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Audit & Governance Committee

Tuesday, 28th November, 2023
6.30 pm
Meeting Room A

AGENDA

1. Welcome & Apologies

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

2. Minutes of the meeting held on 19th September 2023

3. Declarations of interest

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

4. External Audit - Progress Update

The Council's External Auditors will provide the Committee with a verbal update on the progress of their statutory audit work.

5. Update on the Statement of Accounts 2021/22 and 2022/23

The Strategic Director, Finance & Resources will provide the Committee with an update on the completion of the 2021/22 and 2022/23 Financial Statements.

from Government on Proposals to Address Audit Delays

6. **Treasury Management Report - July to September 2023**

The Strategic Director, Finance & Resources will provide the Committee with a report on Treasury Management activity, including a Mid-Year Strategy Review.

7. **Audit & Assurance - Progress & Outcomes to October 2023**

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

8. **Risk Management - 2023/24 Quarter 2 Review**

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

9. **Annual Governance Statement - Progress on 2022/23 Actions and Plan for 2023/24**

The Head of Audit & Assurance will provide the Committee with a report on progress of actions relating to the significant issues identified in the 2022/23 Annual Governance Statement and the process for producing the 2023/24 Statement.

Date Published: Monday, 20 November 2023
Denise Park, Chief Executive

AUDIT & GOVERNANCE COMMITTEE
Tuesday 19th September 2023

PRESENT – *Councillors Harling (in the Chair), Khonat, Slater N, Sidat.*

OFFICERS – *Dean Langton, Colin Ferguson and Syeda Azmat.*

The Councils Auditors *- John Farrar.*

RESOLUTIONS

50. **Welcome and Apologies**

The Chair welcomed everyone to the meeting.

Apologies for absence were submitted on behalf of Councillor Elaine Whittingham, Councillor Vicky Ellen McGurk and Councillor Jon Baldwin.

51. **Minutes of the meeting held on 11th July 2023**

The Minutes of the meeting held on 11th July 2023 were submitted for approval.

RESOLVED – That the Minutes of the meeting held on 11th July 2023 be approved as a correct record and signed by the Chair.

52. **Declarations of interest**

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

53. **23 External Audit - Audit Committee Progress Report and Sector Update Year ended 31 March 2022**

John Farrar presented a report which provided Members with an update in relation to the progress of the external audit work. The planning for work covering 2022/23 had begun, this will run alongside the outstanding 2021/22 audit work.

Completion of the 2021/22 audit had been delayed primarily due to issues relating to the valuation of land and buildings. An auditor's valuation expert has been brought in to assist the local audit team. A number of challenges had been raised with management from this work and the responses received from this would continue to be worked through. The local audit team aimed to issue their Audit Findings report and subsequently their audit opinion report in the autumn and their Annual Report by the end of 2023.

The report included a detailed analysis of the anticipated audit fees for 2021/22. A number of variations were listed, arising from additional issues identified since the Audit Plan was prepared. These were subject to Public Sector Audit Appointments approval.

RESOLVED –

That the report be noted.

54. **Treasury Management Report - April to June 2023**

Dean Langton presented a report which provided Members with an update on treasury management activity in the period to the end of June.

CIPFA published a revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. There was a change in reporting requirements that required Treasury Management Prudential Indicators to be reported quarterly. The principles of the Prudential Code took immediate effect although local authorities had the option to 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.

RESOLVED –

That the Audit and Governance Committee note the Treasury Management position for the period.

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

Colin Ferguson presented a report which provided Members with an update of the progress made by Audit & Assurance in the period from 1 June 2023 to 31 August 2023.

The report provided Members with an update on counter fraud activity in the period, including progress to follow up data matches received to date from the 2022/23 National Fraud Initiative exercise. The overall opinions from the audit reviews finalised since the last progress report were also summarised for the Committee's consideration.

Colin Ferguson clarified for the Chair the higher priority NFI data matches were followed up first. Updates will be provided to Committee as part of future Progress reports.

The Chair requested a note be sent out providing more detail in respect of the areas referred to in the report in respect of the NFI data matches.

Colin Ferguson sent an email to Members on 20th September 2023 providing the details requested relating to the 2022/23 NFI data matches.

RESOLVED –

That the report be noted.

56. Risk Management – 2023/24 Quarter 1 Update

Colin Ferguson presented a report which provided Members with the details of the risk management activity that has taken place in the period from 1 April 2023 to 30 June 2023. This included details of the changes in the score for Risk 28 and the addition of new risks relating to the impact of failing to set up and recruit to an in-house paediatric Occupational Social care and Education Service in Children's Services and of failing to plan and being adequately prepared to respond to a future pandemic.

The Council ensured corporate risks were reviewed and monitored on a regular basis. The Council had properly assessed and identified corporate risks going forward.

RESOLVED –

1. That the risk management activity during this period be noted; and
2. That Corporate Risk Ref 29 (The risk that the Council is unable to continue to deliver its services adequately and effectively due to a failure in the IT). be reviewed in the session directly before the November meeting.

57. Approval of Appointment of an Independent Member

Colin Ferguson presented a report which provided Members with a report on the outcome of the process to appoint an Independent Member to the Committee for approval.

RESOLVED –

That the Committee noted the note the appointment process undertaken to date and approved the appointment 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.

Signed: ………………………………………………….

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

REPORT TO:	Audit and Governance Committee
FROM:	Strategic Director Finance and Resources
DATE:	28th November 2023

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

KEY DECISION: N

TITLE OF REPORT: Update on the Statement of Accounts 2021/22 and 2022/23

1. PURPOSE

1.1 The purpose of this report is to update the Committee on the production and audit of the Statement of Accounts 2021/22 and 2022/23. Information is also provided on the Government's proposals to address the national backlog of audit opinions on Council Statement of Accounts.

2. RECOMMENDATIONS

2.1 It is recommended that Audit and Governance Committee notes the update on the production and audit of the Statement of Accounts for 2021/22 and 2022/23.

3. BACKGROUND

3.1 Committee will be aware from previous reports on this matter that there are significant delays with the audit and publication of the Council's Statement of Accounts. This applies to both 2021/22 and 2022/23. This largely stems from changes to the statutory deadlines for the production and audit of the Statement of Accounts, pressures on the resourcing of External Audit and a broadening of the scope of the Code of Audit Practice. Taken together with the compounding impact of the Covid-19 Pandemic, both the production of the Statement of Accounts and the subsequent audit have been subject to significant delays.

3.2 Councillors should note that this matter is not unique to Blackburn with Darwen Council. Indeed, it is impact of the majority of Councils across the Country. Indeed, the Government is so concerned about this matter that, as outlined in this report, it is proposing extraordinary measures – the introduction of backstop dates for the completion of audit work – to address the backlog.

4. RATIONALE

4.1 Timely financial reports that are independently audited are a key part of the local accountability framework for Local Authorities. The Statement of Accounts fulfils this requirement and so it is important that it is produced and audited in line with statutory deadlines.

5. KEY ISSUES

Statement of Accounts 2021/22

5.1 The audited Statement of Accounts for 2020/21 was presented and approved for publication by Audit and Governance Committee on 23rd July 2023

5.2 In their final audit report on the Statement of Accounts for 2020/21, the External Auditors identified seven recommendations, of which one on the valuation of Property, Plant and Equipment (PPE) was assessed as high priority.

5.3 The audit of the Council's Property, Plant and Equipment assets highlighted a number of issues related to the valuation of assets, The key issues being:

- The Valuers report should state the overall value of assets revalued in the year;
- The Latest Building Cost Information Services (BCIS) rates at the date of valuation should be used rather than using historical rates and uplifting for inflation;
- Unusual rounding adjustments made on valuations.
- The use of Assumptions regarding leased assets at a peppercorn rate which were incorrect (the future use of these assets should be confirmed at year end to arrive at a correct valuation approach); and
- Where asset specific valuer judgements are made, these should be documented in the valuation calculations with a clear audit trail supporting the valuation.

5.4 The overall recommendation was that a clear audit trail to support judgements used as part of the process to revalue assets should exist. All the issues identified were raised with the Council's internal Property Valuation Team and Terms of Engagement were documented and agreed with the Valuers in advance of the production of valuations for the Statement of Accounts for 2021/22.

5.5 At the same time, acknowledging the increased scope of the Code of Audit Practice in relation to PPE and the issues experienced in auditing the valuations in 2020/21, the External Auditors indicated that they would commission an external Valuer to review the Council's PPE valuations used in the Statement of Accounts for 2021/22.

5.6 The current position is that the audit of the Statement of Accounts for 2021/22 is almost complete. This is with the exception of the audit of PPE where, again, the External Auditors have experienced issues with the valuations. These stem in part from the issues referenced above but equally more in-depth audit work. Partly in response to this, the Council has commissioned additional valuation work to be undertaken. Subject to this work being completed and the External Auditor being satisfied with the valuation of PPE, it is envisaged that audit of the Statement of Accounts for 2021/22 will be completed early in the new year. In the context of the possible backstop dates referred to below, the completion of the 2021/22 audit is considered to be a priority.

Statement of Accounts 2022/23

5.7 Work on the production of the unaudited Statement of Accounts for 2022/23 is almost complete. Again, this is held up due to work on a small number of PPE valuations which are expected to be completed in the near future.

5.8 In view of the possible backstop dates referred to below, there is a possibility that there will be insufficient time for the External Auditors to undertake the audit of the Statement of Accounts for 2022/23. The implications of this are set out below.

Clearing the Audit Backlog

5.9 In 2017/18 the deadline for External Audit to issue audit opinions was brought forward from 30th September to 31st July. Since this point there has been a reduction in the number of local government audit opinions delivered on time, with significant reductions from 2018/19 onwards. This downward trend accelerated during the COVID-19 pandemic with only 45% of 2019/20 audits completed by the extended deadline of 30 November 2020 and only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021.

5.10 As the National Audit Office (NAO) outlined in its 2020 report Timeliness of local auditor reporting on local government in England, a variety of complex factors are contributing to audit delays. Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely. For auditors that are choosing to stay within the profession, alternative audit opportunities are often perceived as more attractive than local audit, which is contributing a high turnover of staff within firms.

5.11 In addition, increasing workload and regulatory pressure on auditors have contributed to further delays. The NAO found that the additional requirements of new International Financial Reporting Standards (IFRS), along with increased expectations from the Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie, had combined to produce a significant increase in audit work, particularly on asset and pensions valuations. In some cases, issues with the preparation of local authority accounts have led to delays in audits being signed off.

5.12 On 26 November 2021, the Director General for Local Government, wrote to all local authority Section 151 Officers to emphasise the need for local bodies to work with audit firms as part of a system-wide response to clear the backlog of delayed audits. The letter and the attached paper acknowledged the complexity of the drivers behind audit delays, and stated that a whole system response was needed, with local bodies, audit firms, regulatory bodies and code-setters working collectively to implement solutions across the sector. At the time of receipt Local audit completion for the financial year 2021/22 was approximately 27 percent, with the combined total of outstanding local audits dating back to 2015/16 totalling nearly 520.

5.13 Given no material improvement in the issue of audit opinions, on 14th July 2023, the Government issued a statement – 'Local Audit Delays – Cross System Statement on Proposals to Clear the Backlog and Embed Timely Audits'. This statement set out proposals to address the local audit backlog. A copy of the Statement is provided at ***Appendix A***.

5.14 In essence, DLUHC would work together with the National Audit Office (NAO), Chartered Institute of Public Finance and Accountancy (CIPFA), the Financial Reporting Council (FRC), Institute of Chartered Accountants in England and Wales (ICAEW), audit firms, Chief Executive Officers, Section 151 Officers and Audit Committees to address this backlog.

5.15 In summary, the Statement proposed that the NAO and DLUHC set a series of statutory deadlines for accounts preparers and auditors to clear the backlog of delayed audits for financial years 2015/16 to present. Auditors would then be required to provide as much assurance as possible for these outstanding years, reporting as normal any significant concerns they have on an organisation's financial controls and financial reporting, as well as financial resilience, governance and risk. Where necessary, auditors would need to limit their opinion, making clear to the user of the accounts where full evidence hadn't been confirmed. The auditors' statutory duty to report on value for money (VfM) arrangements and their statutory audit powers (such as the power to make statutory recommendations or produce Public Interest Reports where necessary) would remain.

5.16 It was acknowledged that these deadlines may result in qualifications and disclaimers of opinion for a number of local bodies, but that these steps were believed necessary to reset the system and to restore the assurance which is provided by timely annual audits. Work across the local audit system must be sustainable and ensure proportionate financial reporting requirements, auditing requirements and regulatory requirements are in place, however where an auditor had to issue a disclaimer of opinion, there would still need to be a need to audit the opening balances of the subsequent set of accounts, as the prior year figures would not be covered by an unqualified auditor's opinion.

5.17 The work identified above to eradicate the backlog of delayed audit opinions and the steps being taken to ensure that the local audit system is sustainable and there are proportionate financial reporting requirements is still taking place and the final outcomes are to be decided, however secondary legislation is likely to impose statutory deadlines for sign off of accounts. If accounts have not been signed off by the auditors by these "back stop" dates, then they auditors will have to qualify accounts/provide a disclosure of their opinions.

5.18 The back stop dates being considered but not yet confirmed are:-

- 2021/22 Accounts signed off by **31st March 2024**
- 2022/22 Accounts signed off by **30th Sept 2024** (*although there is some suggestion this, too, could be 31st March 2024*)
- 2023/24 Accounts signed off by **31st March 2025**

5.19 In the event these dates are confirmed and given the Council's position with its Statement of Accounts as set out above, there is a likelihood that whilst the External Auditors will have sufficient time to provide an opinion on the Council's Statement of Accounts for 2021/22, they are likely to find it challenging to provide an opinion on the Council's Statement of Accounts for 2022/23 (particularly so if the backstop date is 31st March 2024).

5.20 The key consequence of a limited or no opinion on the Council's Statement of Accounts for 2022/23 is that the Council's new External Auditors will need to obtain their own assurance on the opening balances for the financial year 2023/24 (as well as movements in accounting transactions on the Corporate Income and Expenditure Account). This is likely to involve significant additional audit work and will result in additional costs to the Council. In recognition of this, DLUCH has indicated that it will consider measures to address any knock-on effects of the backstop dates.

6. POLICY IMPLICATIONS

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

7. FINANCIAL IMPLICATIONS

7.1 There are no financial implications arising from the recommendations in this report.

8. LEGAL IMPLICATIONS

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

9. RESOURCE IMPLICATIONS

9.1 The production of the Statement of Accounts is a significant task. Given the issues experienced with both the production of the Accounts and the subsequent audit, including the need for the Finance Team to respond to enquiries from the External Auditors, there has been a significant impact on the resourcing of the Finance Team.

9.2 Whilst the introduction of backstop dates may result in a limited or no opinion on the Council's Statement of Accounts and will impact on the audit work necessary for the Statement of Accounts for 2023/24, it is absolutely necessary to clear the backlog. Doing so will ease the burden on the Finance Team.

10. EQUALITY AND HEALTH IMPLICATIONS

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

11. CONSULTATIONS

11.1 None arising from the contents of this report.

12. STATEMENT OF COMPLIANCE

12.1 None arising from the contents of this report.

Appendices
Appendix A – Letter from Government on Proposals to Address Audit Delays

VERSION:	1
CONTACT OFFICER:	Simon Ross, Head of Service - Financial Services
DATE:	16th November 2023
BACKGROUND PAPERS:	None

Department for Levelling Up, Housing & Communities

Lee Rowley MP

Parliamentary Under-Secretary of State for Local Government and Building Safety

Department for Levelling Up, Housing and Communities

Fry Building
2 Marsham Street
London
SW1P 4DF

Clive Betts MP

Chair, Levelling Up, Housing and Communities Committee

14 July 2023

Dear Clive,

Thank you for inviting me to give evidence on 17 July to the Levelling Up, Housing and Communities Committee inquiry into Financial Reporting and Audit in Local Authorities. A strong, well-functioning local audit system is essential to maintain public confidence in transparent and accountable local democracy. Local bodies must be able to plan, manage their services and base their decision-making on accurate, reliable, up-to-date and timely financial information.

In advance of the evidence session, I would like to update you on work since Spring this year that my department, along with Financial Reporting Council colleagues, has undertaken on proposals to address the significant backlog of local government audits in England and develop a sustainable solution to the timeliness challenges which the local audit sector has faced in recent years. The attached paper derives from this work and outlines clear proposals to resolving these issues, which have been agreed in principle with key partners in the local audit system.

While the proposals will be subject to further work and engagement across the system over the Summer, this constitutes significant further progress. The intention is that, subject to the conclusion of the appropriate details, agreed changes will be implemented by the end of this year.

This letter supplements the written evidence submitted to the Committee in April on our broader programme of reform across the local audit system.

I look forward to discussing these issues further with you and the Committee next week. This letter and the accompanying statement will also be deposited in the House library.

Yours sincerely,

LEE ROWLEY MP

Parliamentary Under-Secretary of State for

Local Government and Building Safety

LOCAL AUDIT DELAYS – CROSS-SYSTEM STATEMENT ON PROPOSALS TO CLEAR THE BACKLOG AND EMBED TIMELY AUDITS

Introduction

1. There has been a deterioration in the timeliness of local audit since 2017/18, with delays compounding during the COVID-19 pandemic, leading to a persistent and significant backlog of audit opinions. Since November 2020, the Department for Levelling Up, Housing and Communities (DLUHC) has implemented a wide range of measures to improve timeliness and the wider local audit system as part of its response to Sir Tony Redmond's *Independent Review of local financial reporting and audit.*[1] In addition, in December 2021 DLUHC published a further package of measures to improve local audit delays, which went beyond Sir Tony Redmond's original recommendations.

2. We recognise that fuller action is required. This note sets out a range of broad proposals and actions, agreed in principle with key partners across the local audit system, to address the backlog of local audits in England. Local audit is both a vital and independent source of assurance and a key element of the checks and balances within the local accountability framework, and we must collectively ensure that the local audit system is on a strong and sustainable footing for the future. There exists a shared resolve and commitment amongst the organisations referenced in this document to take action now to tackle the exceptional circumstances of the current backlog and ensure a return to timely delivery of high-quality financial reporting and external audit in local bodies,[2] in order to provide the vital accountability and assurance needed for local people and their elected representatives.

3. Further engagement and cross-system work will be needed this Summer to finalise the proposals outlined in this statement. Following this, we anticipate changes to the relevant codes and standards will be made in time for implementation to begin by the end of December 2023.

Context

4. Local audit completion for the financial year 2021/22 remains at approximately 27 percent, with the combined total of outstanding local audits dating back to 2015/16 now totalling nearly 520. This is clearly unacceptable. There is consensus across the system that there is now no alternative but to take collective action to resolve the backlog. Restoring timely audit and financial reporting will improve local accountability, strengthen the government's ability to identify warning signs of potential failure in local bodies and provide assurance to local residents about financial management and governance.

5. DLUHC, working with the Financial Reporting Council (FRC) as it prepares to commence the shadow system leadership role, has led urgent cross system work over the Spring - involving auditors, Section 151 Officers, regulators, government departments and other key stakeholders – to find a solution to reset the system.

ADDRESSING THE LOCAL AUDIT BACKLOG: PROPOSITION

6. Working together, the National Audit Office (NAO) and DLUHC intend to set a series of statutory deadlines for accounts preparers and auditors to clear the backlog of delayed

[1] Local authority financial reporting and external audit: independent review - GOV.UK (www.gov.uk)

[2] Local bodies include councils but also other relevant authorities as defined under the Local Audit and Accountability Act (2014)

audits for financial years 2015/16 to present. Auditors would then be required to provide as much assurance as possible for these outstanding years, reporting as normal any significant concerns they have on an organisation's financial controls, financial reporting as well as financial resilience, governance and risk. Where necessary, it is intended that auditors would need to limit their opinion and make clear to the users of the accounts those aspects or sections of a set of accounts which are not supported by sufficient, appropriate evidence, and which the auditor is unable to provide assurance over. Auditors' statutory duty to report on value for money (VfM) arrangements and their statutory audit powers (such as the power to make statutory recommendations or produce Public Interest Reports where necessary) are an important mechanism for assurance and for identifying areas of concern at an early stage, allowing councils to address them. Under these proposals this will remain a high priority.

7. These deadlines may result in qualifications and disclaimers of opinion in the short term for a number of local bodies. We believe that these steps are necessary to reset the system and to restore the assurance which is provided by timely annual audits. Whilst further detailed work is needed across the Summer, including to mitigate any unintended consequences of these measures, there is broad consensus from organisations referenced in this document that without any action being taken, the delays will continue for a number of years, and in that scenario, when the delayed audits are reported, they will offer little if any assurance about the current position. In the meantime, there is a heightened risk of auditors not identifying and reporting on important, more current issues. We must ensure the capacity of the sector is focused on the most recent position as soon as possible.

8. Where an auditor has to issue a disclaimer of opinion, however, there will still be a need to audit the opening balances of the subsequent set of accounts, as the prior year figures will not be covered by an unqualified auditor's opinion. The Department is seeking to ensure that work to clear the backlog of accounts takes place within a limited window of time. It will therefore consider measures to address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years and ensure the burden of auditing opening balances does not risk creating further delays. An important consideration will be ensuring there is appropriate assurance in place for opening balances for the start of the new contract period for the 99% of local bodies which have opted in to Public Sector Audit Appointments Limited's (PSAA) scheme.

Commitments by system partners

9. The **National Audit Office** is considering the development of a replacement Code of Audit Practice to give effect to the changes outlined above. This would include a requirement on auditors to issue the audit opinion for specific financial years in line with new statutory deadlines set out in legislation for the relevant authority. Auditors' statutory requirement to report on value for money arrangements would remain unchanged. Auditors would also be expected to facilitate a smooth transition during the contract handover period for the 2023/24 contracts. As part of this work the NAO will be establishing a specific Programme Board to provide the necessary governance to deliver a replacement Code of Audit Practice by the end of the year including the necessary consultation and Parliamentary process.

10. Alongside this **DLUHC** is considering whether legislative change is needed to:

    a. set new statutory deadlines for local bodies to publish accounts to mirror the proposed changes to the Code of Audit Practice.

   b. address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years.

11. Under these proposals the **Chartered Institute of Public Finance and Accountancy (CIPFA)** would issue guidance to support accounts preparers to follow any amended regulations which set out new statutory deadlines, provided the authority is in receipt of the appropriate audit findings report from the auditor. CIPFA would also set out how Section 151 Officers should approach their responsibilities to certify the accounts in light of potential qualifications or disclaimers which may result from these proposals.

12. To support these changes, the **Financial Reporting Council (FRC)** will publish guidance on its regulatory approach to Major Local Audits[3] (MLAs), articulating the importance of timeliness and compliance with statutory deadlines as an additional measure of audit quality. It will work with the NAO on the development of guidance where necessary to assist with the application of standards for these audits, including the need to meet the statutory dates. Local auditors will be required to have regard to and follow the NAO's guidance. The FRC's inspection activity would review auditors' compliance with auditing standards, the Code and relevant NAO guidance.

13. The FRC will use its broader supervisory role to ensure commitment from audit firm leaders to implement the policy measures and the steps that are being taken to meet the timetables for concluding historical audits. This route will be used to escalate any pervasive concerns the FRC has gathered on an audit firm's resilience, risk management and ability to deliver timely local audits and address their part of the backlog.

14. Under these proposals the FRC intends not to undertake routine audit quality reviews and inspections of MLAs for the historic audits up to the end of the 2021/22 financial year (though FRC will continue to inspect audit firms which deliver NHS audits). FRC will only conduct quality review inspections for historical audits where there is a clear case in the public interest to do so. The FRC will suspend the decision on the timing, scope, and coverage of inspections for the 2022/23 audits until there is confirmation of any revision to the NAO's Code of Audit Practice.

15. The FRC will need to ensure that its enforcement function is still able to appropriately gather information and evidence to determine whether, in the public interest, there should be an investigation into accounting or auditing issues where there are significant financial and governance failures.

16. The **Institute of Chartered Accountants in England and Wales** (**ICAEW**) is responsible for the inspection and regulation of non-Major Local Audits.[4] The ICAEW proposes that its regulatory response to these measures will be consistent with the planned action of the FRC, as set out above.

17. **PSAA** is responsible for appointing an auditor and setting scales of fees for local bodies that have chosen to opt-in to its national scheme. A small number of authorities are not opted-in to PSAA's scheme and appoint their own auditors independently. Under these proposals, PSAA anticipates that it will need to determine final fees for opted-in authorities for the historic periods on a case-by-case basis. Its guiding principle in this will remain that if auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted, then they are due the appropriate fee for the

[3] An audit of a local government body or NHS body with income or expenditure of at least £500m or a local authority pension scheme with at least 20,000 members or gross assets in excess of £1bn.

[4] ICAEW's Quality Assurance Department (QAD) is responsible for reviewing local audits conducted under the Local Audit and Accountability Act that are not major local audits.

work done, and the body is due to pay the applicable fee, including where there is a disclaimer or qualified opinion. Conversely, if an auditor has collected audit fees in part or in full, and a change in requirements means that the total work done represents less than the fee already collected, then the auditor must return the balance and refund the body the appropriate amount – this ensures that the bodies pay only for work that has been done.

18. A number of **audit firms** with responsibility for local audits from 2015 have been a party to the development of these proposals, and under these plans would work with DLUHC, FRC and NAO on their professional commitment to the steps they would take to ensure successful implementation of the measures to clear the backlog. Such a commitment, underpinned by the auditors' professional duty to be independent and deliver consistent high-quality and timely work, would be welcomed by all parties within the system. Audit firms will of course need to operate in accordance with any changes to the Code of Audit Practice as well as continuing to fulfil their existing statutory duties.

19. **Chief Executive Officers, Section 151 Officers and Audit Committees** also play a critical role in delivering high-quality financial reporting. DLUHC will continue to engage Section 151 Officers and the wider sector as proposals are further developed over the Summer.

20. Under these proposals, Section 151 Officers will be expected to work with Audit Committee members (or equivalent) to approve the final accounts by the statutory deadline in order for the audit opinion to be issued at the same time. In addition, Chief Executives, Section 151 Officers, local authority Leaders and Chairs of Audit Committees should alert the auditor to significant organisational risks, critical decisions and changes in financial sustainability, and also where they have identified concerns on systems of financial control, financial reporting and capacity and capability to produce high-quality financial reporting on time. Where there are significant resilience risks, they should alert the auditor of the options, choices and alternatives that are being considered.

21. We will work with the **Local Government Association (LGA)** over the Summer, including to engage its members on these proposals. Under these proposals the LGA will support councils to understand their role in relation to external audit and that of auditors, and help councils communicate those messages to elected members and officers as necessary. The Department will also continue to engage with Section 151 Officers and treasurers' societies, in addition to representatives from the range of authorities impacted by these proposals.

LONGER TERM CHANGE

22. In order to prevent a recurrence of the backlog, it is essential that underlying issues which may have driven delays are addressed. Work will therefore progress with a number of organisations including the FRC, the NAO, CIPFA and the LGA to devise an escalated reporting framework for audit firms and local bodies to resolve issues ahead of statutory deadlines. We will also look to publish a list of local bodies and audit firms which meet statutory deadlines and those which do not.

23. Other underlying challenges will also continue to be addressed. The FRC is already leading work across the system to improve competition, capability and supply within the audit market. The FRC, supported by DLUHC, is committed to producing a workforce strategy by the end of the 2023 calendar year, which will identify gaps and barriers across the local audit system that are hindering the development of future capacity and agree actions and solutions to unblock these with stakeholders.

Local financial reporting, auditing and regulatory requirements

24. It is critical that a repeat of the backlog is avoided in the future. Work across the local audit system must therefore be sustainable and ensure proportionate financial reporting requirements, auditing requirements and regulatory requirements are in place.

25. Although reporting and disclosure requirements required by the Code of Practice on Local Authority Accounting have not changed for many years, there is a perception that both audit and regulatory expectations relating to the audit of non-investment assets have increased significantly in recent years. As a result, both account preparers and auditors frequently engage specialist valuers to provide the level of assurance which is thought to be necessary. In his review, Sir Tony Redmond noted a lack of consensus within the system over how to address this.

26. Local authority financial reporting must balance the need for adherence to financial standards against the needs of the users of local authority financial information, including ensuring the accounts are still useful and valuable to the taxpayer. Where reporting, auditing and regulatory standards combine to create pressures which delay timely reporting and audit, this should be addressed by responsible organisations across the local audit system. Doing so is vital in ensuring the delicate balance between high-quality financial reporting and user value is maintained.

27. There is also a question as to whether the level of work required for the current reporting and disclosures obligations on account preparers, which then require audit and oversight, is proportionate to their value to the user of the accounts, given the potential financial or governance risks are relatively low. All system participants therefore need to consider whether this work is proportionate to risk and a wise use of taxpayers' money, and will do so in the coming months.

28. Local authority accounts are consolidated within the statutory Whole of Government Accounts, which are prepared in accordance with International Financial Reporting Standards (as adapted and interpreted for the public sector). Since 2010 these standards have been reflected in the Code of Practice on Local Authority Accounting, which is independently set by CIPFA and passed by the CIPFA LASAAC[5] board, under the advice of the Financial Reporting Advisory Board (FRAB) - an independent advisory board.

29. In light of these issues, the **Comptroller & Auditor General** (C&AG) is considering changes to the Code of Audit Practice relating to certain balances in the accounts to prevent continued local audit delays while a broader solution is sought. The C&AG is taking this action under the requirement of the 2014 Local Audit and Accountability Act that he should keep under review whether the existing Code continues to embody best professional practice with respect to the standards, procedures and techniques to be adopted by local auditors. As such, it reflects the seriousness with which he views the current delays in the local audit system. Potential changes would be time limited and would need to be supported by wider changes to standards and regulation.

30. The NAO has established a dedicated programme board, supported by at least three working groups, to develop the potential changes and related technical questions with stakeholders. A range of mechanisms will be considered to allow auditors to discharge their responsibilities to gather sufficient, appropriate and reliable audit evidence in accordance with International Standards on Auditing (ISAs).

[5] Local Authority (Scotland) Accounts Advisory Committee

31. The C&AG, as he is required to do by the Local Audit and Accountability Act 2014, will keep the Code of Audit Practice under review and will consider the effectiveness and operation of any changes made to the Code. This would inform a wider review of the measures to clear the backlog outlined above.

32. **His Majesty's Treasury (HMT)** is conducting a thematic review of the valuation of non-investment assets such as roads and office buildings for financial reporting purposes across the public sector. The review is seeking to evaluate the advantages and disadvantages of the current valuation regime and consider the appropriate measurement options.

33. There are advantages to the alignment of central and local government accounting, including allowing local government accounts to be more easily consolidated into the statutory Whole of Government Accounts. As set out above, however, the level of work required by account preparers and auditors must not limit the value of the accounts to the user. **CIPFA** is therefore exploring changes to the Code of Practice on Local Authority Accounting for the medium and long term, in order to enable a more proportionate approach to the accounting requirements for non-investment assets and pension valuations for a local authority context. As a standard setter, CIPFA's guiding principle in approaching any changes to the reporting requirements adopted by the public sector in 2010 will be ensuring that high-quality financial reporting and the utility of financial statements to account users is maintained. As outlined above, any consideration of changes to accounting requirements will be accompanied by a broader set of measures from actors across the system.

34. CIPFA's work will run in parallel to HMT's thematic review. As the body responsible for local government accounting requirements, CIPFA is part of the working group HMT has set up for the review. CIPFA has clearly set out its view on the review's proposals. CIPFA will continue to work with HMT to ensure that any consequential changes to the Government Financial Reporting Manual (FReM) and the Code of Practice on Local Authority Accounting are considered fully to ensure that the users of local authority accounts are incorporated.

35. In addition, CIPFA has already made a temporary adjustment to the Code on the valuation and reporting requirements for local authority infrastructure assets, to support amendments to regulation made by DLUHC in December 2022. However, clearly a long-term solution needs to be developed. This will take longer than the current temporary measures (both legislative and Code based) allow. As such, DLUHC will seek to extend the changes made to legislation last year and CIPFA will consider whether the current amendments to the Code can be extended in tandem.

36. **The Financial Reporting Council** (FRC) has committed to set out annually its planned regulatory programme, areas of focus and how its inspection activity serves the public interest through alignment with the significant financial, accounting and governance risks facing local bodies. As part of this the FRC expects to clearly set out how its inspection activity will review auditors' work on operational assets and pensions valuation, the rationale for doing so and examples of good practice. FRC inspection activity will continue to review compliance with auditing and ethical standards, any revised Code of Audit Practice and associated guidance.

37. The FRC has also indicated, in principle, that if the audit and reporting requirements for operational asset and pensions valuations are revised, its intention will be to update the inspection approach to reflect the changes in these areas.

38. The FRC's Audit & Assurance Sandbox initiative is taking forward a specific policy discussion on the application of materiality by local authority auditors. The Sandbox brings together groups of auditors, practitioners, regulatory bodies and interested parties to explore, identify and develop solutions to specific technical and policy issues. The

materiality discussions are expected to conclude before the end of the year. Next steps could include, for instance, the FRC determining whether additional guidance is required to support how auditors set materiality levels for local bodies in line with auditing standards or working with those local audit suppliers who decide to set a different basis of materiality without such guidance.

Conclusion

39. The local audit system, which comprises all of the organisations listed above, recognises the need to restore the timeliness of financial reporting and audit in local government. That is why all system partners have made clear proposals to reduce the backlog of local audits in England which are detailed in this statement. The Government will continue to work with the FRC and all key partners across the system to continue this ambitious programme of work over the Summer. As noted above, this will include consideration of longer-term changes in order to create a more sustainable local audit system for the future.

14 July 2023

BRIEFING PAPER

REPORT to :	Audit and Governance Committee
LEAD OFFICER:	Chief Executive
DATE:	28th November 2023

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2023/24

Based on monitoring information for the period 1st July 2023 – 30th September 2023

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 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. UK inflation remained stubbornly high over much the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

4.1.2. Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.4%, beating expectations of a 0.2% increase. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

4.1.3. July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

4.1.4. Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

4.1.5. The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

4.1.6. Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

4.1.7. Following the September MPC meeting, Arlingclose, the authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

4.1.8. The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, the GfK measure hit -21 in September, it is likely this will reverse at some point. Higher rates will also impact business and according to S&P/CIPS survey data, the UK manufacturing and services sector contracted during the quarter with all measures scoring under 50, indicating contraction in the sectors.

4.1.9. The US Federal Reserve increased its key interest rate to 5.25-5.50% over the period, pausing in September following a 0.25% rise the month before, and indicating that it may have not quite completed its monetary tightening cycle.

4.1.10. Having fallen throughout 2023, annual US inflation started to pick up again in July 2023, rising from 3% in June, which represented the lowest level since March 2021, to 3.2% in July and then jumping again to 3.7% in August, beating expectations for a rise to 3.6%. Rising oil prices were the main cause of the increase. US GDP growth registered 2.1% annualised in the second calendar quarter of 2023, down from the initial estimate of 2.4% but above the 2% expansion seen in the first quarter.

4.1.11. The European Central Bank increased its key deposit, main refinancing, and marginal lending interest rates to 4.00%, 4.50% and 4.75% respectively in September, and hinted these levels may represent the peak in rates but also emphasising rates would stay high for as long as required to bring inflation down to target.

4.1.12. Although continuing to decline steadily, inflation has been sticky, Eurozone annual headline CPI fell to 5.2% in August while annual core inflation eased to 5.3% having stuck at 5.5% in the previous two months. GDP growth remains weak, with recent data showing the region expanded by only 0.1% in the three months to June 2023, the rate as the previous quarter.

4.2. Financial markets

4.2.1. Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

4.2.2. Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.

4.3. Credit review

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 our advisors Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.

4.3.2. Having put the US sovereign rating on Rating Watch Negative earlier in the period, Fitch took further action in August, downgrading the long-term rating to AA+, partly around ongoing debt ceiling concerns but also an expected fiscal deterioration over the next couple of years.

4.3.3. Following the issue of a Section 114 notice, in September Arlingclose advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on Warrington Borough Council to a maximum of 100 days.

4.3.4. Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list.

4.3.5. 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. Investments Made and Interest Earned

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 been fairly stable across the period, ranging between £90M and £105M. 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 5.07% throughout the period. Bank deposit account rates have also increased during the period, paying 5.14% by the end of September.

5.1.3. For limited periods, funds were also placed with the Government's Debt Management Account Deposit Facility (at 4.880% – 5.250%). The other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
03-Jul-23	03-Jan-24	Lancashire County Council	5,000,000	4.75%
02-Aug-23	02-Nov-23	Blackpool Council	5,000,000	4.50%
05-Jul-23	05-Oct-23	Eastleigh Borough Council	5,000,000	4.55%
19-Jul-23	20-Nov-23	Kirklees Council	5,000,000	4.58%
28-Jul-23	29-Jan-24	Barking & Dagenham	5,000,000	5.50%
02-Aug-23	02-May-24	London Borough of Newham	5,000,000	5.80%
27-Sep-23	27-Mar-24	Doncaster MBC	5,000,000	5.55%
30-Aug-23	30-Nov-23	Cheshire East Council	5,000,000	5.28%
15-Aug-23	15-Feb-24	Cornwall Council	5,000,000	5.35%
21-Aug-23	21-Feb-24	West Dunbartonshire Council	5,000,000	5.55%

5.1.4. At 30th September, the Council had approximately £89.7M invested, compared to £85.5M 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 4.681%. For comparison, as mentioned above, the Sterling Over Night Rate (SONIA) increased over the period, averaging 4.73%.

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 5.40% 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

	30th June 2023		30th September 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		118,206	
Stock & Other Minor Loans	22		22	
		138,002		136,228
Lancashire Council County – Transferred Debt		12,360		12,224
Recognition of Debt re PFI Arrangements		56,941		56,356
TOTAL DEBT		**207,303**		**204,808**
LESS: TEMPORARY LENDING				
Fixed Term		(62,200)		(65,000)
Instant Access		(23,267)		(24,867)
NET DEBT		**121,836**		**114,941**

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 4.48%.

(b) £118.2M borrowed from the PWLB at fixed rates, at an overall average rate of around 3.87%. Loans repayable on maturity range from 3.06% to 7.875%, and EIP (Equal Instalment of Principal) loans from 1.73% to 3.35%.

(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	283.3
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**	**203.1**
Less: Usable Reserves and Working Capital	(110.3)	(119.9)
Net Borrowing (excludes LCC and PFI debt)	**87.2**	**83.2**

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.

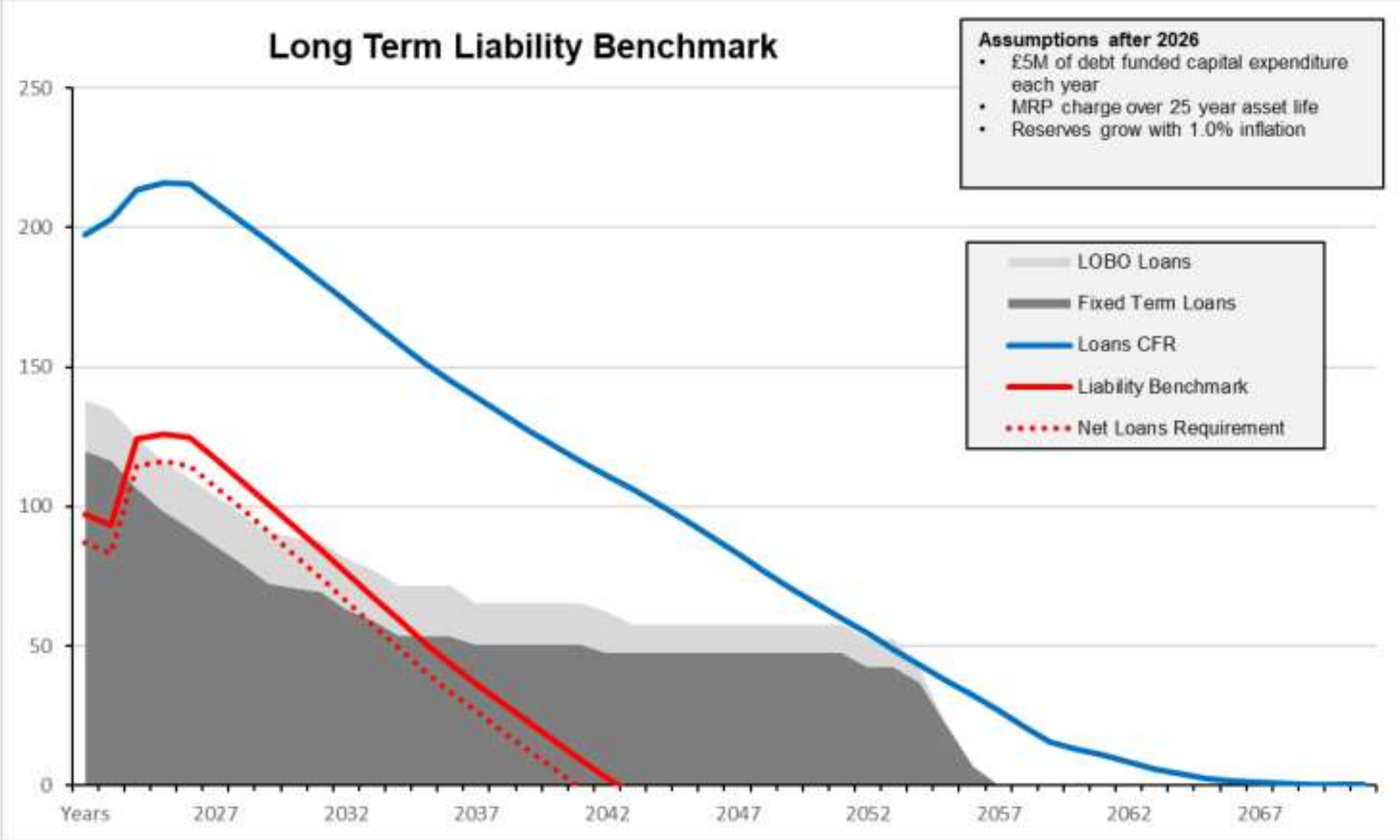
5.4.5. The Authority has not invested in assets primarily for financial return or that are not primarily related to the functions of the Authority, and has no plans to do so in future.

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	203.1	213.4	216.1
Less: Balance sheet resources	(110.3)	(119.9)	(99.0)	(100.0)
Net loans requirement	87.2	83.2	114.4	116.1
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	**97.2**	**93.2**	**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 30st Sept 2023 was £204.8M, 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 -£76.9M, 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. The Variable Interest Rate Exposure is negative (£-76.9M) as our variable rate lending is currently higher than our variable rate borrowing.

5.6.9. Our **Fixed Interest Rate Exposure** was around £123.2M, 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.

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

Other Indicators

5.6.11. 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.

5.6.12. 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.

5.6.13. 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.

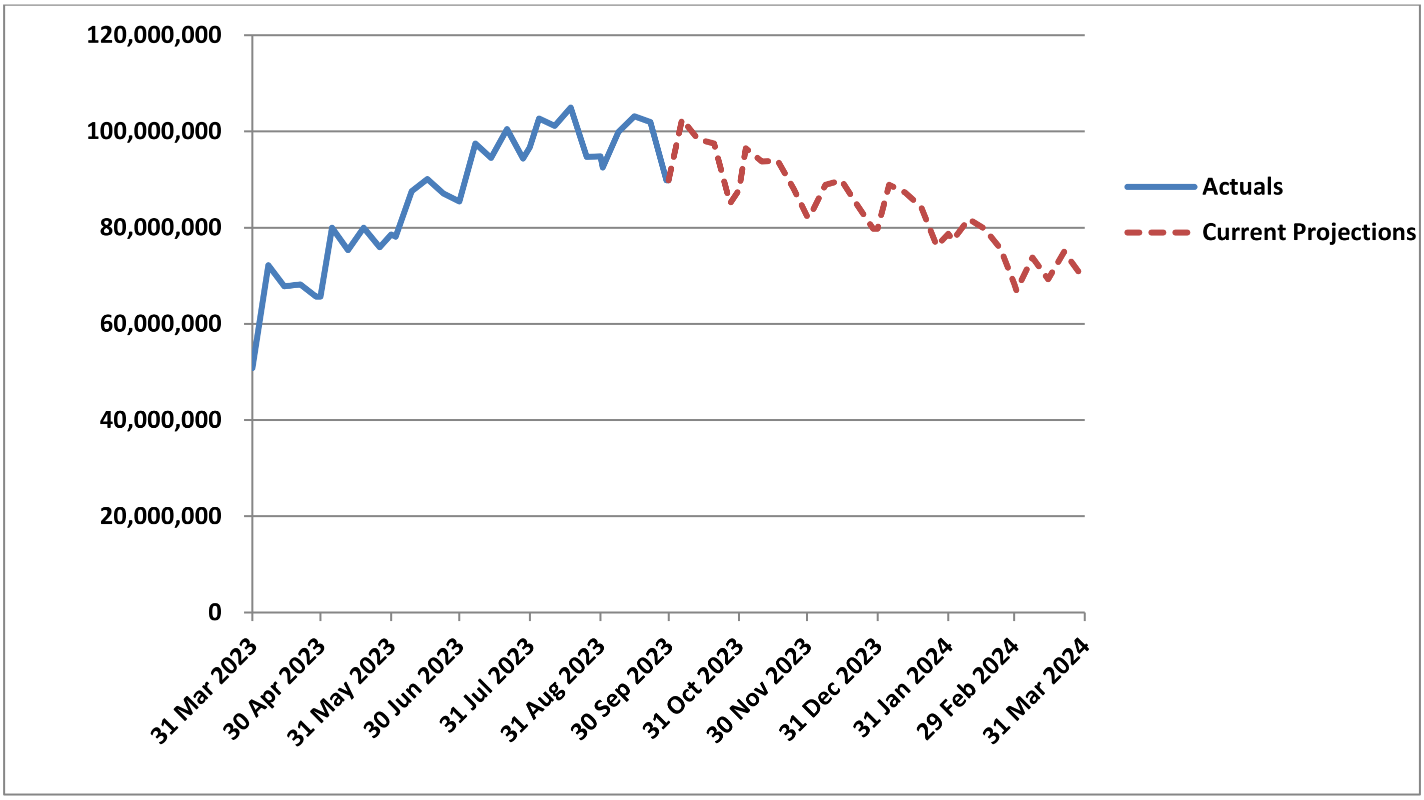
VERSION:	**0.01**

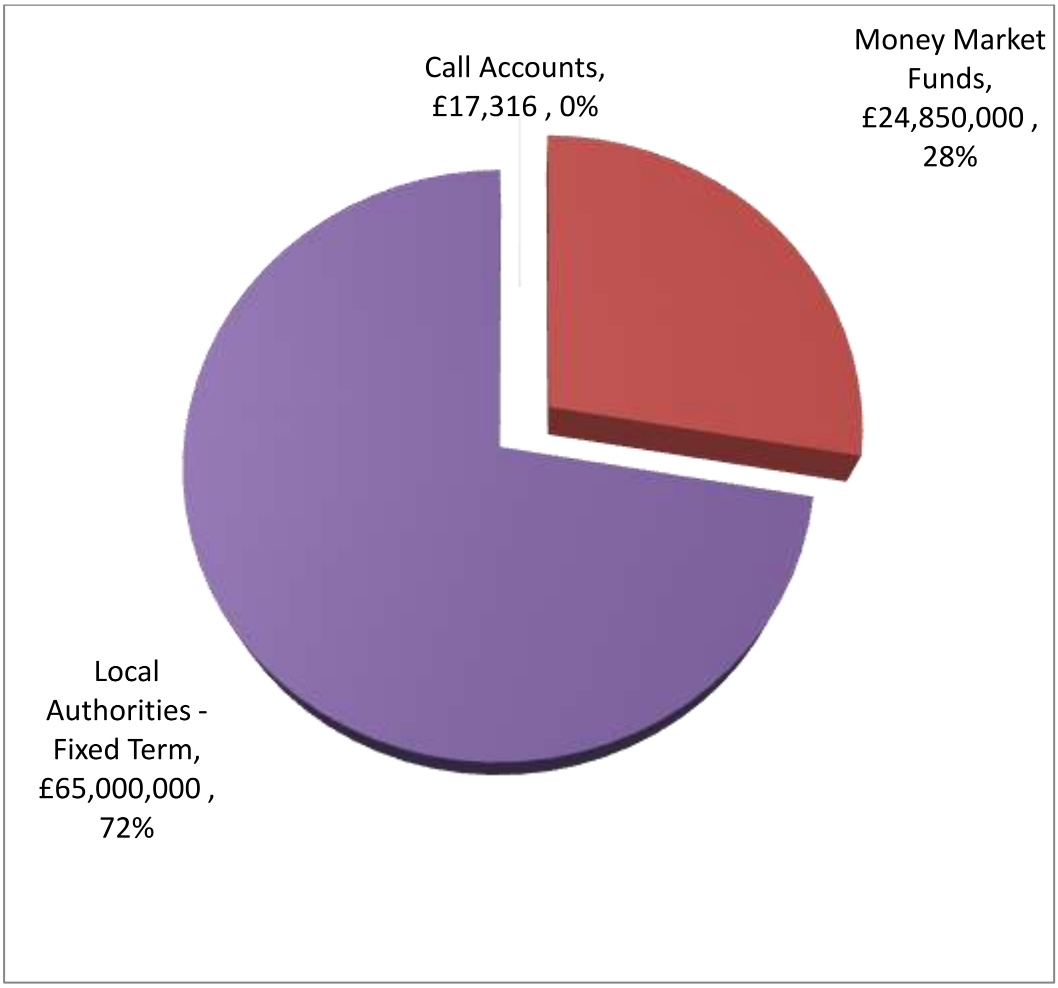
CONTACT OFFICER:	Nikki Bell – Finance Manager – extn 267680 Simon Ross – Head of Finance – extn 585569
	Oct 2023
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Prudential Indicators for 2023/24 approved by Council 27th February 2023 - Council Treasury Management Strategy for 2023/24 approved by Executive Board 9th March 2023

Weekly Investment Balances

Appendix 1

2023/24 (April 2023 to September 2023)

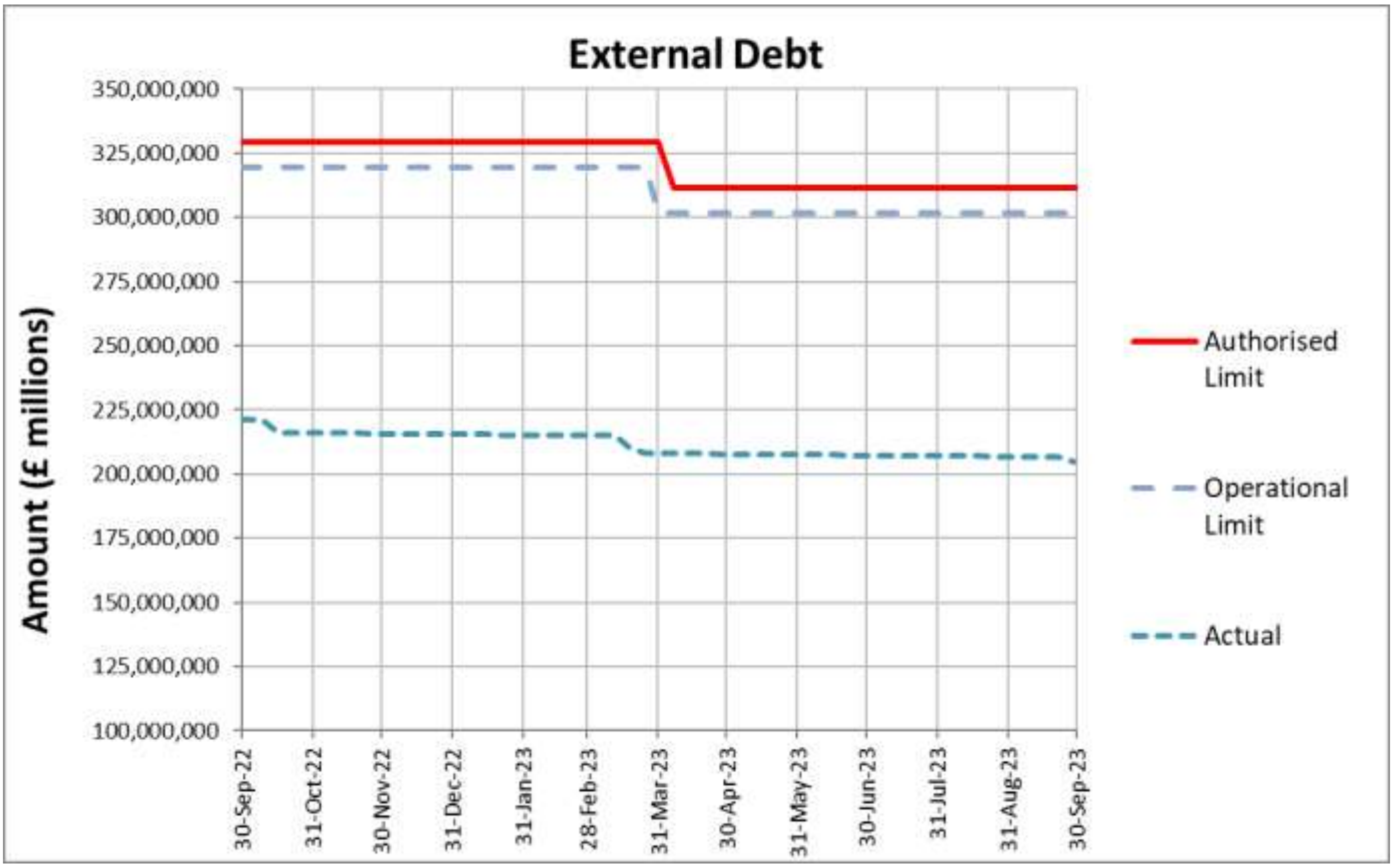


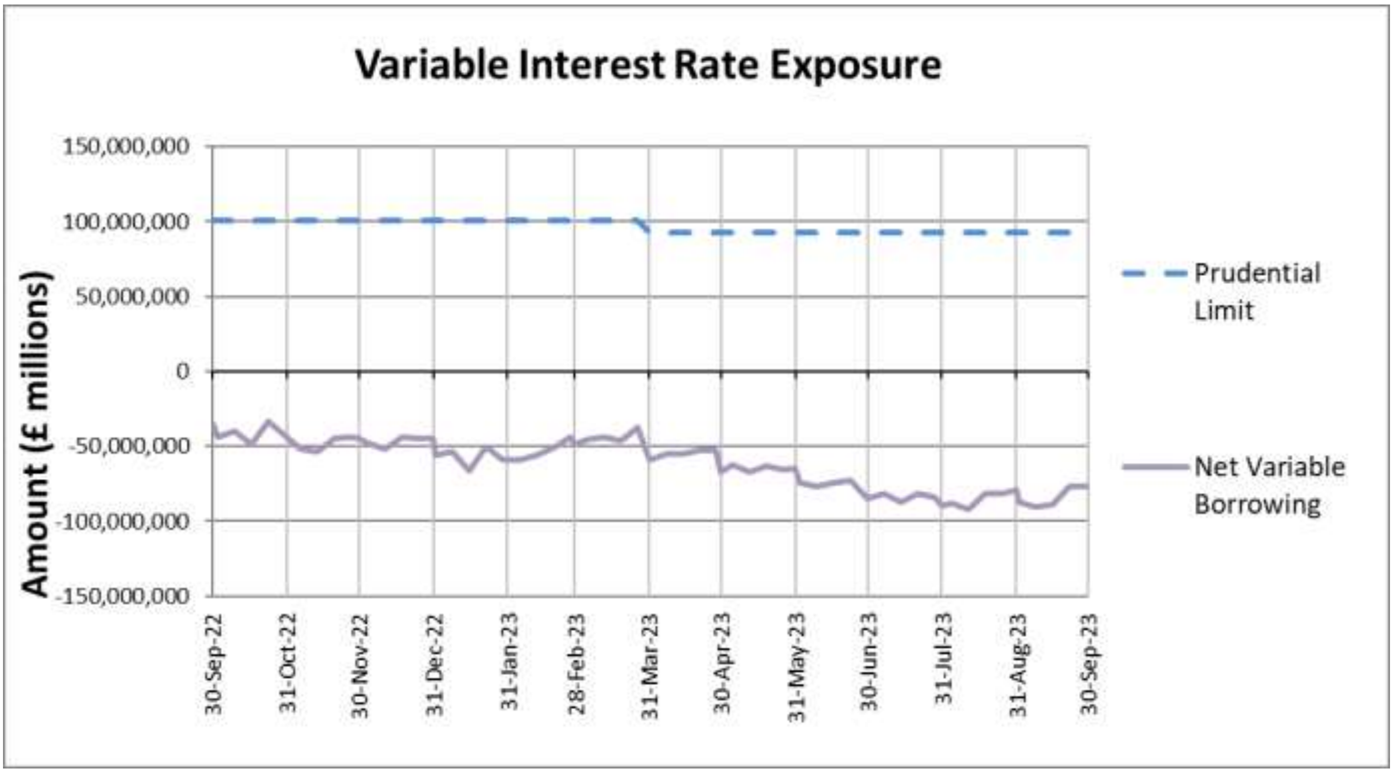

Call Accounts, £17,316 , 0%
Money Market Funds, £24,850,000 , 28%
Local Authorities - Fixed Term, £65,000,000 , 72%

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	£59.2M	Current monitoring includes slippage from 2022/23 and new schemes approved in the first two quarters 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)	£286.3M (incl projections re LCC debt £14.6M, PFI debt £68.7M)	
	Estimated Ratio of Financing Costs to Net Revenue Stream	10.6%	8.7%	
	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: 12.2 PFI Elements: 56.4 BwD: 136.2 **Total: 204.8**	Operational boundary and authorised borrowing limit have not been breached during the year.
	Variable Interest Rate Exposure	£92.8M	Exposure to Date -£76.9M	Limit not breached during the year.
	Fixed Interest Rate Exposure	£212.1M	Exposure to Date £123.2M	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>21.2</td><td>15.6%</td></tr>
<tr><td>1-2</td><td>10.2</td><td>7.5%</td></tr>
<tr><td>2-5</td><td>19.6</td><td>14.4%</td></tr>
<tr><td>5-10</td><td>17.7</td><td>13.0%</td></tr>
<tr><td>>10</td><td>67.6</td><td>49.6%</td></tr>
<tr><td>Total</td><td>136.2</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>
<td></td>
</tr>
</table>


External Debt
350,000,000
325,000,000
300,000,000
275,000,000
250,000,000
225,000,000
200,000,000
175,000,000
150,000,000
125,000,000
100,000,000
Amount (£ millions)
30-Sep-22
31-Oct-22
30-Nov-22
31-Dec-22
31-Jan-23
28-Feb-23
31-Mar-23
30-Apr-23
31-May-23
30-Jun-23
31-Jul-23
31-Aug-23
30-Sep-23
Authorised Limit
Operational Limit
Actual


Variable Interest Rate Exposure
150,000,000
100,000,000
50,000,000
0
-50,000,000
-100,000,000
-150,000,000
Amount (£ millions)
30-Sep-22
31-Oct-22
30-Nov-22
31-Dec-22
31-Jan-23
28-Feb-23
31-Mar-23
30-Apr-23
31-May-23
30-Jun-23
31-Jul-23
31-Aug-23
30-Sep-23
Prudential Limit
Net Variable Borrowing

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 2023/24

1 Original Strategy for 2023/24

1.1 The Treasury Management Strategy for 2023/24 was approved by Executive Board on 9th March 2023.

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 (CFR), with the difference being covered by the use of any available balances.

When the strategy was written, it was expected that both short and long-term interest rates would rise throughout the financial year, and it was therefore likely to be more cost effective to maximise the use of internal resources in order to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

1.2 The original 2023/24 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 2023/24

The Treasury Management Reports to the Executive Board and the Audit and Governance Committee, covering the period from July to September 2022/23, include details of the current economic background. Key issues are as follows:

2.1 The Bank of England (BoE) Bank Rate increased from 4.25% at the start of the financial year to 5.25% by the end of the September 2023.

2.2 UK inflation remained high over much of the period. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

2.3 Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.4%, beating expectations of a 0.2% increase. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

2.4 July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

3 Treasury Performance to date

3.1 Thus far, cash balances have ranged between £51M and £105M, continuing to be higher than in previous years as a result of grants received in advance from central government, including in respect of the Darwen Town Deal and Levelling-Up schemes. There has been no short-term borrowing during the period and no further long-term borrowing has been taken.

Analysis of Debt Outstanding	31st March 2023 £m		30th September 2023 £m	
Short-Term Debt		-		-
Longer-Term Debt: Public Works Loan Board (PWLB) Market Loans	120.0 18.0	138.0	118.2 18.0	136.2
Lancashire County Council (LCC) Debt		12.5		12.2
Debt re PFI Arrangements		57.5		56.4
Gross Borrowings		**208.0**		**204.8**
This was offset by investments of:		50.8		89.9
Net Borrowing (gross borrowing less investments)		**157.2**		**114.9**
Net Borrowing (if LCC and PFI debt are excluded)		**87.2**		**46.3**

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 4.39%. It is likely that investment returns will remain at high levels during the second half of the year (as Bank Rate is forecast to remain at least at the current level).

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 borrowing was undertaken in the first half of the year. 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 portion of its loans are 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. This is not a concern in the current financial year because interest rates are high, however, even if interest rates were to fall, 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.

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 wished. The Council took 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 Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the authority.

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. These changes align the CIPFA Prudential Code with the PWLB lending rules.

7.5 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.

TO:	Audit & Governance Committee
FROM:	Head of Audit & Assurance
DATE:	28 November 2023

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

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

1. PURPOSE

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

2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the internal audit outcomes achieved to 31 October 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 October 2023:

Counter Fraud Activity

National Fraud Initiative (NFI) 2022/23

The Council takes part in a bi-annual data matching exercise that is administered by the Cabinet Office (CO). Having submitted all the required datasets on time the Council has started to receive the output from these reports.

In total, 6,670 data matches have been received. These include queries in the following areas:

- Housing Benefit (756 matches);
- Payroll (204 matches);
- Blue Badge parking permits (195 matches);
- Concessionary Travel Passes (1158 matches)
- Creditors payments (4072 matches); and
- Procurement (75 matches).

To date 243 matches have been processed and 58 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	5	852.42	4,445.81*	5,298.23
Blue Badges	51	0	33,150**	33,150
Residents Parking Permits	2	0	0	0
Total	**58**	**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, by colleagues in relevant departments. However, there is no expectation from the Cabinet Office that all the matches are followed up.

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

Council Tax Single Person Discount Matching

The Council has received additional reports from the CO, which included 5,280 Council Tax Single Person Discount data matches for further review. The reports were generated after council tax records were matched with various data sets including the electoral register and HMRC records. The matches indicate that entitlement to Single Person's Discount is incorrect and further enquiries need to be made. To date, the following 88 of these matches have been processed with the following results:

Area	No. of Errors	Outcome (£)	CO Estimates	Overall total (£)
Council Tax SPD	27	12,819.22	17,175.50	29,994.72

The remaining data matches are currently being reviewed and followed up by the Revenues section.

Corporate Governance and Risk

The table below summarises the four "red" priority areas/issues reported by departments, grouped by key themes, which were identified in the summary Director Exception/Dashboard Reports and Assurance Statements as at 30th September 2023.

Three "red" priorities that have remained areas of concern from 31st March 2023 and one area of concern identified as "amber" at 31st March 2023 has been upgraded to "red" (U below). There are two areas that were identified as "red" at that date which have now been downgraded to "amber", (D below), in the period.

		2023/24	2022/23
No	**Theme / Description**	**30th September Half Year**	**31st March Year End**
Demand Management			
1	Fostering Sufficiency (Children's Services)	Red	Red
2	Limited availability of domiciliary provision (Children's Services)	Red(U)	Amber
	Workload and Capacity (Children's Services)	Amber(D)	Red
Budgets & Finance			
3	Budget and Demand Pressures - Social Work Demand Costs and externally commissioned Placements. (Children Services)	Red	Red
4	School Deficits - Local Authority maintained schools were showing deficit balances on their reserves. (Children Services)	Red	Red
Staffing/ HR			
	Sickness (whole Council) Chief Executives Department	Amber(D)	Red

Internal Audit

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

Risk, Control & Governance Reviews	Assurance Opinion		Recommendations Agreed
	Environment	Compliance	
Traded Services to Schools	Adequate	Adequate	3
VAT	Limited	Limited	1
Health & Safety Compliance	Adequate	Adequate	8
Creditors	Adequate	Adequate	9

A brief commentary on the audit assignment we provided a limited assurance opinion for is set out below for consideration. This opinion is not considered to have a significant impact on the overall control environment in place within the Council.

VAT - The final report provided **limited** assurance opinions in respect of the control environment and compliance with the controls and procedures in place regarding the arrangements to manage VAT and the submission of VAT returns to HMRC.

Prior to the audit, the Council had commissioned an external review of its VAT management arrangements. The outcome of the review coincided with the audit work so reliance was largely placed on the consultant's report and findings in arriving at the assurance above. The report contained a number of recommendations, including 17 graded as red. Immediate action was being taken on those recommendations viewed as key areas of control. These included:

- Updating the Constitution to clarify the responsibility for the management of VAT;
- Introduction of operational procedure notes;
- Development of a comprehensive VAT manual;
- Providing VAT training for all Finance Managers and staff where appropriate;
- Documenting and evidencing the management checks completed ensuring that a clear segregation of duties is in place; and
- Review VAT applicable charges.

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

- Changing Places Fund Grant Determination, Financial Year 2022/23: No 31/6222; and
- Family Hubs and Start For Life Programme P2 Capital Grant Determination 2023-24: (No 31/6536).

The relevant declarations were signed by the Chief Executive and Head of Audit & Assurance and provided to funded Departments. 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 completed the review and challenge of the half-year Director Exception/Dashboard Reports and Assurance Statements, and associated reporting to Corporate Leadership Team and 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:

- Sundry Debtors;
- Adults Contracts & Commissioning;
- CCTV Arrangements - Compliance with Surveillance Camera Code of Practice;
- Section 106 Arrangements;
- Children's Services Inspection Readiness;
- Local Authority Improvement Plan;
- Departmental Governance;
- Highways Maintenance – Inspection and Repair;
- Inspections of Homes of Multiple Occupancy;
- Albion Mill;
- Mileage & Expenses;
- Payroll;
- Bus Recovery Grant Compliance;
- Multiply Grant Compliance;
- Lammack Primary School; and
- Equality Act.

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%	**50%**	**77%**
3. Final Reports Issued Within Deadline	90%	100%	100%
4. Follow Ups Undertaken Within Deadline	90%	100%	100%
5. Recommendations Implemented	90%	**90%**	66%
6. Client Satisfaction	75%	100%	100%
7. Compliance with PSIAS (Annual)	95%	100%	100%

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

2. Planned Audit Completed Within Budget

Two of the four audits completed during the period required additional time due to the following:

- additional time for planning, preparation of reviews by new audit staff familiarising themselves with the systems, additional testing due to the nature of the audits, liaising with the various teams responsible for the areas and finalisation of audit reports.

5. Recommendations implemented

28 of the 31 recommendations for follow-ups responded to which were due for implementation on or before 31 October 2023 (90%) 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 limited resources available to progress and other priorities.

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: 17 November 2023
Background Papers: Audit & Assurance Plan 2023/24, approved by the Audit & Governance Committee on 2 March 2023.

TO:	**Audit & Governance Committee**
FROM:	**Head of Audit & Assurance**
DATE:	**28 November 2023**

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Risk Management – 2023/24 Quarter 2 Review

1. PURPOSE

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

2. RECOMMENDATIONS

2.1 The Committee is asked to:

- Discuss and review the Corporate Risk Register as at the end of September 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 September 2023. A summary of the corporate risk details is set out in Appendix 1 of this report. The Council's top six corporate risks at that date 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/capital receipts for service delivery if MTFS income targets from the Growth Programme are not met.
- 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 change has been made to the risk register during the period:

- The residual score for Risk 11 (Failure to improve the education and skills for our young people) was reduced from medium to low since 30 June as progress had been made in the period to improve the controls and management of this area.

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. The Corporate Assurance Board reviews 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 The re-procurement of the Council's insurance broker services was completed in September and a new broker, Arthur J. Gallagher & Co, appointed to provide insurance advice and placement of any specialist cover required from 1 October. The contract is for an initial period of three years, with an option to extend for a further period of up to three years.

5.5 The broker has been commissioned to carry out an actuarial review of the Council's funding for self-insured costs. This will enable the Council to assess the adequacy of the funds aside to cover liability claims in respect of insurance claims that are below the insurance excess and self-insured limits. In addition, the broker will undertake a Programme Optimisation analysis. This will enable to Council to consider alternative levels of self-insurance that may reduce the overall total cost of risk as a combination of self-insured claims plus external premium and associated programme costs.

5.6 We have also continued to liaise with departments, the brokers and our underwriter to respond to policy related queries relating to a variety of topics, as well as to arrange additional insurance cover as and when 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:	17 November 2023
Background Papers:	Corporate Risk Management Strategy 2021/2026, 2022/23 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 - 2023/24 | Date of last review: 30-Jun-23

Date: 30-Sep-23 | Date of next review: 31-Dec-23

				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
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	Dean Langton	Simon Ross	Open	17-Oct-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 / Ben Greenwood / Katherine White	Open	10-Oct-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	03-Oct-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	03-Oct-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; Richard Brown	Open	30-Oct-23	2	3	LOW	-
11	Failure to improve the education and skills for our young people	20-Aug-13	Good	4	4	HIGH	2	3	LOW	2	3	LOW	Jo Siddle	Michelle Holt	Open	13-Oct-23	3	3	MEDIUM	Down
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	17-Oct-23	3	3	MEDIUM	-
14	High profile serious/critical safeguarding incident/case that is known to Council services	20-Aug-13	Good	4	5	HIGH	3	5	HIGH	2	5	MEDIUM	Mark Warren (DASS) / Jo Siddle (DCS)	Katherine White/Emma Ford	Open	13-Oct-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	04-Oct-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	21-Sep-23	3	5	HIGH	-

				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
18	Insufficient budget/capital receipts for service delivery if MTFS income targets from the Growth Programme are not met.	29-Nov-16	Good	4	5	HIGH	3	5	HIGH	3	4	MEDIUM	Martin Kelly	Simon Jones	Open	30-Oct-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	14-Sep-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	02-Oct-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	Andy Haythornthwaite, Andy Ormerod	Open	20-Oct-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	17-Oct-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	09-Oct-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	02-Oct-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	03-Oct-23	3	3	MEDIUM	-
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	21-Sep-23	4	4	HIGH	-
30	Failure to manage the demands of the 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	13-Oct-23	3	3	MEDIUM	-
31	Failure to effectively plan for and be adequately prepared to respond to a future pandemic or emerging infectious disease	23-Jun-23	Fair	4	5	HIGH	3	4	MEDIUM	2	3	LOW	Abdul Razaq	Rabiya Gangreker	Open	18-Oct-23	3	4	MEDIUM	-

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.
- Risk 21: The Council is unable to recover its critical functions, core services and income generation during the transition and recovery phases of a CV-19 outbreak.
- Risk 23: Failure to have an inclusive public health Covid-19 recovery plan that focusses on those most impacted by the pandemic and plan effectively for COVID and influenza.

TO:	**Audit & Governance Committee**
FROM:	**Head of Audit & Assurance**
DATE:	**28 November 2023**

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Annual Governance Statement (AGS) – Progress of the 2022/23 Actions and 2023/24 Approach/Timetable

1. PURPOSE

1.1. To inform Members on progress of the actions taken to address the significant governance issues identified in the 2022/23 AGS and the planned approach and timetable for producing the 2023/24 Statement.

2. RECOMMENDATIONS

2.1. The Committee is asked to:

- review the progress made to the end of September to address the significant actions identified in the 2022/23 AGS; and
- note the approach/timetable for producing the 2023/24 AGS.

3. BACKGROUND

3.1. 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

4.1. 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

5.1. 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.

Actions from the 2022/23 AGS
The following issues were noted in the 2022/23 AGS:

- Long term financial sustainability of the Council;
- Children's & Education and Adults Inspection Readiness;
- Completion and Sign-off of Financial Statements by External Audit; and
- Corporate and Departmental Performance Management System.

Appendix 1 provides details of the progress made to 30 September for each of the above areas. This show that appropriate steps are being taken by senior officers and managers in respect of the issues identified and work is in progress. However, the commentary notes that there are continuing demands leading to budget pressures and challenges that are being monitored and managed by the relevant management teams.

Approach for the 2023/24 AGS
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. 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 Strategic Directors for their areas of responsibility. This statement requires Directors 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 2023/24 AGS Completion and Related Processes

Deadline	**Action**
11 March 2024	Circulation of Strategic Director annual statement of assurance templates.
12 April 2024	Completion and return of Year-end MAF Directors Exception/Dashboard reports.
26 April	Receipt of signed Strategic Director and Director, Chief Executives

2024	annual statements of assurance. Receipt and collation of annual governance core principle evidence.
28 May 2024	Year-end MAF significant “red” issues reported to Corporate Leadership Team.
29 May 2024	2023/24 AGS evidence and assurance statements considered by Statutory Governance Officers Group (SGOG).
7 June 2024	Production and agreement of final draft 2023/24 AGS by SGOG for consideration by Corporate Leadership Team.
27 June 2024	Year-end MAF significant “red” issues reported to Audit & Governance Committee. Approval of AGS by Audit & Governance Committee.
28 June 2024	AGS signed by Chief Executive and Leader of the Council.
30 July 2024	2023/24 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 the AGS process.

10. EQUALITY AND HEALTH IMPLICATION

There are no equality or heath implications arising from the AGS process.

11. CONSULTATIONS

Strategic Directors of Adults & Health, Children’s & Education and Finance & Resources and 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: 17 November 2023
Background Papers: 2022/23 AGS approved by Audit & Governance Committee on 28 July 2023.

Annual Governance Statement (AGS): Progress on Addressing 2022/23 AGS Significant Issues Identified

Title	2022/23 AGS Issue / Actions being taken	Responsible officer(s)	2023/24 Half Year Progress Update to 30 September 2023
Long term financial sustainability of the Council	The development of the 2023/24 budget (and the Financial Strategy 2022/25 and update to the Medium term Financial Plan 2023/26) is set against a continuing challenging national economic backdrop and on-going pressures on public finances and spending. Although the Council's Core Spending Power will increase this is predicated on a number of assumptions and is not sufficient to make up for the funding reductions the Council has experienced since 2010 nor is it reflective of the significant changes in demand for services and increased costs that the Council is experiencing. These include the significant pressures the Children's Services budget experienced throughout 2022/23 which are expected to continue into 2023/24. Those pressures are predominantly centred on Commissioned Placements, Foster Care and Adoption payments, as well as SEN Transport. There is also the potential for an increase in contract costs in respect of the extra care and sheltered housing contract and the LD supported living framework for Adults Social Care as rates are likely to rise significantly in order to reflect the current market process and ability to attract suitable workforce to support increasingly complex packages of care in the community.	Chief Executive and Directors	An update to the Council's Financial Strategy and Medium Term Financial Plan was considered by the Executive Board in June 2023. This outlined a funding shortfall over the period to 2026/27 of c£18m. It was agreed that the Financial Strategy – Grow, Charge, Save and Stop – remains sound and that further work on the 8 strategic work streams to reduce the Council's net cost base should continue. A further update to the Medium Term Financial Plan has recently been undertaken, reflecting both the outturn for 2022/23, budget setting for 2023/24 and the Quarter 1 budget monitoring position for 2023/24. Again, the funding gap has remained broadly unchanged. For 2024/25, the funding gap is c£7.1m. Subject to the Quarter 2 Budget Monitoring position being compiled and details of the provisional Local Government Funding Settlement being announced in December 2023, a further update of the Council's current and forecast financial position will be provided in December 2023.

	Following Covid-19 it is likely that the Council will see the risk of increased contract costs across the wider sector including Residential, Nursing and Domiciliary care. In addition there a range of other cost pressures that the Council is subject to which need to be managed. Some of these are generic (pay award, National Living Wage and non-pay inflation) and some specific to services. The Council remains heavily dependent on government funding to both provide services and to invest in economic growth and regeneration. To the extent that this remains constrained and there continues to be limits on the Council's ability to raise income locally, either imposed by Government or because of the nature of the local economy, the Council will continue to experience difficulties in achieving a balanced budget. Whilst the 2023/24 budget is balanced there remains a budget gap of c£12.2m to 2025/26. The Financial Strategy, amongst other matters, provides a broad framework by which the Council can implement measures to deal with this gap. The Strategy is based around the following themes: • Growing the council tax bases; • Charging for services, reviewing fees and charges, reducing subsidies, and considering new fees and charges etc; • Saving costs through transformation; and • Stopping spending on low priority areas or working with other partners to deliver services that would otherwise be delivered by the Council.		In the meantime, the Corporate Leadership Team will commence work to develop detailed budget reduction proposals to bridge this gap. Any such proposals will be subject to consideration by Leading Councillors before being brought forward for consideration as part of the budget strategy for 2024/25.

	For 2023/24, the focus will be to deliver the agreed budget without any further need for remedial action or calling on the Council's reserves. The Council is taking a strategic approach to the delivery of savings over the medium term through a series of workstreams. Amongst other matters, these are considering the structure of the organisation, how the Council delivers services, the operating models in both Adult and Children's social care and how we exploit technology through the transformation of frontline and back office services.		
Children's & Education and Adults Inspection Readiness	Children's Services & Education are subject to inspection from Ofsted, the Care Quality Commission (CQC) and HMI Probation, along with the Joint Targeted Area Inspection (JTAI) of the Council, Police and Health partners in relation to the wider safeguarding partnership. Over the coming year the directorate may be subject to a focused inspection following our ILACS full inspection in March 2022, and a local area SEND inspection, which includes Children's Services and Health. Preparation for the focused visit is part of our Children's Strategic Improvement Board agenda, which has transitioned from a monthly meeting frequency to a six-weekly one. The areas of improvement identified in the recent JTAI will be included in the Board monitoring arrangements. Preparation for the Area SEND inspection is managed through the SEND Strategic Partnership	Strategic Directors Children's & Education and Adults and Health	**Children's Services Progress**: Considering the timing of previous inspections and the inspection pathways that we are subject to, it is reasonable to anticipate that Children's Services & Education will undergo a focused visit and an Area SEND inspection within the next 12 months. Focused visit (Ofsted ILACS framework) The responsibility for ensuring readiness for the focused visit sits with the Children's Strategic Improvement Board. • The ILACS Annex A evidence undergoes continuous updates, with monthly meetings scheduled for review and oversight by the Deputy Director of Children's Social Care. • Our regional LGA advisor led on a stocktake in September 2023 encompassing everything from initial contact to long-term permanence and the support provided to our care leavers. • Independent scrutiny and insights are playing a pivotal role in supporting our improvement efforts, exemplified by our commissioning of an

	Board. This board has partners from Education, Health, Adult and Children's social care. Under the Health and Care Act 2022, from 1st April 2023 Local Authority Adult Social Care departments are also being inspected by CQC and assessed for their compliance with Care Act 2014 and other legislative requirements. The Act gives inspectors new powers to allow them to provide a meaningful and independent assessment of care at a local authority and integrated care system level. There is a reputational risk to the Council if we fail to prepare appropriately and subsequently receive a poor outcome. A self-assessment has been carried out against identified key themes and quality statements. Gaps in provision and areas for development have been identified, with plans to address these gaps being developed. Subject matter experts have been identified and working groups established to gather, validate and log pieces of evidence. Governance arrangements are in place to report activity into Senior Leadership Team.		independent learning review for children subject to Child in Need Planning in July 2023. • Self-evaluation (SEF) of the quality and impact of social work practice under development – to be shared with the NWADCS in early November 2023. • The monthly routine audit process is now well-established. The last two cycles achieved a 100% audit return rate, supporting consistent reporting. Auditors are increasingly identifying organisational learning, improving overall practice understanding. There are key actions and measures in place to close the loop on this issue. Area SEND inspection (Area SEND framework) The responsibility for ensuring readiness for the Area SEND inspection sits with the multi-agency SEND Strategic Partnership Board. SEND has gained political momentum within the Department for Education (DfE) within the past 12 months. • Inspection readiness is a standing agenda item for the SEND Strategic Partnership Board. • A designated Social Care Officer for SEND was successfully recruited and commenced their role in September 2023 (best practice requirement). • SEND conference held in Summer Term 2023. • Specific leads have been designated for each section of the Area SEND Annex A. Individual meetings are scheduled for October to start the compilation of evidence folders. Additionally, a meeting with health services is confirmed for the end of October 2023 to review their evidence. • DCS and Deputy Director to attend a SEND inspection learning event in October 2023. • Five tier EHCP quality assurance framework has been introduced, combining the existing quality

			assurance tool with improved multi-agency assurance and a new impact and experience level. Level 3 audits to be piloted in early October 2023 (multi-agency). The department feels that progress to date to address the issue/action identified is on target at this stage of the year due to the presence of control measures such as regular reviews of Annex A evidence banks, ongoing support and assurance from both the Children's Strategic Improvement Board and the SEND Strategic Partnership Board, the development of the Children's Services & Education roadmap and the revision of departmental priorities. These initiatives are vital in maintaining alignment with our shared vision and driving continuous improvement. **Adult Social Care Progress:** The CQC aim to have all LAs assessed against the new Single assessment Framework within two years of the Framework being released on 1 April 2023. BwD preparation for the CQC assessment has been in progress since January 2023. The department has established a small, dedicated team to support co-ordination and collation of all activity across the department and the whole Council to prepare for our assessment. The work is being overseen by the CQC Assurance Governance Group. The Quality Assurance (QA) Team have been working closely with subject matter leads, under the 4 topic areas, to collate as much evidence as possible given our current knowledge, informed by ADASS recommendations and feedback from the pilot sites. The QA Team meet with subject matter leads on a weekly basis to ensure traction on evidence

			gathering. There is also a monthly governance Group which facilitates the official sign off of evidence and highlights any risks. The first iteration of a self assessment has been completed using the approach recommended by ADASS. It has been discussed with the CQC Assurance Governance Group.
Completion and Sign-off of Financial Statements by External Audit	The Council's Statement of Accounts for the years 2020-21 and 2021-22 have not been signed off by the external auditors, Grant Thornton. This creates a significant resource issue for the corporate finance team in terms of delays and the workload arising from having three separate years of accounts open. As a result of earlier years not being signed off the closure of the 2022-23 accounts and therefore production of the 2022-23 Statement of Accounts and subsequent audit will be delayed. The issues compound year on year. In addition the Council has new auditors, Mazars for financial year 2023-24 and there is potential that they will not start their audits until Grant Thornton have completed the prior years.	Strategic Director, Finance & Resource	The Council's Statement of Accounts for 2020/21 was signed by External Audit in July 2023 Audit work on the Statement of Accounts for 2021/22 is continuing. The External Auditors continue to raise concerns about the valuation of the Council's Property, Plant and Equipment (PPE) which will need to be resolved if the Council is to receive an unqualified opinion on the Accounts. The Statement of Accounts for 2022/23 has been drafted but not yet published. This is because the External Auditor has raised an issue related to the valuation of properties and Reinforced Autoclave Aerated Concrete (RAAC). This matter is being reviewed and once concluded, the Council should be in a position to publish the draft Accounts. In relation to the new External Auditors, Mazars, contact has been made with the Engagement Lead and a meeting has been arranged for February 2024.
Corporate and Departmental Performance Management System	The Corporate Plan 2023/27 was launched following Policy Council in December 2023. Alongside this a new suite of Corporate KPIs is being developed and will be measured from Q1 2023/24. Business Planning guidance has been refreshed and issued for 2023/24 and all departments will	Director, Chief Executives Department	The Corporate Plan was launched in December 2022 and a new suite of Corporate KPIs have now been agreed. Normal reporting of the KPIs was resumed in Q2, although some exceptions remain due to additional work that is required around collating reporting data.

	finalise their plans by end of April. A new Performance Management Framework has been developed and rolled out as part of the Corporate Plan launch. Corporate Plan Performance reporting alongside the Departmental MAF report will become a twice-yearly update to Corporate Assurance Board in 2023/24. We will be building and developing departmental performance reporting in 2023/24. This will see regular updates on service performance being reported at Corporate Assurance Board in 2023/24.		Business Plans were completed by departments using the new Business Plan template and aligned with the new Corporate Plan. Progress has been made with regards to Corporate Performance reporting, and an update will be going to Policy Council re progress against the Corporate Plan More in-depth departmental and service performance reporting has started and is reported at CAB. By March 2024 all departments will have undertaken a report and an evaluation will take place to review the learnings from this to ensure consistency in reporting.