has been received from the Ofsted Regional Director: "The plans are very detailed and wide-ranging in scope. They appropriately highlight most of the specific areas for improvement at inspection, including the multi-agency response to concerns about potential harm to children, services for care leavers and the effectiveness of internal auditing and quality assurance activity."

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	The Action Plan will be subject to further refinement as the financial year progresses. This acknowledges that the Council's response needs to be both immediate to deal with some of the issues raised in the Inspection and developed to ensure that the improvements in the service are sustained to deliver the best outcomes for Children in a way that remains affordable for the Council.		Further work was asked of the local authority to consider how the quality of planning for children in need of help and protection will be improved. In response, the action plan has been updated to include ensuring that "Children's plans include timescales and details of contingency arrangements – continuous monitoring through quality assurance activity, IRO scrutiny and tracking, including a dip sample audit of Child In Need plans and contingency plans in October 2022". The Achieving Excellence Board continues to meet bi-monthly and focus on the three priority areas to drive improvement and monitor progress activity.
5. Teachers' Pension Agency Year End Certification and audit	There are a number of issues in iTrent when running the Monthly Contributions Reconciliation (MCR) return for teachers' pension contributions which the Council is required to provide the Teachers' Pension Agency (TPA). This is causing additional manual activity for Payroll staff of around 10 days per month that should not be required, is not sustainable and creates the risk of human error. The software provider has been working on identify the cause of the errors and resolving these. This work is currently on-going. The software provider has been put on notice that the Council reserves the right to recovering the additional costs arising from the extra work required as a result of these issues occurring. If the issues are not able to be resolved there is significant reputational risk to the Council. Any	Assistant Director, Chief Executives Department	Work has been ongoing with the supplier and changes have been made in the system. The number of issues identified have reduced during the year. The Council is working actively with the software provider to resolve the outstanding matters. These are expected to be resolved by the end of the year.

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	under payment of teachers' pensions contributions identified will also attract compound interest. At this stage it is not clear when the issues will be resolved. A year end certificate was manually produced by 31 May, as required. This is now required to be audited. The auditor must provide the audited return direct to the TPA by 30th November 2022.		
6. Performance Management System	Corporate performance monitoring arrangements were stepped back during the last two years to allow for the Council to provide an effective response to the pandemic. In light of the new Corporate Plan being developed and implemented, alongside the Organisational Development Framework and new Council Values and Behaviours, the Performance Management Framework and reporting arrangements needs to be reviewed, refreshed and strengthened, linked into business plans, to ensure that the right information is being monitored and reported accurately, in a timely manner. This will ensure that there is a better corporate understanding of service performance. This will enable a better corporate focus on service performance along with co-ordination of cross-cutting matters, better engagement with staff and their development and the development of a culture of improvement.	Corporate Leadership Team	Directors and management teams have been consulted throughout 2022 on an improved approach to business planning and performance monitoring. The Digital Service Lead presented the outline plans to the Corporate Leadership team. Software systems have also been reviewed with a view of further optimising processes. Business plans for 22/23 have since been collated across Resources, Adults, Children, Highways & Transport and Public Health. Remaining plans will be returned in September 2022. Work is ongoing to implement the improved, consistent approach from 2023/24 and the process of engagement with directorates will begin in November 2022.

TO:	Audit and Governance Committee
FROM:	Director of Finance
DATE:	29th November 2022

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Appointment of External Auditors

1. PURPOSE

1.1 The purpose of this report is to inform the Audit and Governance Committee of the outcome of Public Sector Audit Appointment's (PSAA) procurement process for the appointment of External Auditors to the Council for the period 2023/24 to 2027/28.

2. RECOMMENDATIONS

2.1 The Audit and Governance Committee is asked note and endorse the appointment of Mazars as the Council's External Auditor with effect from 1 April 2023 for a period of 5 years.

3. BACKGROUND

3.1 Councillors may be aware that in 2014, the then Government undertook a range of structural reforms to the external audit framework for local public audit (including the arrangements for local government). This led to the abolition of the Audit Commission and the decentralisation of the framework for the provision of external audit services to local public services.

3.2 The arrangements for the appointment of external auditors under the new regime are set out in the Local Audit and Accountability Act 2014 (the Act). The Act provides for the creation of a locally-led audit regime providing local authorities with greater flexibility over the procurement of their external audit service. In essence, Councils can:-

a) undertake their own procurement and appointment of an External Auditor – this would require the Council to establish an Audit Panel comprising Elected and Independent Members who would be consulted on the selection and appointment of an Auditor;

b) work collaboratively with other local authorities on a procurement for an External Auditor – this is the same as (a) above but with a procurement exercise undertaken by a group of local authorities who may use a shared Audit Panel for consultation about selection and appointment of an Auditor;

c) opt in to a Sector-led procurement – this is a national procurement exercise whereby a designated body undertakes the procurement and appointment of an External Auditor on behalf of those Councils that choose to opt-in to this process.

3.3 In response to this, the Local Government Association (LGA) established PSAA as a not-for-profit company to act as an Appointing Body for principal local government and police bodies; in essence, PSAA undertake the procurement, appointment, setting the scale of fees payable and contract management for those bodies that opt in to the national scheme. They undertake this role in according with the Local Audit (Appointing Person) Regulations 2015.

3.4 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts (5 years in total). Along with 98% of eligible public bodies, the Council opted into the 'Appointing Person' national auditor appointment arrangements established by PSAA for the period covering the accounts for 2018/19 to 2022/23.

3.5 In anticipation of the need to re-procure External Auditors for the 5 year period commencing with the financial year 2023/24, at the meeting of Finance Council in February 2022, Councillors resolved again to accept PSAA's invitation for the Council to opt into the sector-led option for the procurement and appointment of External Auditors to principal local government and police bodies. Almost all (99%) eligible public bodies opted in to this procurement process.

3.6 As the Council's 'Appointing Body', PSAA are required to appoint an External Auditor to the Council to audit its accounts for a financial year not later than 31st December of the year preceding. As with the present arrangement, the appointment can be for more than one financial year and is, as indicated above, generally for a 5 year period.

4. KEY ISSUES

Appointment of External Auditor for the period 2023/24 to 2027/28

4.1 The procurement process conducted by PSAA took place during the Spring/Summer of 2022. On 3rd October, PSAA informed the Council of the outcome of the procurement process. In summary, PSAA offered contracts to six suppliers: Grant Thornton, Mazars, Ernst and Young, KPMG, Bishop Fleming and Azets Audit Services. On 17th October, PSAA subsequently informed the Council that they proposed appointing Mazars as the External Auditor for Blackburn with Darwen for 5 years from 2023/24.

4.2 By way of background, Mazars is a large global audit and accounting firm with over 28,000 professionals in 90 countries and territories worldwide. In the UK the firm ranks in the top ten with 2,500 employees and 140 partners working out of 15 offices. The firm's dedicated public audit team has significant experience in providing external audit to public sector bodies. It comprises individuals with experience of auditing councils, combined authorities, police bodies, fire and rescue authorities, local government pension funds and other public bodies. In addition to its audit contract with PSAA, the firm provides services to Audit Scotland and has a substantial portfolio of NHS audits and is one of the National Audit Office's framework suppliers for central government audit.

4.3 In developing their appointment proposal, PSAA considered a range of factors including:-

- auditor independence (the most critical of all the factors);
- joint/shared working arrangements and information from audit bodies;
- the commitments to the firms under the audit contracts;

- bodies' main offices and firms' geographical preferences;
- the status of prior years' audits; and
- continuity of auditor where it is considered appropriate.

4.4 The Council was given the opportunity to make representations about the choice of Auditor appointment. Following discussions with the Finance Team and in consultation with the Executive Member for Finance and Governance and the Chairman of the Audit and Governance Committee, no such representations were considered necessary. This will mean that, subject to the Council's resolution, the current External Auditor, Grant Thornton will remain in place to undertake the audit of the Council's accounts for 2022/23 and Mazars will be appointed by PSAA for the audit of the Council's accounts from the 2023/24 financial year for five years

5. POLICY IMPLICATIONS

5.1 There are no policy implications arising directly from this report.

6. FINANCIAL IMPLICATIONS

6.1 In concluding the procurement process for the appointment of External Auditors, PSAA advised audit bodies to anticipate an increase in fees in the region of 150% with effect from 2023/24 (whilst acknowledging that actual fees will depend on the amount of work required by individual auditors). **It must be stressed that, irrespective of the choice of auditor appointment, the fees would be the same.**

6.2 On the basis of the latest fee estimates for 2021/22 (the latest information available) which is £136k, this would imply that the Council's audit fees will rise to £340k. The current budget provision is £145k thereby a budget increase of £195k will need to be factored into the Council's budget for 2023/24.

6.3 It should also be noted that it is not known at this stage to what extent the Government will provide Councils with additional funding to reflect the new burdens place on them by the changes in the audit regime.

7. LEGAL IMPLICATIONS

7.1 Section 7 of the Local Audit and Accountability Act 2014 requires the Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. This report has been produced to comply with this statutory obligation.

8. RESOURCE IMPLICATIONS

8.1 There are no other resources implications arising from the contents of this report.

9. EQUALITY AND HEALTH IMPLICATIONS

9.1 There are no equality and health implications arising from the contents of this report.

10. CONSULTATIONS

10.1 None arising from the contents of this report.

11. STATEMENT OF COMPLIANCE

11.1 The recommendations in this report are made further to advice of Council's Director of Finance as s151 Officer and the Deputy Director of Legal and Governance as the Council's Monitoring Officer.

VERSION:	1
CONTACT OFFICER:	Dean Langton – Director of Finance
DATE:	November 2022
BACKGROUND PAPERS:	PSAA Opt-In Invitation Report to Council in February 2022