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Audit & Governance Committee

Tuesday, 19th September, 2023
6.30 pm
Meeting Room A

Please also note, a session has been arranged for Members of the Committee, to start at 5:45 pm on 19 September to review and challenge Corporate Risk 25 (The impact that the cost of living crisis may have on local businesses and the residents and the implications that this may have on Council staff, services and budgets.)
The Committee will start at the rise of the training.

AGENDA

1. Welcome and Apologies

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

2. Declarations of Interest

To receive any declarations of interest in items on the agenda.

3. Minutes of the meetings held on 11th July 2023

Agenda Item 3 - Minutes of the meetings held on 11th July 2023	**3 - 8**

4. External Audit - Audit Committee Progress Report and Sector Update Year ended 31 March 2022

The Council's External Auditors will provide the Committee with a progress report on their work.

Agenda Item 4 - LG Audit Committee Progress report - Sept 23	**9 - 15**

5. Treasury Management Report - April to June 2023

The Strategic Director, Finance & Resources will provide the Committee with a report on Treasury Management activity.

6. Audit & Assurance - Progress & Outcomes to August 2023

Audit & Assurance - Progress & Outcomes to August 2023

7. Risk Management - 2023/24 Quarter 1 Review

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

8. Approval of Appointment of an Independent Member

The Chair will provide the Committee with a report on the outcome of the process to appoint an independent member to the Committee for approval.

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

Date Published: Monday, 11 September 2023
Denise Park, Chief Executive

AUDIT & GOVERNANCE COMMITTEE
Tuesday 11th July 2023

PRESENT – *Dave Harling (in the Chair) Councillors Baldwin, Khonat, Whittingham, Slater N.*

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

OFFICERS – *Denise Park, Colin Ferguson, Simon Ross, Christopher Bradley, Jenna Russett-Knott, Phil Llewellyn and Syeda Azmat.*

The Councils Auditors*- John Farrar and Gareth Winstanley (Grant Thornton).*

RESOLUTIONS

35. Welcome and Apologies

The Chair welcomed everyone to the meeting.

36. Minutes of the meeting held on 2nd March 2023

The Minutes of the meeting held on 2nd March 2023 were submitted for approval.

RESOLVED – That the Minutes of the meeting held on 2nd March 2023 be approved as a correct record and signed by the Chair.

37. Declarations of interest

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

38. Annual Report on Health & Safety 2022/23

Jenna Russett-Knott presented the Annual Report on Health & Safety for 2022/2023. The report highlighted the key information for 2022-2023 in terms of Accidents, Incidents and near missed data along with key highlights from the period. The report also covered plans and priorities for 2023-2024.

Councillor Slater raised several questions in regard to how many serious liability issues had been raised and referred to in the report, had they been any serious incidents in relation to insurance, clarification on why the same repetitive issues were present in the report once again in relation to staffing and how this effected the spending.

Jenna Russett-Knott provided clarification by directing all to page one of the report where details of all lower level incidents and the single large scaled incident could be found.

RESOLVED –

That the report be noted.

39. Use of Waivers

Christopher Bradley presented a report to inform Committee Members of the volume of waivers from the Contract and Procurement Procedure Rules.

Officers are aware of issues in other Councils where excessive and inappropriate use of waivers could be an indication of wider governance issues. As part of the committee's role to oversee the annual governance process and the arrangements to secure value for money it was felt that it was appropriate for this report to be brought to the committee to show that the Council does have an appropriate system in place, and for the committee to discuss and agree the oversight it wished to have.

89 waivers were approved in 2022/23. This was higher than previous years which were typically around about 60 per year. This could be down to the new automated process being easier to use and track than the previous version so departments are more willing to use the process. It may also be partially down to increased engagement with departments highlighting the need for compliance with Contract and Procurement Procedure Rules including the use of waivers where appropriate. However there is a risk that a culture of waivers being the easy option emerging. The Head of Legal and Procurement was therefore highlighting to Extended Leadership the importance of the competitive process and advice on how to avoid the need for waivers in the future.

So far in this in this financial year there had been 15 waivers down from 19 in the same period last year which indicated numbers may be coming down slightly and could indicate that procurement exercises recommended by the Head of Legal and Procurement on previous waivers are now being implemented.

Councillor Slater questioned the use of the amount of waivers in place for a small organisation and requested clarification on if this could be presented to the P&R Chair.

Denise Park reported this could be presented to the P&R Chair and the Officers are aware of when waivers were appropriate for use.

RESOLVED –

The Committee is asked to note the contents of the report, agree to the frequency and content of future reports.

40. External Audit Findings Report 2020/21

John Farrar presented a report which provided Members with an update on External Audit Findings.

Council Slater raised concern in regard to the assumption placed on pension labour, asset evaluations and requested this to be noted.

RESOLVED –

That the report be noted.

41. Statement of Accounts 2020 - 2021

Simon Ross presented a report detailing the statement of accounts for the financial year 2020/2021. The accounts provided a useful source of financial information for the community, stakeholders, Council Members and other interested parties. The report highlighted some of the achievements of the Council over the course of the last year, which have been delivered against a challenging backdrop of the Covid-19 pandemic.

The Chair commented that the information and appendix would be very useful for all Members.

RESOLVED –
That the Audit and Governance Committee;

1. Note the outcome of the audit of the Council's financial statements as presented by Grant Thornton in their Audit Findings Report for 2020/21 (previous agenda item).

2. Note the updated Statement of Accounts for 2020/21 as presented with this agenda and, subject to any minor amendments arising from the outstanding external audit work, give approval to the Statement of Accounts as presented at Appendix 3

3. Agree that the Chair may sign the Statement of Accounts in consultation with the Chief Executive (as acting s151 Officer), on conclusion of the audit.

4. Note the draft letter of representation to the external auditors, which is provided at Appendix 2, with the final version to be signed by the Chief Executive and the Chair of the Audit and Governance Committee at the date of issue of the audit opinion

42. Application of Accounting Policies

Simon Ross provided the Committee with a report on the accounting policies that would be used in the preparation of the Council's Statement of Accounts for the financial year ending 31 March 2023. This allowed the Committee to review and consider the proposed Accounting Policies to be used in the preparation of the Council's Statement of Accounts 2022/23.

RESOLVED –

That the Committee note the use of the Accounting Policies as set out in Appendix A for the preparation of the Council's Statement of Accounts 2022/23.

43. Closure of Accounts 2022/23 - Assessment Going Concern Status

A report was submitted informing the Committee of an assessment of the Council as a 'going concern' for the purposes of producing the Statement of Accounts 2022/23.

The concept of a 'going concern' assumed that an Authority, its functions and services would continue in operational existence for the foreseeable future. This assumption underpinned the Statement of Accounts drawn up under the Local Authority Code of Accounting Practice and was made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government).

It was considered that having regard to the Council's arrangements and such factors as highlighted in this report that, for the purposes of producing the Statement of Accounts for 2022/23, the Council remained a going concern in 2022/23 and for the following 12 months. This assessment was based on information available at the time of writing the report.

RESOLVED –

That the Committee note the outcome of the assessment made of the Council's status as a 'going concern' for the purposes of preparing the Statement of Accounts for 2022/23.

44. Treasury Management Annual Report 2022/23

Simon Ross presented a report which contained the Treasury Outturn position for 2022/23, as also reflected in the 2022/23 Outturn Corporate Monitoring Report (6th July Executive Board).

The Chair noted the positive report and debt had a significant reduction.

RESOLVED –

That the Audit and Governance Committee note the Treasury Management position for financial year 2022/23 including the period from January 2023 to March 2023

45. Audit & Assurance - Progress & Outcomes to May 2023

Colin Ferguson presented a report which informed Committee Members on the progress and outcomes made by Audit and Assurance in the period from 1st of Feb – 31st of May 2023.

The report highlighted Counter Fraud activity and data relating to Corporate Governance and Risk, and summarised for twelve audits completed since the last report to the committee as well as ongoing audits and the performance of internal audit.

Councillor Vicky Ellen McGurk noted her appreciation of the quantity and quality of such audits as it highlighted the level of assurance it creates among Members and the public.

RESOLVED –

That the report be noted.

45. Annual Risk Management Report 2022/23

A report was submitted informing the Committee Members of the risk management related activity which has taken place or been delivered during 2022/23. It provided an overall conclusion on the effectiveness of the risk management arrangements in place within the Council.

Risk 21 was highlighted in discussions, relating to the potential risk to the council as a result of Public Enquiry into the Covid-19 Pandemic.

RESOLVED –
That the Committee note the annual risk management report and agree the conclusion on the overall effectiveness of the Council's risk management arrangements in place during 2022/23.

46. Annual Counter Fraud Report 2022/23

Colin Ferguson presented a report which informed the Audit & Governance Committee of the results of the counter fraud activity that has been carried out during the year ended 31 March 2023 to minimise the risk of fraud, bribery and corruption occurring in the Council, and the outcome of investigations carried out into potential or suspected fraud or irregularities.

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

RESOLVED –
That the report be noted.

47. Annual Internal Audit Opinion Report 2022/23

Colin Ferguson presented the Committee with the Annual Internal Audit Report for 2022/23.

The report provided independent evidence that allowed the Audit & Governance Committee to fulfil its role and function of providing independent assurance to the Council on the adequacy of the risk management, and internal control arrangements in place within the Council.

RESOLVED –

That the committee note the content of the Annual Internal Audit Opinion Report for 2022/23 (as set out in Appendix A)

Note 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

Note that the internal audit work that supports this opinion has been delivered in accordance with the Public Sector Internal Audit Standards (PSIAS) and that there are no significant areas of non-conformance

48. Annual Governance Statement for 2022/23

The Chief Executive provided the Committee with the draft Annual Governance Statement for 2022/23.

The report detailed the significant issues Governance continue to face particularly in relation to budget issues relating to Children's and Adults and Health.

RESOLVED –

That the report be noted.

49. Audit & Governance Committee Annual Report 2022/23

Colin Ferguson introduced Members to a report which summarised the work undertaken and reports considered by the Committee during the year to demonstrate that it had fulfilled its agreed terms of reference.

The Committee was asked to consider and approve the Committee's Annual Report; and refer the report to Full Council for endorsement.

The Chair highlighted the good practice checklist included in the report which was helpful in identifying the points of discussion.

The Chair commented on the recruitment of Independent Members of the committee and Colin Ferguson confirmed that the process was ongoing.

The Chair highlighted the struggle with lateness of reports. There was an understanding that some Members worked and found it difficult to read the full agenda. This raised the issue of all the items needing to be submitted for Members to review before Committee.

Members of the committee commented on the volume of reports and it was suggested that a guidance note would help in some cases.

The Chief Executive confirmed that the Audit and Governance plan would be looked at to identify time critical items and to achieve a balanced agenda going forwards.

RESOLVED -

That that the Annual Report be approved and referred to Full Council for endorsement.

Signed: ……………………………………………………

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

Grant Thornton

Blackburn with Darwen Council
Audit Progress Report

Year ending 31 March 2022

September 2023

Contents

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 Authority 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.

Introduction

Your key Grant Thornton team members are:

John Farrar
Key Audit Partner
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Gareth Winstanley
Engagement Manager
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This paper provides the Audit and Governance Committee with an update on the progress in delivering our responsibilities as your external auditors.

Members of the Audit and Governance Committee can find useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications https://www.grantthornton.co.uk/en/services/public-sector-services/

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

Progress at September 2023

Financial Statements Audit 2020/21

We presented our Audit Findings Report on the 11 July to the Audit and Governance Committee summarising the key issues from our audit of your 2020/21 financial statements. On the 13 July we issued our auditors report on your 2020/21 financial statements where we provided an unmodified auditors report.

Financial Statements Audit 2021/22

In September 2022 we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2021/22 financial statements.

Following the delay in completion of the 2020/21 audit, our audit of the financial statements for 2021/22 was delayed and commenced in early 2023. Completion of the 2021/22 audit has also been delayed, primarily due to issues identified in the valuation of land and buildings and the publication of the 31 March 2022 triennial valuation for the Local Government Pension Scheme in March 2023.

To assist us with the audit of your land and building valuations we have engaged an auditor’s valuation expert (Montagu Evans) to support the local audit team. We have raised a number of challenges to management and the valuer arising from the work undertaken by Montagu Evans and are currently working through the responses received.

During our audit the latest triennial valuation for the Lancashire Pension scheme was published. This valuation, which is at 31 March 2022, provides updated information for the pension fund's IAS 26 disclosures, particularly in respect of membership data and demographic assumptions.

Having considered Section 3.8 of the CIPFA Code and IAS 10 - Events After the Reporting Period we are of the view that the triennial valuation provides information that better reflects conditions that existed as at 31 March 2022. To allow us to make an informed assessment of whether adjustments to draft accounts might necessary we requested that management obtain a revised report from their actuary, detailing what impact this updated information had on its IAS 19 disclosures at 31 March 2022.

Additional audit work has been required including obtaining assurance in respect of updated membership data, considering the reasonableness of revised assumptions and estimates and checking the accuracy of management’s adjustments to the financial statements. These issues have taken time to resolve.

The revised actuarial IAS 19 report for the Council showed that the impact was material and so management have adjusted the financial statements accordingly. As a result, the total value of the pension fund's promised retirement benefits for the purpose of IAS 19 is expected to decrease by £14.5m.

We continue to work with management to progress other areas of the audit that remain outstanding, follow up review points and queries and seek further audit evidence to complete areas of testing.

We anticipate being in a position to issue our 2021/22 Audit Findings Report and subsequently our audit report and opinion on the Council’s financial statements in the autumn.

Value for Money (VfM)

We have engaged a VfM audt specialist to undertake work to assess the Council’s arrangements to secure value for money in the use of its resources, in line with the requirements of the National Audit Office Code of Audit Practice (CoAP). The CoAP requires us to assess the Council’s arrangements across three the three theme areas of “financial sustainability”, “governance” and “improving economy, efficiency and effectiveness”.

We anticipate issuing our Auditors Annual Report by the end of 2023.

Progress at September 2023 (cont.)

Financial Statements Audit 2022/23

We have started our planning work covering the 2022/23 audit year. We have audit resources scheduled to commence work on the audit of your final accounts in the autumn and our audit work will run alongside any outstanding 2021/22 audit.

Audit Fees

The proposed audit fees for 2021/22 were set out in our Audit Plan. As highlighted above a number of matters have arisen during the audit that were not anticipated in setting the initial fee, leading to additional work being required. We have therefore proposed a number of additional fee variations that are set out in the detailed analysis on page 6.

Fee variations are subject to formal approval by PSAA.

Audit fees – detailed analysis

The table below provides a detailed breakdown of anticipated fees for the 2021/22 audit including the fee proposed in the Audit Plan and the variations resulting from additional issues arising since the Audit Plan was prepared. The proposed fees have been discussed with management and are subject to PSAA approval.

	2021/22	2020/21
2021/22 Scale fee published by PSAA	**£86,186**	**£79,186**
Enhanced audit procedures for Pensions		£3,750
Enhanced audit procedures for Property, Plant and Equipment		£3,750
Raising the bar/ regulatory factors/new standards and developments		£3,125
Recurring scale fee and variations	**£86,186**	**£89,811**
Additional work on Value for Money (VfM) under the new NAO Code	£20,000	£26,000
Increased audit requirements of revised ISA's (ISA 540)	£6,000	£13,000
Additional work on Infrastructure Assets	£2,500	£6,250
Engaging the work of an auditors expert (interim fee only)	£8,750	£0
Increased FRC challenge, additional performance & documentation of procedures	£5,000	£0
Additional fee variations arising from issues identified during the audit		
Response to the LGPS triennial valuation and impact on net pension liability	£7,000	£0
Additional work to support review of land and buildings valuation	£18,000	£15,000
Additional work relating to checking of revised accounts re: impact of 20/21 amendments	£6,000	£0
Additional work associated with Collection Fund adjustments	£750	£0
Additional audit work associated with heritage assets, shopping centre lease, public correspondence,	£0	£15,500
Total 2021-22 audit fee proposed (excluding VAT)	**£160,186**	**£165,561**

Grant Thornton

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BRIEFING PAPER

REPORT to :	Audit and Governance Committee
LEAD OFFICER:	Chief Executive
DATE:	19th September 2023

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2023/24

Based on monitoring information for the period 1st April 2023 – 30th June 2023

1. PURPOSE

To allow scrutiny of the Treasury Management function.

2. RECOMMENDATIONS

It is recommended that Audit and Governance Committee note the Treasury Management position for the period.

3. BACKGROUND

3.1 The Treasury Management Strategy for 2023/24, approved at Executive Board in March 2023, complies with the CIPFA Code and with Ministry for Housing Communities and Local Government (MHCLG) Guidance on Investments.

3.2 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

3.3 CIPFA published a 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, and there is a change in reporting requirements that requires Treasury Management Prudential Indicators to be reported quarterly.

3.1 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 wished. The Council took advantage of the option to defer introducing the revised reporting requirements until the 2023/24 year.

3.2 This report satisfies those requirements and also summarises the interest rate environment for the period and the borrowing and lending transactions undertaken, together with the Council's overall debt position.

3.3 A glossary of Treasury Management terms is appended to this paper.

4. EXTERNAL CONTEXT

4.1. Economic background

4.1.1. From the start of the quarter until May, it looked like peak global monetary policy rates were in sight as inflation continued to ease and central banks turned more dovish in tone. Only a few weeks later, stronger and more persistent inflation data, particularly in the UK, changed the picture.

4.1.2. The UK situation was not welcome news for the Bank of England. GDP growth was weak, confirmed at 0.1% in Q1, although more recent monthly GDP data has been somewhat better. The housing market has stalled, consumer demand is weak but seemingly recovering despite higher interest rates, and labour demand remained strong, with repercussions for wage growth, which is accelerating.

4.1.3. April data showed the unemployment rate increased to 3.8% (3mth/year) while the employment rate rose to 76.0%. Pay growth was 6.5% for total pay (including bonuses) and 7.2% for regular pay, the largest growth rate of the latter outside of the Covid pandemic. Once adjusted for inflation, however, growth in total pay and regular pay remained negative.

4.1.4. Inflation fell from its peak of 11.1% reached in October 2022, but annual headline CPI in May 2023 was higher than the consensus forecast at 8.7% (8.4% expected), largely driven by services inflation, while the annual measure of underlying core inflation rose to 7.1% from 6.8%.

4.1.5. After a sharp rise in interest rate expectations, with clearly serious implications for mortgage markets due to higher inflation and wage data, the Bank of England's Monetary Policy Committee reaccelerated monetary policy tightening over the period with a 0.25% rise in May to a 0.5% rise in June, taking Bank Rate to 5.0%. At both meetings, the vote was 7-2 in favour of increasing rates, with the two dissenters preferring to keep rates on hold.

4.1.6. Interest rate expectations priced in further hikes in policy rates. Arlingclose, the authority's treasury adviser, revised its forecast to forecast a further 0.5% of monetary tightening to take Bank Rate to 5.5%. The risks, however, are that rates could be higher; financial markets are forecasting policy interest rates above 6%.

4.1.7. With many mortgages at low fixed rates now systematically being re-set over the next 12-24 months at higher rates at the end of their fixed rate period, there has been a lagged effect of the feed through of monetary policy on households' disposable income. The economic slowdown is expected to develop over time and therefore, despite the GfK measure of consumer confidence rising to -24 in June, it is likely confidence will be negatively affected at some point. The manufacturing sector contracted during the quarter according to survey data, which will eventually feed into services, whose expansion is slowing.

4.1.8. Despite the US Federal Reserve increasing its key interest rate to 5.00-5.25% over the period, activity in the region continued to defy monetary tightening, particularly in labour markets which have so far appeared robust, supporting the Fed's assertions of two more rate hikes after it paused in June. Annual US inflation continued to ease, falling from 4.9% in April to 4.0% in May, the lowest level since March 2021. US GDP growth at 2% annualised in the first calendar quarter of 2023 was also significantly stronger than expected against the initial estimate of 1.3%.

4.1.9. In the euro zone, the picture was somewhat different. The European Central Bank maintained its hawkish tone and increased its key deposit, main refinancing, and marginal lending interest rates to 3.50%, 4.00% and 4.25% respectively. There were signs of weakening activity, particularly in Germany whose manufacturing sector has taken a hit from high energy prices and weaker global demand. However, inflation remained sticky, annual headline CPI fell to 5.5% in June while annual core inflation rose to 5.4% from 5.3%, which means the ECB is unlikely to stop monetary tightening.

4.2. <u>Financial markets</u>

4.2.1. Financial market sentiment and bond yields remained volatile, the latter continuing their general upward trend as uncertainty and concern over higher inflation and higher interest rates continued to dominate.

4.2.2. Gilt yields rose over the period. The 5-year UK benchmark gilt yield rose from 3.30% to 4.67%, the 10-year gilt yield from 3.43% to 4.39%, and the 20-year yield from 3.75% to 4.51%. The Sterling Overnight Rate (SONIA) averaged 4.37% over the quarter.

4.3. <u>Credit review</u>

4.3.1. Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks, following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days.

4.3.2. Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress but made no changes to the counterparty list or recommended durations over the quarter. Nevertheless, heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority’s counterparty list recommended by Arlingclose remains under constant review.

5. KEY ISSUES

5.1. <u>Investments Made and Interest Earned</u>

5.1.1. 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 where applicable). These balances have fluctuated across the period, ranging between £51M and £90M. 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, including Darwen Town Deal funding of £8.1M and Levelling Up funding of £3.825M. It is intended that investment balances will ultimately reduce in future to between £10M and £20M.

5.1.2. 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 remained high over the period, following the Bank Rate increases, averaging around 4.30% throughout the period. Bank deposit account rates have also increased during the period, paying 4.90% by the end of June.

5.1.3. For limited periods, funds were also placed with the Government’s Debt Management Account Deposit Facility (at 4.050% – 4.885%). The other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
17/04/2023	17/07/2023	Mid Suffolk District Council	3,000,000	4.23%
02/05/2023	05/07/2023	Northumbria Police Authority	5,000,000	4.25%
15/05/2023	15/06/2023	Wirral MBC	5,000,000	4.40%
15/05/2023	15/08/2023	Cornwall Council	5,000,000	4.43%
22/05/2023	01/06/2023	Ashford Borough Council	5,000,000	4.42%
30/05/2023	30/08/2023	Cheshire East Council	5,000,000	4.50%
31/05/2023	30/11/2023	Birmingham City Council	5,000,000	4.85%
22/06/2023	22/09/2023	Surrey County Council	5,000,000	4.62%
26/06/2023	26/10/2023	Blaenau Gwent	5,000,000	4.48%
26/06/2023	03/01/2024	Dover District Council	5,000,000	4.63%
30/06/2023	07/07/2023	Hertfordshire PCC	5,000,000	5.00%
30/06/2023	05/07/2023	West Yorkshire Combined Authority	2,500,000	5.00%

5.1.4. At 30th June, the Council had approximately £85.5M invested, compared to £50.8M 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 4.005%. For comparison, as mentioned above, the Sterling Over Night Rate (SONIA) increased over the period, averaging 4.367%.

5.2. Borrowing Rates

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

5.2.2. 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 5.15% to 6.00% by the end of the period.

5.2.3. Due to the high level of cash balances, the Council has not been required to use short-term borrowing during the period. Should the need arise we will review the options available.

5.3. Current Debt Outstanding

	31st March 2023		30th June 2023	
	£'000	£'000	£'000	£'000
TEMPORARY DEBT				
Less than 3 months	0		0	
Greater than 3 months (full duration)	0		0	
		0		0
LONGER TERM DEBT				
Bonds	18,000		18,000	
PWLB	119,980		119,980	
Stock & Other Minor Loans	22		22	
		138,002		138,002
Lancashire Council County – Transferred Debt		12,496		12,360
Recognition of Debt re PFI Arrangements		57,527		56,941
TOTAL DEBT		**208,025**		**207,303**
LESS: TEMPORARY LENDING				
Fixed Term		(33,500)		(62,200)
Instant Access		(17,317)		(23,267)
NET DEBT		**157,208**		**121,836**

5.3.1. 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. The individual loans remaining range from 4.35% to 4.75%, at an average of around 4.4%.

(b) £120.0M 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 4.00%.

(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.

5.4. Capital Financing Requirement

5.4.1. 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.

5.4.2. 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 which, despite the foregone investment income, has resulted in net interest savings. The position is summarised in the table below.

	2022/23 Actual £M	**31 Mar 2024 Forecast £M**
General Fund CFR	281.2	291.1
Less: CFR re Debt -		
Managed by Lancashire County Council (LCC)	(14.8)	(14.5)
Re Private Finance Initiative (PFI) Arrangements	(68.9)	(68.7)
Loans/Borrowing CFR	**197.5**	**207.9**
Less: Usable Reserves and Working Capital	(110.3)	(134.2)
Net Borrowing (excludes LCC and PFI debt)	**87.2**	**73.7**

5.4.3. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

5.4.4. Borrowing is permitted for cashflow 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. These changes align the CIPFA Prudential Code with the PWLB lending rules.

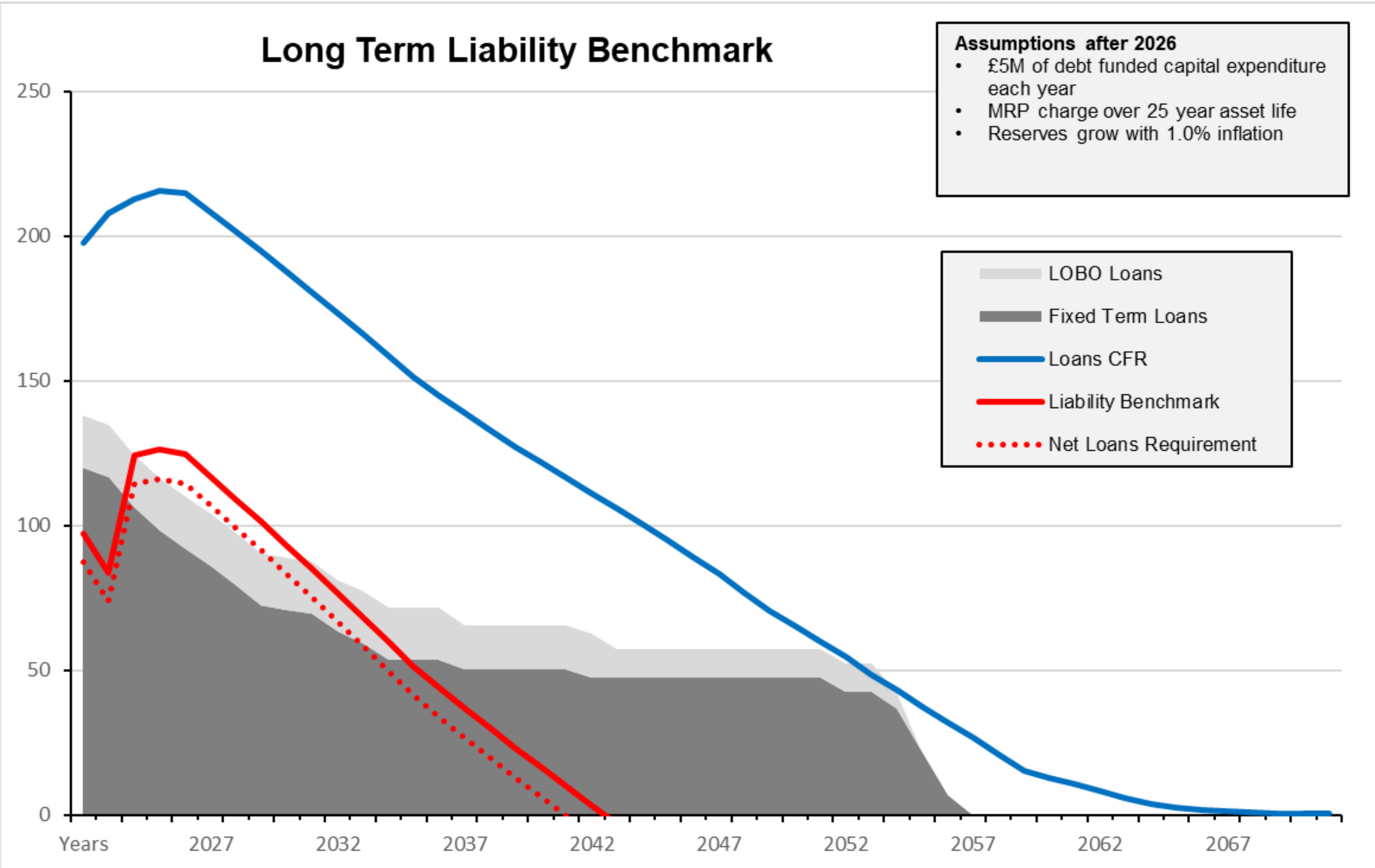
5.4.5. The Authority has not invested in assets primarily for financial return or that are not primarily related to the functions of the Authority, and has no plans to do so in future.

5.5. Liability Benchmark

5.5.1. The liability benchmark compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision-making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10m required to manage day-to-day cash flow.

	31.3.23 Actual	31.3.24 Forecast	31.3.25 Forecast	31.3.26 Forecast
Loans CFR	197.5	207.9	212.9	215.7
Less: Balance sheet resources	(110.3)	(134.2)	(98.5)	(99.5)
Net loans requirement	87.2	73.7	114.4	116.2
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	**97.2**	**83.7**	**124.4**	**126.2**
Existing borrowing	**138.0**	**134.6**	**124.4**	**116.2**

5.5.2. Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £5m a year, minimum revenue provision on new capital expenditure based on a 25 year asset life and income, and expenditure and reserves all increasing by inflation of 1% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



5.6. Performance against Prudential and Treasury Indicators

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

5.6.2. 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 31st June 2023 was £207.3M, which is below both our Operational Boundary (£301.8M) and our Authorised Borrowing Limit (£311.8M) for 2023/24.

5.6.3. During the period 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.

5.6.4. 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.

5.6.5. While the Council currently has no short-term borrowings, it may in the future hold part of its debt portfolio in loans of less than a year's duration, as short-term loans can still represent a relatively cheap way to fund marginal changes in the Council's debt requirements. This remains under review, with regular updates from the Council's treasury management advisors, Arlingclose.

Interest Risk Exposures

5.6.6. Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at -£72.5M, against the **limit** set for this year of £92.8M.

5.6.7. 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).

5.6.8. Our **Fixed Interest Rate Exposure** was around £125.0M, against the **limit** of £212.1M. 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.

5.6.9. This limit was set to allow for the possibility of much higher levels of new long-term, fixed rate borrowing.

Other Indicators

5.6.10. Forecast Capital Expenditure is detailed in the Quarterly Corporate Capital Budget and Balance Sheet Monitoring Report to Executive Board, which is also on the agenda for this meeting, and includes an analysis of all movements since the Capital Programme was approved by Finance Council on 27th February 2023.

5.6.11. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP repayments are charged to revenue. The net annual charge is known as the Financing Cost; within the Prudential Indicators, this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

5.6.12. A new indicator was added to the Prudential Code for 2023/24, which compares net income from commercial and service investments to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

6. POLICY IMPLICATIONS

None

7. 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.

8. 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.

9. RESOURCE IMPLICATIONS

None

10. CONSULTATIONS

None

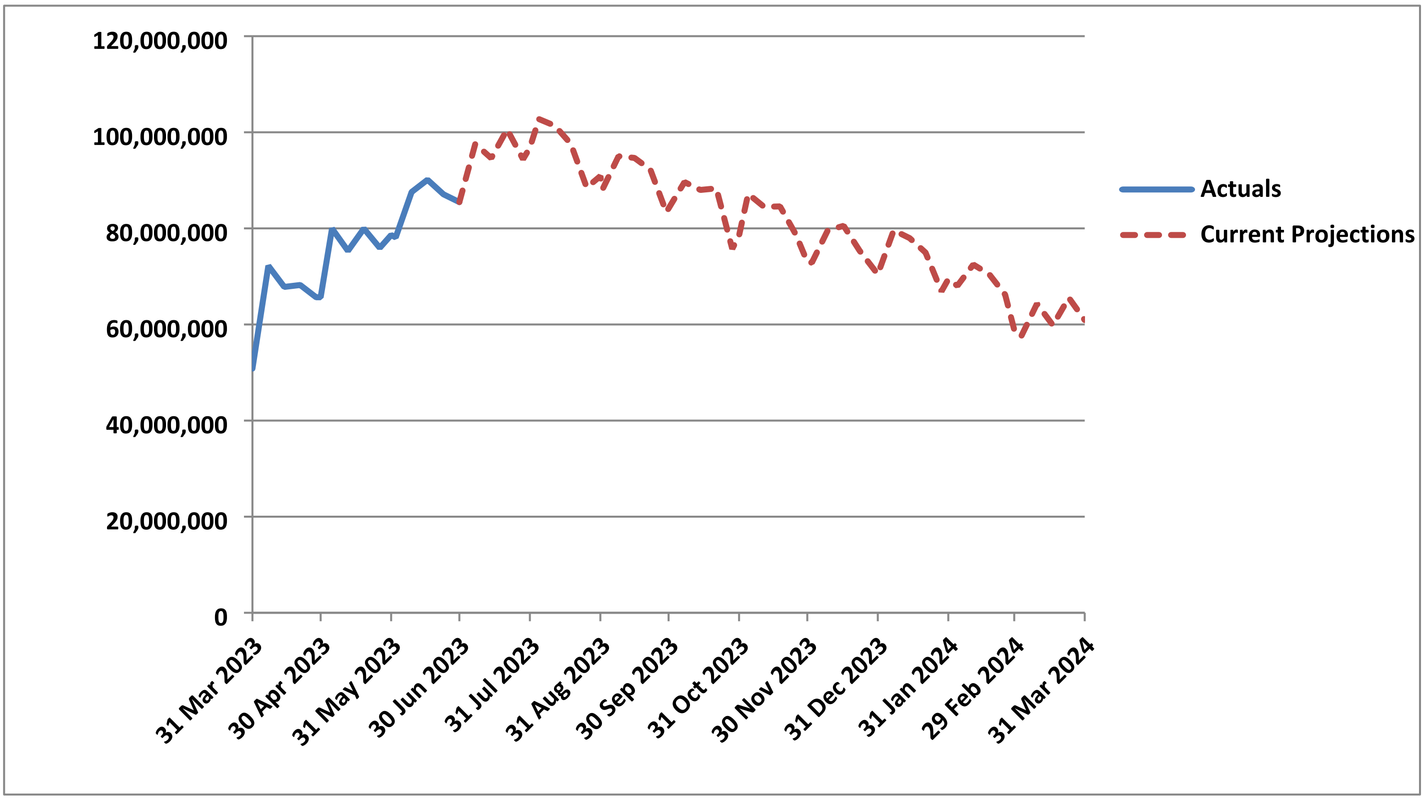
11. STATEMENT OF COMPLIANCE

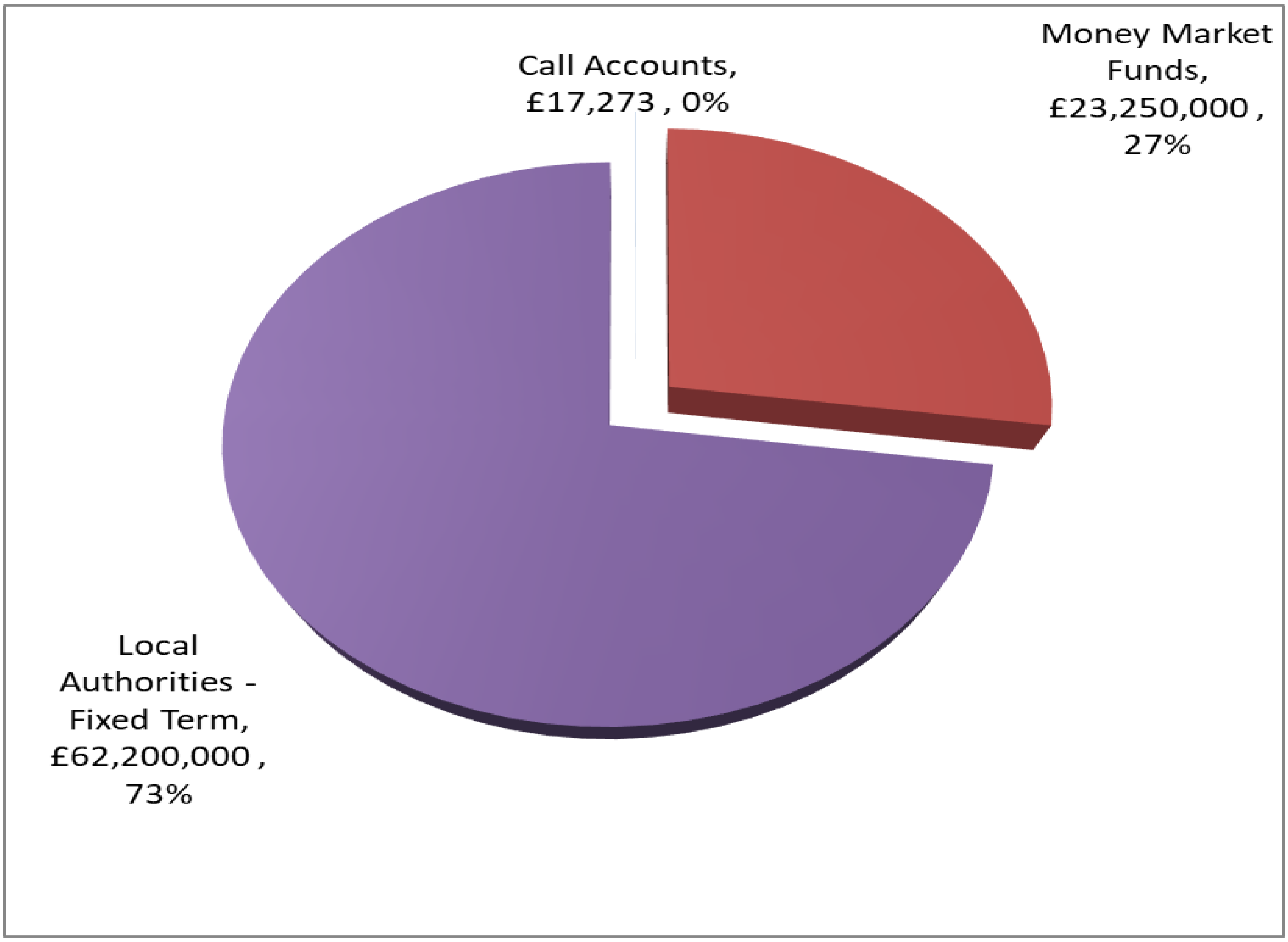
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect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

VERSION:	**0.01**

CONTACT OFFICER:	Jenny Bradley – Finance Manager – extn 267681 Simon Ross – Head of Finance – extn 585569
	June 2023
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Prudential Indicators for 2023/24 approved by Council 27th February 2023 - Council Treasury Management Strategy for 2023/24 approved by Executive Board 9th March 2023

2023/24 (April 2023 to June 2023)




Call Accounts, £17,273 , 0%
Money Market Funds, £23,250,000 , 27%
Local Authorities - Fixed Term, £62,200,000 , 73%

Performance against Treasury & Prudential Indicators 2023/24 (approved by Council 27th February 2023 / Executive Board 9th March 2023) **Appendix 3**

	Indicator 2023/24	As Approved Mar 23	Current Monitoring	Commentary
	Estimated Capital Expenditure	£42.3M	£65.8M	Current monitoring includes slippage from 2022/23 and new schemes approved in the first quarter of the year, as detailed in the Corporate Capital Budget and Balance Sheet Monitoring Report.
	Estimated Total Capital Financing Requirement at End of Year	£291.8M (incl projections re LCC debt £14.5M, PFI debt £68.7M)	£291.1M (incl projections re LCC debt £14.5M, PFI debt £68.7M)	
	Estimated Ratio of Financing Costs to Net Revenue Stream	10.6%	8.1%	
	Proportion of Net income from Commercial and Service Investments to Net Revenue Stream	0.3%	1.0%	
	Outturn External Debt Prudential Indicators	LCC Debt: 14.8M PFI Elements (no lease): 68.9M Remaining Elements: 218.1M **Operational Boundary: 301.8M** **Authorised Borrowing Limit: 311.8M**	**Borrowing to Date: £M** LCC Debt: 12.4 PFI Elements: 56.9 BwD: 138.0 **Total: 207.3**	Operational boundary and authorised borrowing limit have not been breached during the year.
	Variable Interest Rate Exposure	£92.8M	Exposure to Date -£72.5M	Limit not breached during the year.
	Fixed Interest Rate Exposure	£212.1M	Exposure to Date £125.0M	Limit not breached during the year.

<table>
<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>20%</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>11.4</td><td>8%</td></tr>
<tr><td>1-2</td><td>15.2</td><td>11%</td></tr>
<tr><td>2-5</td><td>20.5</td><td>15%</td></tr>
<tr><td>5-10</td><td>22.7</td><td>17%</td></tr>
<tr><td>>10</td><td>68.2</td><td>49%</td></tr>
<tr><td>Total</td><td>138.0</td><td>100%</td></tr>
</table>
</td>
<td>No limits breached during the year.</td>
</tr>
<tr>
<td></td>
<td>Total Investments for Longer than 364 Days</td>
<td>£7M</td>
<td>No Long Term Investments Made</td>
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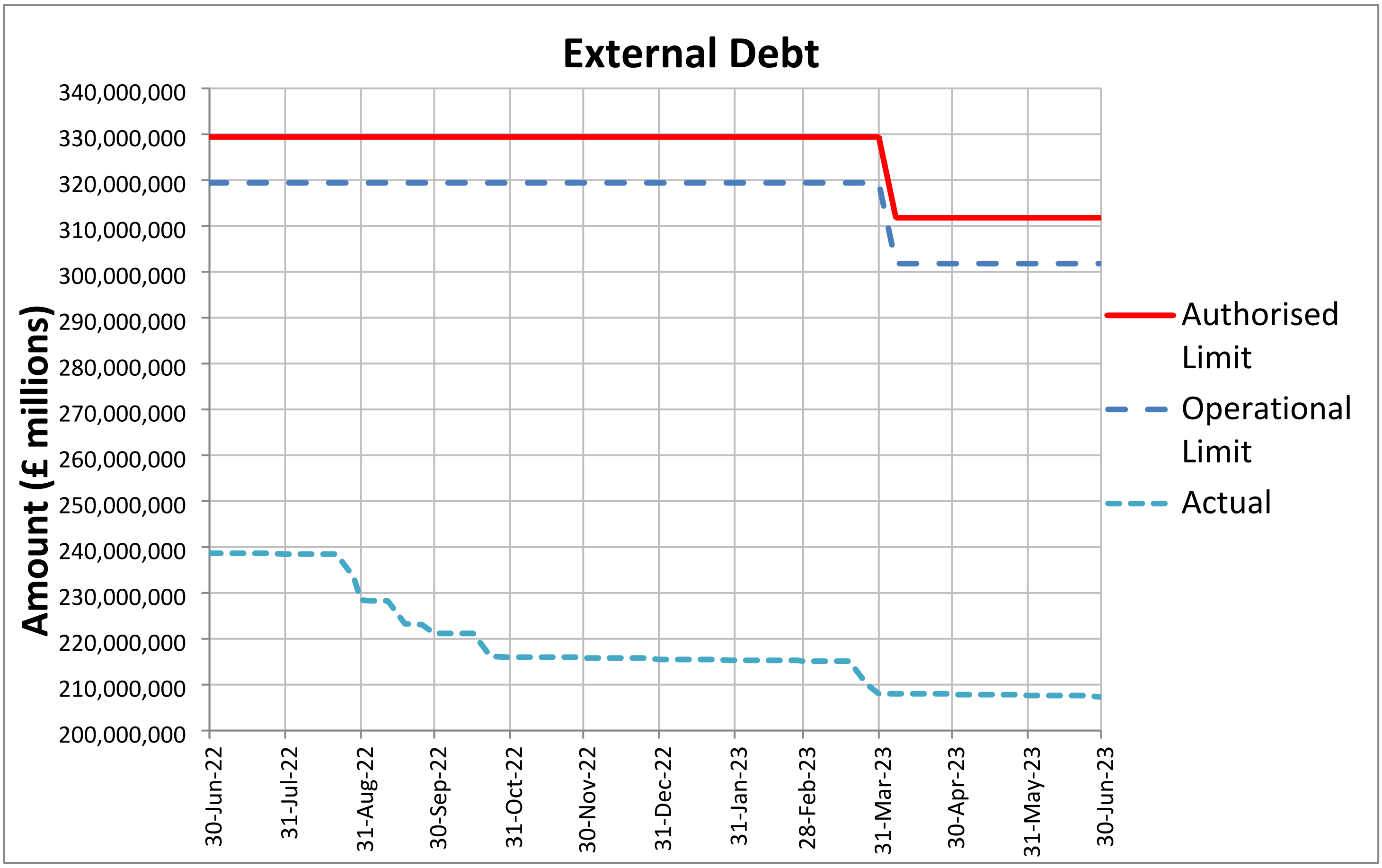
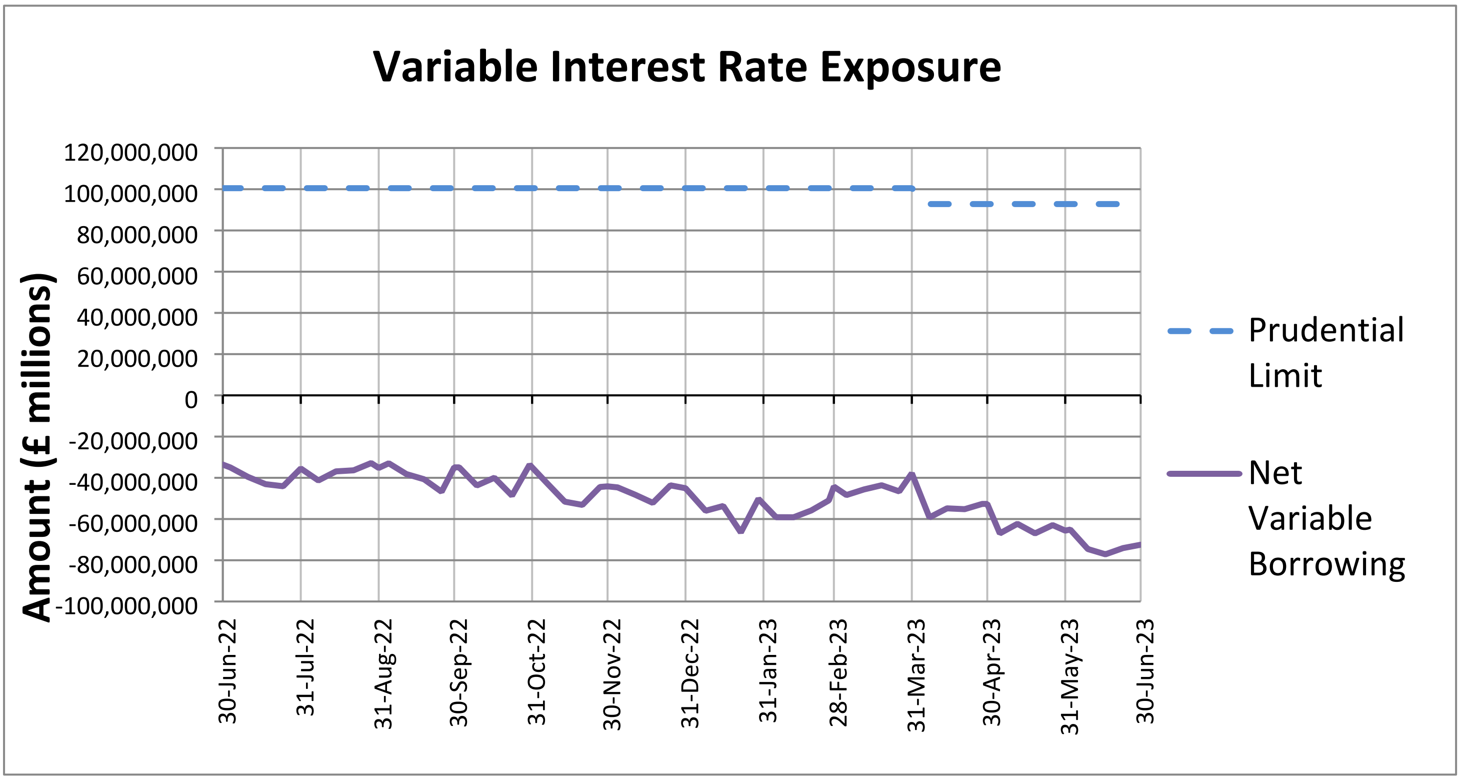
Movements in Prudential Indicators – Total Debt and Variable Interest Exposure
Year to 30th June 2023





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.

<u>Prudential Indicators</u>
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.

<u>Money Market Fund</u>
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).

Agenda Item 6

TO:	Audit & Governance Committee
FROM:	Head of Audit & Assurance
DATE:	8 September 2023

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: **Audit & Assurance - Progress and Outcomes to 31 August 2023**

1. PURPOSE

To inform Committee Members of the achievements and progress made by Audit & Assurance in the period from 1 June 2023 to 31 August 2023.

2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the internal audit outcomes achieved to 31 August 2023 against the annual Audit & Assurance Plan 2023/24, as approved by the Committee on 2 March 2023.

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 August 2023:

<u>Counter Fraud Activity</u>

National Fraud Initiative (NFI) 2022/23

The Council takes part in a bi-annual data matching exercise which is administered by the Cabinet Office. Having submitted all the required datasets on time the Council has recently received the output from these reports.

In total, 6,393 data matches have been received and include queries in the following areas:

- Housing Benefit;
- Payroll;
- Blue Badge parking permits;
- Creditors payments; and
- Procurement.

To date 167 matches have been processed and 53 errors have been identified resulting in total savings of £38,448.23. Arrangements are in place to recover any losses. The table below sets out the areas of activity and the results that have been identified.

Summary of Results

Area	No. of Errors	Outcome (£)	CO Estimates	Overall total
Benefits	2	852.42	4,445.81*	5,298.23
Blue Badges	51	0	33,150**	33,150
Total	**53**	**852.42**	**37,595.81**	**38,448.23**

* Estimated savings from preventing future incorrect payments as calculated by the Cabinet Office

** 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 £650 per case. These permits have either been recovered and destroyed or are in the process of being recovered

Appropriate action will be taken to review the remaining data matches, in liaison with colleagues in relevant departments.

Committee Members will be provided with progress updates in due course.

Other Investigations

Audit & Assurance has carried out a review involving a potential conflict of interest involving a member of staff within the Adults Department. Whilst there was no evidence of any financial impropriety, the review concluded that the correct procedures, as set out in the relevant Standing Financial Instruction, had not been followed by the staff member. The matter was referred to senior management to consider disciplinary action in consultation with HR. At the time of providing this update the matter was still subject to an investigation under the Council's HR Disciplinary procedures.

As a result of 2 recent bank mandate frauds, which targeted a Community Centre and a school, Audit & Assurance carried out a review of the arrangements in place to prevent this type of fraud. This included a review of the processes in place for setting up new suppliers within the Finance purchasing system and amending supplier bank details. A summary of the findings is shown below. The matter was referred to the Police for further investigation via Action Fraud.

Internal Audit

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

Risk, Control & Governance Reviews	Assurance Opinion		Recommendations Agreed
	Environment	Compliance	
Adults Disabled Facilities Grant	Substantial	Substantial	1
Main Accounting System Reconciliation Processes Q4 2022/23	Adequate	Adequate	1
Main Accounting System Reconciliation Processes Q1 2023/24	Adequate	Adequate	1
New Supplier Set-up and Changes	Limited	Limited	13
Property Services for Schools	Substantial	Substantial	2
Property Services – Use of Design Consultants	Substantial	Substantial	2
Council Tax	Substantial	Substantial	4
Public Health Contracts & Commissioning	Adequate	Adequate	4

A brief commentary on the audit assignment which we have provided a limited assurance opinion is set out below for consideration.

New Supplier Set-up and Changes - The final report provided **limited** assurance opinions in respect of the control environment and compliance with the controls and procedures in place for setting up or amending supplier details.

A number of recommendations were made to strengthen the control framework and compliance with the controls identified. These included:

- Completion of a standard new supplier template or change of details form in all cases;
- Changes only being made to supplier details following receipt of approved forms; and
- Strengthening procedures regarding the confirmation of changes requested.

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

- Local Authority Bus Subsidy Ring-Fenced (Revenue) 2022/23; and
- Local Transport Settlement 2022/23.

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

Staff have also provided advice and support to departments during the period regarding various queries.

Current internal audit reviews

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

- Traded Services to Schools;
- Adults Contracts & Commissioning;
- CCTV Arrangements - Compliance with Surveillance Camera Code of Practice;
- Children's Services Inspection Readiness;
- Local Authority Improvement Plan;
- Health & Safety Compliance;
- Highways Maintenance – Inspection and Repair;
- Inspections of Homes of Multiple Occupancy;
- VAT;
- Equality Act; and
- Creditors.

Internal Audit Performance

The Audit & Assurance team have seven performance targets, which we monitor relating to our strategic aims. The target and actual performance for the current and previous periods for each measure are as follows:

Performance Measure	**Target**	**Q2 2023/24**	**Q1 2023/24**
1. Delivery of Priority 1 Audits (Annual)	100%	N/A	N/A
2. Planned Audits Completed Within Budget	90%	**70%**	**77%**
3. Final Reports Issued Within Deadline	90%	90%	100%
4. Follow Ups Undertaken Within Deadline	90%	100%	100%
5. Recommendations Implemented	90%	**66%**	88%
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
Three of the 10 audits completed during the period required additional time due to the following:

- additional time for planning, preparation and testing for new audit areas and liaising with departments to finalise the reports; and
- extra time carrying out additional testing due to the complexities of the audit and

liaising with the various teams responsible for the area.

5. Recommendations implemented

Sixty-nine of the 105 recommendations for follow-ups responded to which were due for implementation on or before 31 August 2023 (66%) had been fully or partly implemented.

There was only one must recommendation that had not been completed in accordance with the agreed timescales. This was delayed due to the timing of the school's governing body meeting.

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: 8 September 2023
Background Papers: Audit & Assurance Plan 2022/23, approved by the Audit & Governance Committee on 2 March 2023.

TO:	**Audit & Governance Committee**
FROM:	**Head of Audit & Assurance**
DATE:	**19 September 2023**

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Risk Management – 2023/24 Quarter 1 Update

1. PURPOSE

1.1 To provide the Committee with details of the risk management activity that has taken place in the period from 1 April 2023 to 30 June 2023.

2. RECOMMENDATIONS

2.1 The Committee is asked to:

- Discuss and review the Corporate Risk Register as at the end of June 2023;
- 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

3.1 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

4.1 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

5.1 The Corporate Risk Register contained 23 open risks at 30 June 2023. A summary of the corporate risk details is set out in Appendix 1 of this report. The Council's top six corporate risks, as at 30 June 2023, 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 17 - Cyber security failures leading to financial, data loss or disruption to services from compromise of the IT network or systems.
- 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.
- Risk Ref 29 – The Council is unable to continue to deliver its services adequately and effectively due to a failure in the IT infrastructure.

5.2 The following changes have been made to the risk register during the period:

- The residual score for Risk 28 (On-going industrial unrest and associated strike action in the NHS and other key partners and sectors could result in disruption to public services.) has reduced from high to medium in the period. The reduction in the score reflects the fact that the Council's business continuity plans include identification of priority actions when there are staff shortages and an analysis of union membership which has shown there would be minimal disruption to council services.

- Risk 30 (Failure to set up and recruit to an in-house Paediatric Occupational Social Care and Education Service in Children's Services …) and Risk 31 (Failure to adequately and effectively plan for and be adequately prepared to respond to the consequences of a future pandemic) have been added to the Register as agreed at the June Corporate Assurance Board (CAB) meeting.

5.3 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. CAB review the risk details on a quarterly basis 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.

5.4 Directors were provided with the latest version of the National Risk Register (NRR) at the August CAB meeting. This is the external version of the National Security Risk Assessment (NSRA), which is the government's assessment of the most serious risks facing the UK. It is a comprehensive report of all the potential worst-case scenarios that could cause significant disruption and harm to both the UK population and its Infrastructure and economy. These range from technological failures, to terrorism, environmental disasters, large scale accidents and cyber-attacks.

5.5 The risks that meet the threshold for inclusion in the NRR would have a substantial impact on the UK's safety, security and/or critical systems at a national level. The NRR includes information about 89 risks, group under nine risk themes. These are:

- Terrorism;

- Cyber;
- State threats;
- Geographic and diplomatic;
- Accidents and systems failures;
- Natural and environmental hazards;
- Human, animal and plant health;
- Societal; and
- Conflict and instability.

5.6 Directors were asked to review the NRR with their management teams to ensure any relevant risks are included in their Departmental risks registers and escalate any they consider should be included in the Strategic Risk Register. Relevant colleagues can use the NRR to access detailed insights, specific scenarios, assumptions, and response capabilities necessary for effectively planning to protect against and prepare for potential threats. This understanding will assist in developing a comprehensive organisational risk assessment.

5.7 The re-procurement of the Council's insurance requirements was finalised in March and a new long term insurance agreement with Zurich Municipal was implemented from 1 April 2023. The Insurance team is currently in the process of re-procuring the Council's insurance broker services as the current contract for this area ends on 30 September. The process is being supported by colleagues from the Corporate Contracting and Procurement Team.

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

5.9 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:	8 September 2023
Background Papers:	Corporate Risk Management Strategy 2021/2026, 2021/22 Annual Risk Management Report (including Quarter 4 Review)

BLACKBURN with DARWEN BOROUGH COUNCIL

Summary Risk Register

Update Create Insert

Directorate:
Department: Corporate Risk Register
Service:
Quarter and Year: Quarter 1 - 2023/24 Date of last review: 31-Mar-23
Date: 30-Jun-23 Date of next review: 30-Sep-23

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 Government-appointed Commission taking control of the Council	26-Jan-15	Fair	5	5	HIGH	3	5	HIGH	1	3	LOW	Denise Park	Simon Ross	Open	25-Jul-23	3	5	HIGH	-
2	Failure of the Council's assets or failure to manage these in a proactive and co-ordinated way (Assets include Buildings, and Infrastructure)	25-May-11	Fair	3	5	HIGH	2	4	MEDIUM	2	2	LOW	Martin Kelly	Carmel Foster-Devine, Andrew Barrow, 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	19-Jun-23	2	3	LOW	-
5	There is a risk that governance and decision making arrangements fail	25-May-11	Good	3	4	MEDIUM	2	2	LOW	1	1	LOW	Asad Laher	Asad Laher	Open	18-Jul-23	2	2	LOW	-
7	Ensure BwD delivers its CCA statutory functions of risk assessing, emergency planning, response, recovery, to protect the Community/enhance the Council's resilience, mitigate reputational and financial damage.	25-May-11	Good	4	5	HIGH	1	5	LOW	1	5	LOW	Denise Park	Corinne McMillan, Jenna Russett-Knott, Sarah Riley	Open	11-Jul-23	1	5	LOW	-
7b	Ensure the delivery of the CCA Business Continuity Management (BCM) and Business Continuity Promotion (BCP) arrangements are in place. Incorporating preparedness, validating training/exercising of procedures and plans in order to protect BwD and enhance community resilience.	22-Sep-16	Good	3	4	MEDIUM	2	4	MEDIUM	1	3	LOW	Denise Park	Corinne McMillan, Jenna Russett-Knott, Sarah Riley	Open	11-Jul-23	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	30-Apr-23	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	Jo Siddle	Michelle Holt	Open	23-Apr-23	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	Asad Laher	Sarah Critchley	Open	18-Jul-23	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) / Jo Siddle (DCS)	Katherine White/Emma Ford	Open	24-Apr-23	3	5	HIGH	-
15	Failure, at a corporate level, to comply with Health & Safety legislation and provide both a safe working environment for employees and the provision of a safe environment for service users and members of the public	01-Apr-20	Good	4	4	HIGH	3	3	MEDIUM	2	3	LOW	Corinne McMillan	Jenna Russett-Knott & Helen Moran	Open	26-Jun-23	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	5	HIGH	3	3	MEDIUM	Corinne McMillan	Michael Ahern	Open	17-Mar-23	3	5	HIGH	-

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
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-Jun-23	3	5	HIGH	-
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	03-Jul-23	2	3	LOW	-
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 Kelly	Gwen Kinloch	Open	23-Jun-23	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	Mark Warren	Richard Brown, Andy Ormerod	Open	17-Mar-23	3	4	MEDIUM	-
26a	The Council's reputation will be affected and may be subject to special measures as a result of a failure of Adult Social Care to satisfactorily meet statutory or regulatory requirements.	17-Aug-22	Fair	5	4	HIGH	3	4	MEDIUM	2	4	MEDIUM	Mark Warren (DASS)	Katherine White	Open	24-Apr-23	3	4	MEDIUM	-
26b	The Council's reputation will be affected and it may be subject to special measures as a result of a failure of Children's Services and Education to satisfactorily meet statutory or regulatory requirements.	17-Aug-22	Good	5	5	HIGH	3	3	MEDIUM	3	3	MEDIUM	Jo Siddle (DCS)	Emma Ford Michelle Holt Imran Akuji	Open	31-Jul-23	3	3	MEDIUM	-
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	Good	4	4	HIGH	2	2	LOW	2	2	LOW	Corinne McMillan	Mohsin Mulla	Open	19-Jun-23	2	2	LOW	-
28	On-going industrial unrest and associated strike action in the NHS and other key partners and sectors could result in disruption to public services.	21-Dec-22	Good	5	4	HIGH	3	3	MEDIUM	3	3	MEDIUM	Denise Park	Mark Warren / Corinne McMillan	Open	18-Jul-23	5	3	HIGH	Down
29	The Council is unable to continue to deliver its services adequately and effectively due to a failure in the IT infrastructure	28-Feb-23	Fair	5	5	HIGH	4	4	HIGH	3	3	MEDIUM	Corinne McMillan	Michael Ahern	Open	06-Apr-23	4	4	HIGH	-
30	Failure to set up and recruit to an in-house Paediatric Occupational Social Care and Education Service in Children's Services could give rise to potential injury to a child or parent/carer. This could lead to reputational damage to the Council, safeguarding referrals or claims against the Council.	23-Jun-23	Good	5	5	HIGH	3	3	MEDIUM	1	1	LOW	Jo Siddle	Suzanne Kinder	Open	26-Jun-23				-
31	Failure to adequately and effectively plan for and be adequately prepared to respond to the consequences of a future pandemic.	23-Jun-23	Fair	4	5	HIGH	3	4	MEDIUM	2	2	LOW	Abdul Razaq	Catherine Taylor	Open	10-Aug-23				-

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.

TO:	**Audit & Governance Committee**
FROM:	**The Chair, Audit & Governance Committee**
DATE:	**19 September 2023**

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT **Appointment of an Independent Member to the Audit & Governance Committee**

1. PURPOSE

1.1 This report details the process undertaken to date recruit an independent member to the Audit & Governance Committee and seeks the Audit & Governance Committee's approval to appoint a co-opted member for a 2 year period as a non-voting, independent member to sit on the Committee.

2. RECOMMENDATIONS

2.1 The Committee is asked to:

- note the appointment process undertaken to date;
- to consider and approve the recommendation of the Audit & Governance Committee's Independent Member Appointments Panel to appoint of Jennifer Eastham, Vice Principal - Finance & Corporate Services, Blackburn College, as a co-opted non-voting Independent Member to sit on the Audit & Governance Committee for a period of 2 years.

3. BACKGROUND

3.1 The primary considerations in relation to audit committee membership should be maximising the committee's knowledge base and skills as a collective body, being able to demonstrate objectivity and independence, and having a membership that will work together. Elected members of local authorities bring knowledge of the organisation, its objectives and policies to the audit committee.

3.2 However, good practice shows that co-option of independent members is beneficial to an audit committee. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- To bring additional knowledge, experience and expertise to the committee, particularly in areas such as governance, finance, risk management and/or audit;
- To reinforce the political neutrality, integrity and independence of the committee; and
- To maintain continuity of committee membership where membership is affected by the electoral cycle.

3.3. In 2022 CIPFA issued a position statement, ‘Audit Committees in Local Authorities and Police 2022’ and the 2022 edition of ‘Audit Committees: Practical Guidance for Local Authorities and Police’. These draw on best practice from both local government and the wider public sector and update previous guidance issued in 2018. These documents highlight that the composition of an audit committee is a key factor in achieving the characteristics of a good audit committee.

3.4. As part of the Guidance, CIPFA endorses the approach of mandating the inclusion of lay or co-opted independent members and recommends that those authorities, for whom it is not a requirement, actively explore the appointment of an independent member to the committee.

4. RATIONALE

4.1 The appointment of a co-opted member to the Audit Committee is not a statutory requirement for local authorities in England. However, where there is currently no legislative direction to include co-opted members, CIPFA recommends that each local authority should include at least two co-opted independent members to provide appropriate technical expertise.

5. KEY ISSUES AND RISKS

5.1 The CIPFA guidance contains an appendix setting out the knowledge and skills framework for audit committee members. This includes details of specialist knowledge that would add value to an audit committee. The primary considerations in relation to committee membership should be maximising the committee’s knowledge base and skills as a collective body, and being able to demonstrate objectivity and independence.

5.2 More specialist knowledge will add value to the committee, helping to ensure the committee is able to achieve a greater depth of understanding. Including members with specialist knowledge means there is an additional resource to support other members. Specialist knowledge may be demonstrated by professional qualification and prior work experience. The following areas of specialism are noted in the guidance for consideration:

- Accountancy, with experience of financial reporting;
- Internal auditing;
- Risk management;
- Governance and legal;
- Expert service knowledge relevant for the organisation; and
- IT systems and security.

5.3 The membership of the Audit & Governance Committee was updated in 2022 to include two independent non-voting members, who are subject to re-appointment every two years. Their appointment must be approved by the Committee.

5.4 A Panel of three Committee members was established to consider the appointment of independent members. The Panel, consisting of Councillors Harling, Sidat and Baldwin, met on 30 September to interview Jennifer Eastham, Vice Principal - Finance & Corporate Services, Blackburn College for one of the two independent member vacancies on the Committee. Officer support was provided to the Panel. Following this meeting, the Panel recommends Jennifer's appointment to the Committee.

5.5 This recommendation seeks to address the risk that the effectiveness of the Audit & Governance Committee may not be optimised, through bringing in additional skills, knowledge and expertise that add value to the experience and knowledge already provided by existing members of the committee. This gap was noted in the Committee's self-assessment against the CIPFA Guidance and Position Statement considered at the meeting on 28 June 2022.

5.6 The Panel noted that Jennifer is a qualified chartered accountant and her role at Blackburn College includes being the College's Chief Financial Officer. She has been responsible for the audit committee meetings of Blackburn College for a number of years, as well being a co-opted member of the Lancashire County Pension Fund and Lancaster University Redundancy Committee, and has a strong understanding of audit, risk and governance.

6. POLICY IMPLICATIONS

There are no policy implications arising directly from this report.

7. FINANCIAL IMPLICATIONS

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

8. LEGAL IMPLICATIONS

There are no legal implications arising directly from the contents of this report

9. RESOURCE IMPLICATIONS

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

10. EQUALITY AND HEALTH IMPLICATIONS

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

11. STATEMENT OF COMPLIANCE

The recommendation in this report is made further to advice from the Monitoring Officer. The Section 151 Officer has confirmed that it does not incur unlawful expenditure. It is also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendation reflects the core principles of good governance set out in the Council's Code of Corporate Governance.

12. CONSULTATIONS

None arising from the contents of this report.

Contact Officer:	Colin Ferguson, Head of Audit & Assurance– Ext: 5326
Date:	8 September 2023
Background Papers:	None