

# Agenda

MUNICIPAL YEAR 2018-2019



**HYNDBURN**

The place to be  
an excellent council

## Audit Committee

**Monday, 30 July 2018 at 5.00 pm,**  
Scaitcliffe House, Ormerod Street, Accrington

### Membership

Chair: Councillor Noordad Aziz

Vice-Chair: Councillor Diane Fielding

Councillors Michael Miller, Tim O'Kane, Bernadette Parkinson and Kath Pratt

## A G E N D A

**1. Apologies for Absence, Declarations of Interest, Dispensations and Substitutions**

**2. Minutes of the Last Meeting (Pages 5 - 8)**

To submit the minutes of the last meeting of the Audit Committee held on the 19<sup>th</sup> March 2018 for approval as a correct record.

**Recommended - That the minutes be received and approved as a correct record.**

**3. Annual Internal Audit Report & Audit Opinion 2017/18 (Pages 9 - 32)**

The Head of Audit and Investigations submitted a report to inform and update Audit Committee on the Annual Internal Audit Report and Audit Opinion for 2017/18 and to give details on the performance of the Internal Audit Team and final outturn position for 2017/18.

**Recommended - That the report be noted for informational**



**purposes.**

**4. Audit Reports & Key Issues- Progress Report for the Period April- July 2018**  
*(Pages 33 - 38)*

The Head of Audit and Investigations submitted a report to inform members of the Audit Committee of Audit Reports issued during the period April- July 2018 and bring to the attention of the Committee what the key issues were.

**Recommended - That the report be noted for informational purposes.**

**5. Audit Follow-Ups Report for the Period April- July 2018** *(Pages 39 - 44)*

The Head of Audit and Investigations submitted a report to inform members of the Audit Committee of the outcome of routine follow-ups following the previously agreed action plans for completed Audit Records. The follow-ups detailed within the report are those carried out during the period April- July 2018.

**Recommended - That the report be noted for informational purposes.**

**6. Audit Findings for Hyndburn Borough Council (Year ended 31 March 2018) - Grant Thornton** *(Pages 45 - 72)*

To inform members of the committee with a report from Grant Thornton on the audit findings and provide a summary of the keys issues from the statutory audit of Hyndburn Borough Council and the preparation of the Authority's financial statements for the year ended 31<sup>st</sup> March 2018 for those charged with governance.

**Recommended - That the report be noted for informational purposes.**

**7. Time/Date/Venue of Next Meeting of Committee**

The next meeting of the Audit Committee is scheduled to be held on Monday 19<sup>th</sup> November 2018 at 5.00pm in the Queen Elizabeth Room at Scaitcliffe House.

**8. Supplemental Agenda** *(Pages 73 - 74)*

**Urgent Business**

**The Chair is of the opinion that the following items should be considered as urgent, in accordance with Section 100b (4) of the Local Government Act 1972.**

**Due to the reports being unavailable by the deadlines imposed to publish the agenda in line with legal regulations.**

**9. Statement of Accounts 2017/2018** *(Pages 75 - 196)*

The report informs Members of Audit the Committee on the production of the Annual Accounts and their External Audit and deal with issues arising from this work.

- Recommended**
- **(1) That Audit Committee approve and sign the Council's Statement of Accounts for 2017/18; and**
  - (2) That Audit Committee approve and sign the letter of representation; and**
  - (3) That Audit Committee approve the slippage on the Capital Programme; and**
  - (4) That Audit Committee note the audit findings report.**

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## AUDIT COMMITTEE

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**Monday, 19<sup>th</sup> March 2018**

**Present:** Councillor Noordad Aziz (in the Chair);  
Councillors Stephen Button, Diane Fielding, Glen Harrison, Stephanie Haworth and Kath Pratt.

**In Attendance:** Mark Beard, Michael Cunliffe, David Donlan, Joe McIntyre, Mike Walker and (Perminder Sethi, Andrew Smith - Grant Thornton, External Auditors)

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### **Apologies for Absence, Declarations of Interest, Dispensations and Substitutions**

Apologies for absence were submitted from Councillor Bernadette Parkinson.  
Councillor Stephanie Haworth acted as substitute representative for Councillor B. Parkinson.

There were no reported declarations of interest or dispensations.

### **Minutes of the last Meeting**

The minutes of the last meeting held on the 11<sup>th</sup> December 2017 were submitted for approval.

**Resolved** - That the minutes be received and approved as a correct record.

### **Risk Management Monitoring Report**

The Corporate Performance Manager, Mike Walker, presented a report which informed the Committee of the outcome of the review of the Generic, Strategic and Operational Risk Register.

Background information for the reports were explained to the committee and there had been no changes made to the Strategic Risk Register. There had been one new risk added to the Generic Risk Register and some minor changes which were detailed in Appendix 1 of the report.

There had been two major changes to the Operational Risk Register and a number of minor changes had been made which were detailed in Appendix 2 of the report.

A summary of all risks contained in the Generic, Operational and Strategic Risk Registers were detailed in Appendix 3 of the report.

A number of questions were asked by Councillors in relation to a disbanded health & safety group, lone working arrangements and downturn in recycling markets. The Chair also enquired if training would be made available to Members in relation to the new GDPR rules and it was reported that Jane Ellis would be leading on this.

**Resolved** - That the report be noted for informational purposes.

### **Audit Reports & Key Issues- Progress Report for the Period January- March 2018**

The Head of Audit and Investigations, Mark Beard submitted a report to inform members of the Audit Committee of Audit Reports issued during the period January- March 2018 and bring to the attention of the Committee what the key issues were.

There was a target of 98% of the audit plan to be completed by the end of the current financial year in terms of audit days completed. The figures contained in the report gave updated details to the end of February 2018 (85.48% of the plan completed) and the projected out turn position for 2017/18 (93.25% of the plan completed).

A summary of the main issues arising from audits carried out between January- March 2018 was attached to Appendix 1 of the report and detailed both substantial and comprehensive audit assurance in the following areas:

#### Substantial Assurance

- Direct Debit & BACS Direct Credit
- ICT Assets
- Treasury Management

#### Comprehensive Assurance

- Recovery Processes- Contact Centre

The Chair questioned what other local authorities are doing in terms of direct debit lengths. The Head of Audit and Investigations reported that the Executive Director for Legal Services was dealing with these issues as part of new General Data Protection Regulations.

Councillor Pratt asked why the ICT information security policy was still at a draft stage after a number of years in use. At the request of the Chair, the Head of Audit and Investigations would follow up this matter with ICT.

**Resolved** - That the report be noted for informational purposes.

### **Internal Audit Plan 2018-19**

The Head of Audit and Investigations submitted a report to inform members of the Audit Committee of the Internal Audit Plan for the financial year 2018/19 and to request that Audit Committee approve the proposed Internal Audit Plan for 2018/19.

The 2018/19 Internal Audit Plan had made some alterations which reflected changes occurring within the Council as well as alterations designed to streamline the audit. The table in the report titled amendments to the audit plan, detailed the changes.

Four new audit areas had been added to the audit plan and other parts of the report highlighted high, medium and low risk areas and if there had been a decrease or increase of risk areas compared to the year previous.

The internal audit plan summary for 2018/19 was attached to the agenda as appendix 1.

**Resolved** - (1) That Audit Committee noted the contents of the report.

- (2) That Audit Committee approved the Internal Audit Plan for the financial year 2018/19.

### **Peer Review of Internal Audit- External Assessment of Conformity with the Public Sector Internal Audit Standards**

The Head of Audit and Investigations submitted a report to inform members of the Audit Committee of the outcome of the mandatory external inspection of Hyndburn's Internal Audit Team against the requirements of the Public Sector Internal Audit Standards and present the final report of the external inspection team.

All Internal Audit teams within the public sector must work within the 340 Public Sector Internal Audit Standards. As part of these Standards every public sector internal audit team must undergo an external assessment of their conformance with the Standards once every 5 years.

There are 10 district Councils within the Lancashire Audit Group taking part in the peer review process and Hyndburn's began in mid-2017 with the onsite stage held in early February.

The external review team's report was attached to the agenda as appendix 1 and Members were given a summary with detailed assessment in appendix B and the PSIAS action table included in appendix C.

The Chair commented that he was interviewed as part of the process and on behalf of the Audit Committee thanked the Head of Audit and Investigations and the rest of the team for their hard work.

**Resolved**                      - That the report be noted for informational purposes.

### **Grant Thornton- Certification work for Hyndburn Borough Council for year ended 31 March 2017**

Perminder Sethi, Senior Manager at Grant Thornton informed members of the Annual Audit Letter which summarised Grant Thornton's responsibility to certify the Housing Benefit subsidy claim submitted by Hyndburn Borough Council. The certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The claim related to expenditure of £26.6m and further details of their findings were published in Appendix A of the report attached to the agenda. Appendix B provided information of fees for 2016/17 certification work.

**Resolved**                      - That the letter and report be noted for informational purposes.

### **Grant Thornton – External Audit Plan (Year ending 31 March 2018)**

The senior Manager and Engagement Lead, Andrew Smith from Grant Thornton provided Members of the Audit Committee with an overview of the planned scope of the statutory audit of Hyndburn Borough Council for those charged with governance.

The contents of the report detailed matters and risks which had come to their attention and included:

- Materiality
- Value for money arrangements
- Audit logistics
- Independence
- Deep business understanding
- Significant risks identified
- Reasonably possible risks identified
- Materiality
- Value for Money arrangements
- Audit logistics, team & audit fees
- Early Close
- Independence & non-audit services

Appendix A attached to agenda contained a detailed summary of revised ISAs (International Standards on Auditing).

**Resolved -That the report be noted for informational purposes.**

### **Annual Accounts 2017-18 Arrangements**

The Head of Accountancy submitted a report to update Members of the Audit Committee on the arrangements made to date and the implications of the changes required for the Council ahead of the closure of the 2017/18 accounts. It also sought approval for the accounting policies to be used in producing the Statement of Accounts as set out in Appendix 1 of the report.

- Resolved**
- **(1) That the report and arrangements that the Council is making in advance of the closure of accounts for the year 2017/18 be noted for informational purposes.**
  - **(2) That Audit Committee approved the proposed accounting policies to be followed in producing the statement of Accounts as shown in Appendix 1 of the report attached to the agenda.**

### **Time/Date/Venue of Next Meeting of Committee**

- Resolved**
- **That the next meeting of the Audit Committee be held in late July at a date and time to be confirmed.**

Signed: .....

Date: .....

Chair of the meeting  
at which the minutes were confirmed.



<b>REPORT TO:</b>		Audit Committee	
<b>DATE:</b>		30 July 2018	
<b>PORTFOLIO:</b>		Cllr Joyce Plummer - Resources	
<b>REPORT AUTHOR:</b>		Mark Beard – Head of Audit & Investigations	
<b>TITLE OF REPORT:</b>		<b>ANNUAL INTERNAL AUDIT REPORT &amp; AUDIT OPINION 2017/18</b>	
<b>EXEMPT REPORT (Local Government Act 1972, Schedule 12A)</b>	<b>Options</b>	Not applicable	
<b>KEY DECISION:</b>	<b>Options</b>	If yes, date of publication:	n/a

## 1. Purpose of Report

- 1.1 To inform and update Audit Committee on the Annual Internal Audit Report and Audit Opinion for 2017/18 and to give details on the performance of the Internal Audit Team and final outturn position for 2017/18

## 2. Recommendations

- 2.1 I recommend that Audit Committee:
  - notes the content of this report for informational purposes.

## 3. Reasons for Recommendations and Background

- 3.1 The production of an Annual Internal Audit Report & Audit Opinion is a requirement of the Public Sector Internal Audit Standards (PSIAS) which are jointly published by the Chartered Institute of Internal Auditors (CIIA) and the Chartered Institute of Public Finance and Accountancy (CIPFA). The Annual Internal Audit Report & Audit Opinion is also an aid to those charged with governance in their consideration of the Annual Governance Statement in support of the Council's Financial Statements. The report also enables those charged with governance to gain an independent viewpoint on the Council's Control Environment.
- 3.2 The Annual Internal Audit Report & Audit Opinion is a supporting piece of evidence and does not replace or prevent the Council's requirement to produce the Annual Governance Statement.

- 3.3 A copy of the Annual Internal Audit Report & Audit Opinion 2017/18 is attached as an appendix to this report.

**4. Alternative Options considered and Reasons for Rejection**

- 4.1 There are no alternative options as the report is for informational purposes only and the Head of Audit & Investigations must produce an Annual Internal Audit Report & Audit Opinion to be in conformance with the PSIAS

**5. Consultations**

- 5.1 No consultations required as this report is based on data and information held by the Head of Audit & Investigations reflecting the actual work carried out in 2017/18

**6. Implications**

<b>Financial implications (including any future financial commitments for the Council)</b>	There are no financial implications arising from this report at this stage as it is purely an information / end of year position statement based on actual work completed in 2017/18.
<b>Legal and human rights implications</b>	There are legal or human rights implications arising from this report.
<b>Assessment of risk</b>	There are no direct risks from this report as it is reporting on actual completed work in 2017/18.
<b>Equality and diversity implications</b> <i>A <a href="#">Customer First Analysis</a> should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	This report is produced for information awareness to update Management Team of the issues surrounding the Annual Internal Audit Report & Audit Opinion together with the Internal Audit performance and outturn position. This brings together details of the work carried out during 2017/18, which was risk based and a Customer First Analysis cannot be applied in the context of this report.

**7. Local Government (Access to Information) Act 1985:  
List of Background Papers**

- 7.1 No background papers were necessary for the preparation of this report.

# **Annual Internal Audit Report & Audit Opinion 2017/18**

## EXECUTIVE SUMMARY

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The Head of Audit & Investigations is pleased to report that good levels of internal control were found to be in place and no significant areas of concern were found that could impact on the Council's Financial Statements. This is based on the work of the Internal Audit Team during 2017/18.

The key issues arising from this report are:-

- The Head of Audit & Investigations is able to issue a positive opinion on the systems of Internal Control based on the work carried out in 2017/18 as detailed below.
- Internal Audit did not identify any issues in 2017/18 during the course of their audit work that would have a material effect on the Council's Financial Statements.
- Internal Audit achieved audit plan coverage of 94.12% in 2017/18. This was 3.88% below the annual target of 98%. A contributory factor in this was time lost through sickness and additional leave being taken within the year. However this was also a slight increase on coverage achieved when compared to 2016/17 coverage of 93.69%.
- Production and publication of this report is a requirement of the Public Sector Internal Audit Standards. This report satisfies the requirements for those charged with governance and forms a supplementary piece of evidence to the Annual Governance Statement.

## AUDIT OPINION 2017/18

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All of the work undertaken by Internal Audit during the financial year 2017/18 was in conformance with the Public Sector Internal Audit Standards. The average opinion score in 2017/18 was 1.50 as opposed to 1.63 in 2016/17. This is based on a scale of 1 to 4 where 1 is the highest level of assurance and 4 is the lowest level of assurance.

Therefore the Audit Opinion for 2017/18 is:-

**Substantial assurance:** The work undertaken showed there is a generally sound system of internal control designed to meet the service objectives, and controls are generally being applied consistently. However some weaknesses in the design and / or inconsistent application of controls put the achievement of particular objectives at risk.

This statement is intended to provide reasonable assurance. There is an on-going process for identifying, evaluating and managing key risks. These risks are reflected in the Internal Audit Plan and are subject to their own reporting process during the course of the year which sits outside the Internal Audit role.

**Opinion Caveat** – Those charged with Governance must remember that no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

## ANNUAL INTERNAL AUDIT REPORT & AUDIT OPINION

### PURPOSE & BOUNDARIES

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Management is responsible for the System of Internal Control and must set in place policies and procedures to ensure that the system is functioning correctly. Internal Audit review, appraise and report on the efficiency, effectiveness and economy of financial and other management controls. This report is the culmination of the work during 2017/18 and seeks to:-

- Provide an opinion on the adequacy of the control environment
- Comment on the nature and extent of any significant risk
- Report the incidence of significant control failings or weaknesses

#### Requirement for Internal Audit

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (Section 151) and the Accounts and Audit Regulations 2015. The latter requires authorities to:

*“...undertake an adequate and effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”*

The Public Sector Internal Audit Standards (PSIAS) set out a detailed framework that Internal Audit must conform to. These cover all aspects of Internal Audit from behaviours to the actual way in which audit work should be conducted.

In addition to the PSIAS both the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) produce additional guidance and publications surrounding internal audit, control, governance and Audit Committees etc. One such publication is “The Role of the Head of Internal Audit in Public Service Organisation” published in 2010. This sets out the standards that are expected not only of the Head of Internal Audit but also of the Authority as a whole. This publication compliments the PSIAS and what they aim to achieve.

The role of internal audit is complemented by initiatives aimed at promoting effective corporate governance, risk management, anti-fraud & corruption including bribery, anti-money laundering & proceeds of crime in addition to maintaining probity and value for money.

The guidance accompanying the Accounts and Audit Regulations 2015 also detail the need for sound systems of internal control and set out the basis for the necessity of Internal Audit.

## **Equality & Diversity**

Internal Audit remains committed to the Council's objectives on Equality and Diversity. This is achieved through the way the team is managed, the way staff are trained and by the way processes are put in place to ensure members of the team behave appropriately in their work with staff and management at all levels together with elected Members, members of the public and other external organisations. This again links into the requirements of the PSIAS.

Audit & Investigations teams have received both Equality & Diversity Training in addition to other information supplied e.g. Newsround briefings, team discussions and corporate briefings / training.

## **Declaration of Interests**

Internal Audit must avoid any conflict of interest that could impede any of the audit work carried out or cast doubt over the independence or integrity of the auditor carrying out the engagement. This links in to the 'Due Professional Care & Ethics' elements of the PSIAS.

All members of the audit team are aware that they must declare any interests and sign an annual statement which also states they would inform the Head of Audit & Investigations if any issue became apparent during the year.

The Head of Audit & Investigations can report that no member of the Audit Team had any issues that could have impacted on the integrity, professionalism or quality of the work during 2017/18.

## **THANKYOU**

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The Head of Audit & Investigations and Internal Audit Team would like to express their thanks to Management and all areas of the Council where work was undertaken during 2017/18 for the help afforded to the Audit Team during the course of their work.

## REVIEW OF INTERNAL CONTROL

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### How Internal Control is Reviewed

- 1.1 During 2017/18 the Authority's risk registers have been continually updated. These form a key factor of Internal Audit's operational plan each financial year. The review process draws on key indicators of risks to the organisation with the aim of ensuring audit resources are allocated to the areas with the highest risk.
- 1.2 Internal Audit uses a 9 point risk analysis matrix for determining the levels of risk as part of the annual audit planning process. Factors considered are:-
  - Audit Area covered by risk(s) in the Risk Registers
  - Have system changes taken place? E.g. to personnel or processes
  - Has the service area been subject to cuts / job losses / restructure?
  - Does External Audit require coverage?
  - Is the Audit b/fwd or deleted from the current audit plan?
  - Does the Audit Area directly affect the Council's financial position?
  - Is it a Council / Management Team / Manager priority?
  - When was the last audit carried out?
  - What is the monetary value / income of the area?
- 1.3 The audit plan includes a 10% contingency provision. Contingency days are utilised in response to unforeseen work demands that arise. In the event that there are contingency days that have not been required, these are used to enable additional audit areas to be covered within the plan as per the risk scoring matrix.
- 1.4 The risk analysis and scoring part of the audit planning process results in a comprehensive range of audit engagements being undertaken during the financial year. These audits support the overall opinion on the control environment. Examples include:-
  - Systems based reviews of fundamental financial systems that could have a material impact on the Council's financial statements e.g. Creditor Payments, Debtors, Housing Benefits, Treasury Management
  - Establishment audits e.g. Environmental Health, Environmental Protection
  - Systems based reviews of departmental systems e.g. Car Allowances, CCTV, Lease Arrangements, Taxi Licensing
  - External Grant Funding
  - ICT audits e.g. ICT Assets, BACS Direct Debits & Credits. PCI & DSS Security (Payment Card Industry & Data Security Standard)
  - Contract audit
  - Fraud Strategy Work



- Responsive fraud and irregularity investigations

1.5 Audit work is risk based and the risk registers are cross referenced to the audit plan. Any risks identified within the risk registers that cannot be linked to the audit plan are added to the audit plan during the annual planning process. There were no new risk areas in the risk registers that were not already in the audit plan for 2017/18. Any significant risks are acted upon during the financial year as opposed to waiting until the annual audit planning process which takes place towards the end of each financial year.

## Accounts and Audit Regulations

1.6 The Accounts and Audit Regulations 2015 set out clear instructions that Councils must follow. Parts of the regulations detail financial management and the need for Internal Audit

1.7 Financial management is covered within part 2 of the 2015 regulations and details what the Authority must have in place regarding:-

- Responsibility for Internal Control
- Accounting records and control systems
- Internal Audit
- Review of Internal Control System

1.8 For clarity the specific regulations relating to the above areas are detailed in TABLE 1 below. These detail the key parts of regulations 3 to 6.

Regulation	Requirement
3	A relevant authority must ensure that it has a sound system of internal control which:- (a) Facilitates the effective exercise of its functions and the achievement of its aims and objectives; (b) Ensures that the financial and operational management of the authority is effective; and (c) Includes effective arrangements for the management of risk
4 (4)	The financial control systems determines in accordance with paragraph (1) (b) must include: (a) Measures – (i) to ensure the financial transactions of the authority are recorded as soon as, and as accurately as, reasonable practicable; (ii) to enable the prevention and detection of inaccuracies and fraud, and the reconstitution of any lost record; and (iii) to ensure that risk is appropriately managed; (b) identification of the duties of officers with financial transactions and division of responsibilities of those officers.
5 (1)	A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards

	or guidance.
5 (2)	Any officer or member of a relevant authority must, if required to do so for the purpose of the internal audit – (a) make available such documents and records; and (b) Supply such information and explanations; As are considered necessary by those conducting the internal audit.
5 (3)	In this regulation “documents and records” includes information recorded in an electronic form.
6 (1)	A relevant authority must, each financial year – (a) Conduct a review of the effectiveness of the system of internal control required by regulation 3; and (b) Prepare an annual governance statement

## Annual Governance Statement

- 1.9 CIPFA guidance states that an Annual Governance Statement (AGS) should be produced to accompany the Council’s Financial Statements.
- 1.10 The AGS is made up of numerous evidence sources from across the Council as a whole that collectively demonstrate why the Council believes it has good governance in place. The Head of Audit & Investigations supplies 5 pieces of evidence each year to show Internal Audit’s contribution to the Council’s governance processes. This report is one of those 5 pieces of evidence.
- 1.11 It must be highlighted that this Annual Internal Audit Report & Audit Opinion is not the AGS and cannot be used to substitute it.

## Risk Management

- 1.12 The Council has a well-established risk management process which is monitored and updated on a regular basis and reported to both the Council’s Corporate Management Team and the Audit Committee.
- 1.13 There are 3 risk registers; Strategic, Operational and Generic.
- 1.14 Risk owners and management are proactive in monitoring the tables and ensuring that obsolete risks are deleted and new emerging risks are added in addition to updating existing risks.
- 1.15 The risk management process is subject to auditing by Internal Audit, however this is determined by the audit planning process and specifically the risk scoring matrix.
- 1.16 The Head of Audit & Investigations can confirm that the risk management provides regularly updated risk information to both Corporate Management Team and Elected Members.

## Fraud

1.17 Whilst it is not the primary role of Internal Audit to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud. Internal Audit carry out additional fraud related work at times, although this must not be prejudicial to the primary role of Internal Audit. Examples of the activities that may be carried out include:-

- Investigation work surrounding fraud cases
- Responding to whistle-blowers
- Considering fraud in every audit
- Making recommendations to improve processes
- Review fraud prevention controls and detection processes put in place by management

1.18 Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

## SIGNIFICANT ISSUES ARISING 2017/18

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- 2.1 Each audit report issued is given an audit opinion based on the issues identified and reported by Internal Audit. Table 2 below shows the opinions and how many each was issued in 2017/18:-

TABLE 2

AUDIT REPORT ASSURANCE OPINIONS	Number issued in 2017/18
<b>Comprehensive assurance:</b> the work carried out within this audit engagement is in conformance with the Public Sector Internal Audit Standards. The work undertaken showed a sound system of internal control which is designed to meet the service objectives, in addition the work carried out showed controls are consistently being applied	8
<b>Substantial assurance:</b> the work carried out within this audit engagement is in conformance with the Public Sector Internal Audit Standards. The work undertaken showed there is a generally sound system of internal control designed to meet the service objectives, and controls are generally being applied consistently. However some weaknesses in the design and / or inconsistent application of controls put the achievement of particular objectives at risk	9
<b>Limited assurance:</b> the work carried out within this audit engagement is in conformance with the Public Sector Internal Audit Standards. The work undertaken showed weaknesses in the design and / or inconsistent application of controls that put the achievement of the service objectives at risk	0
<b>No assurance:</b> the work carried out within this audit engagement is in conformance with the Public Sector Internal Audit Standards. The work undertaken showed weaknesses in controls and / or consistent non-compliance with controls that could result / has resulted in failure to achieve the service objectives	0

- 2.3 This section of the report also details any audit engagements that resulted in 'Limited Assurance' or 'No Assurance' opinions being given.
- 2.4 In 2017/18 no audit engagements were given an opinion of 'Limited Assurance' or 'No Assurance', therefore nothing requires reporting within this section of the Annual Internal Audit Report & Opinion.

## AUDIT PERFORMANCE

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### Assessment of Internal Audit

- 3.1 Internal Audit works closely with the Council's External Auditors, Grant Thornton. External Audit utilise work carried out by Internal Audit, particularly surrounding the fundamental controls of key systems within the Council to give them added assurance those key systems and processes are working effectively. This then enables External Audit to gain additional reliance that the data and information produced by these systems is reliable. Such assurances contribute to the conclusions made by External Audit on the Council's financial statements.
- 3.2 Regular liaison meetings take place between Internal and External Audit which are also an opportunity to review the current position on work and issues facing the Council. External Audit has specific interest on any issue that could impact on the Council's Financial Statements.
- 3.3 The Head of Audit & Investigations is part of the Lancashire Districts' Councils Audit Group. This allows all the Lancashire Heads of Audit to discuss issues and raise matters that could have future impacts. The group meets quarterly but the network is active all year as group members will highlight any issue they become aware of with the rest of the group via email between the quarterly meetings.
- 3.4 Internal Audit must comply with the PSIAS and as part of this process the Head of Audit & Investigations has carried out a self-assessment of the Audit function against the Standards during 2017/18. The Head of Audit & Investigations has also produced a Quality Assurance & Improvement Programme (QAIP) with the self-assessment. This details how those areas partially or not currently compliant will progress to become compliant. Whilst both were reviewed for 2017/18, these are being presented to Audit Committee at their July 2018 meeting. The QAIP is subject to on-going monitoring and revision.

### External Assessment of Internal Audit

- 3.5 The PSIAS also state that an external assessment must be carried out of the audit function and its conformance to the Standards. The Internal Audit function was reviewed in February 2018 in accordance with the PSIAS. This was undertaken as part of an agreement between 9 Lancashire Councils and 1 Cumbrian Council, which is part of the Lancashire Audit Group, to work together and achieve the external assessment through a Peer Review process.

- 3.6 Hyndburn's Internal Audit function was inspected by 2 Lancashire Heads of Audit. This was a thorough process and involved them examining the self-assessment against the PSIAS, supporting evidence, questionnaires and interviews of:-
- Chief Executive
  - Deputy Chief Executive (s151)
  - Executive Director (Monitoring Officer)
  - Chair of Audit Committee
  - A random cross section of 5 Heads of Service
  - Audit Team
  - Head of Audit & Investigations (no questionnaire)
- 3.7 The External Review Team also examined examples of the work carried out by internal audit in addition to processes, policies and procedures used.
- 3.8 The Head of Audit & Investigations is able to report that the Audit function conforms to the PSIAS and the External Review Team stated they only identified 5 points for consideration into the QAIP and that this is a significant and remarkable level of compliance with the Standards of 98%. The External Review Team stated "The service delivers a comprehensive and valued programme of assurance to all auditable activities of the authority. The service is trusted for its independent, challenging, objective, unbiased and reliable approach across the organisation." They went on to say "The service has a positive impact on the ethics, governance, risks and controls at Hyndburn Borough Council."

### **Review of the System of Internal Control and Effectiveness of Internal Audit**

- 3.9 The Accounts and Audit Regulations 2015, regulation 5 (1) states that a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal audit standards or guidance. Regulation 6 (1) (a) states "A relevant authority must, each financial year, conduct a review of the effectiveness of the system of internal control required by regulation 3.
- 3.10 The Internal Audit process is a key part of the annual review of the effectiveness of the system of Internal Control and the Annual Audit Opinion on page 2 of this report reflects that the majority of controls reviewed in 2017/18 were operating effectively.

### **Quality Assurance & Improvement Programme**

- 3.11 As part of the on-going monitoring and assessment of conformance with the PSIAS the Head of Audit & Investigations has a QAIP in place. The QAIP details the steps that are being taken to move the areas of partial or non-compliance to full compliance. The QAIP will be subject to on-going review and will be periodically reported back to Corporate Management Team and Audit Committee so that they can monitor the progress being made.

- 3.12 In the event that any area within the PSIAS changed from full compliance to partial or non-compliance this would then be included in the QAIP detailing what steps will be taken to ultimately make that area fully compliant again. Therefore the QAIP is an evolving document that is subject to change and updates to reflect the actual position with the Council's conformance against the PSIAS.

### Satisfaction & Quality Questionnaire (S&QQ)

- 3.13 Assessment of the ongoing performance, standards and seeking improvement is referred to within the PSIAS and is an area that the Head of Audit & Investigations has had processes in place for many years.
- 3.14 The S&QQ asks for the auditee's opinions on 11 questions with each one ranging from strongly agree to strongly disagree. The 12<sup>th</sup> question is a free-form text box allowing comments to be made on whether there is anything that could improve the service and the impact on their service area.
- 3.15 TABLE 3 below details the S&QQ results for 2017/18 and includes the comparative results for the preceding financial years.

**TABLE 3**

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Unsure</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
1) The objectives of the audit were clearly communicated to me	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	62.5%	31.25%	6.25%	0	0
<b>2015/16 Comparison</b>	72.73%	27.27%	0	0	0
2) The auditor kept you fully informed at all stages of the audit	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	62.5%	31.25%	6.25%	0	0
<b>2015/16 Comparison</b>	77.27%	18.18%	4.55%	0	0
3) Your concerns and / or issues were adequately considered during the process	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	62.5%	31.25%	6.25%	0	0
<b>2015/16 Comparison</b>	89.36%	13.64%	0	0	0
4) The audit report covered the agreed objectives and was clear and provided adequate information regarding the audit review	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	62.5%	31.25%	6.25%	0	0
<b>2015/16 Comparison</b>	83.36%	9.09%	4.55%	0	0
5) The Auditors were courteous and professional in their dealings with you and your colleagues	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	87.5%	12.5%	0	0	0
<b>2015/16 Comparison</b>	90.91%	9.09%	0	0	0
6) The auditors attended arranged appointments and meetings punctually	77.78%	22.22%	0	0	0



<b>2016/17 Comparison</b>	81.25%	18.75%	0	0	0
<b>2015/16 Comparison</b>	90.91%	9.09%	0	0	0
<b>7) The auditors did not significantly disrupt your service area / function during the audit review</b>	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	75%	25%	0	0	0
<b>2015/16 Comparison</b>	86.36%	13.64%	0	0	0
<b>8) The time span from the start of the audit to the issue of the final audit report was reasonable</b>	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	62.50%	31.25%	6.25%	4.55%	0
<b>2015/16 Comparison</b>	86.36%	9.09%	0	4.55%	0
<b>9) The auditor's conclusions and audit opinion were logical and well documented in the final report</b>	77.78%	22.22%	0	0	0
<b>2016/17 Comparison</b>	75%	18.75%	6.25%	0	0
<b>2015/16 Comparison</b>	81.81%	9.09%	4.55%	4.55%	0
<b>10) The audit review has benefited your area in some way (even if no recommendations / actions agreed, it should still provide management with the necessary assurances)</b>	66.67%	33.33%	0	0	0
<b>2016/17 Comparison</b>	50%	31.25%	18.75%	0	0
<b>2015/16 Comparison</b>	59.09%	27.27%	4.55%	9.09%	0
<b>11) The recommendations made were constructive and reasonable</b>	66.67%	22.22%	0	0	0
<b>2016/17 Comparison</b>	56.25%	25%	0	4.55%	0
<b>2015/16 Comparison</b>	72.73%	13.64%	0	4.55%	0

- 3.16 There were 9 completed questionnaires and this equates to 99 potential responses as there are 11 questions on the form. A total of 98 responses were given as 1 person did not feel able to answer question 11.
- 3.17 Of the 98 responses given, 75 (76.53%) were 'strongly agree' and 46 (23.47%) were 'agree'. There were no unsure, disagree or strongly disagree responses. The Head of Audit & Investigations is able to state that there is an overall strong positive perception of the Team and its work based on these responses. The combined strongly agree / agree total has 100% of views given overall.

### Internal Audit Performance

- 3.18 It is good practice to monitor key performance measures. These can support the PSIAS but are not required for any form of national or mandatory collation. It does also enable the Head of Audit & Investigations together with Management and those charged with Governance to compare year on year performance.
- 3.19 The performance parameters recorded are similar to those maintained by the majority of Audit Teams in Lancashire and the parameters themselves were originally agreed with External Audit.



- 3.20 TABLE 4 below details performance for 2017/18 together with the 2 most recent financial years as a comparison, although older statistical data is held by the Head of Audit & Investigations.

**TABLE 4**

<b>Performance Measure</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
No. of Audit Engagements completed compared to those planned in the audit plan	29	19	<b>17</b>
Number of Audit Reports Issued	29	19	<b>17</b>
Percentage of Audits completed within budget time allocation	96.55%	84.21%	<b>76.47%</b>
Number of Audit Recommendations made	32	32	<b>24</b>
Percentage of Audit Recommendations agreed for implementation by Management	100%	100%	<b>100%</b>
Number of Satisfaction & Quality Questionnaires Issued	26	23	<b>15</b>
Number of Satisfaction & Quality Questionnaires Received	22	16	<b>9</b>
Percentage of clients satisfied with the service provided based on the questionnaires returned	100%	100%	<b>100%</b>

- 3.21 The number of completed audit engagements decreased from 19 to 17, a 10.5% decrease on 2016/17. The type and complexity of the engagements being carried out is a factor in this decrease together with investigations work particularly in the last quarter of the financial year. There were 2 audit engagements which were almost complete as at 31<sup>st</sup> March 2017 but these do not reflect in the number which were fully completed and there was another which was at draft report stage which also does not reflect in these figures. These 3 reports will be included in the 2018/19 statistical information. Four audit engagements over-ran their time allocation which is an increase of 1 on 2016/17. There was also a decrease in satisfaction & quality questionnaires being returned. The return rate dropped to 60%, almost 10% lower than 2016/17.
- 3.22 Accountability for the response to Internal Audit's advice and recommendations lies with Management who either accept and implement the advice or recommendations or accept the risks associated with not taking action.

### **Follow up Work**

- 3.23 Once recommendations become actions agreed with Management in the relevant audit area this does not signify the end of audit involvement until the next time the area is audited.
- 3.24 Internal Audit will revisit the actions agreed at a defined future date, usually around 6 months, to re-examine whether the actions agreed have been implemented as agreed. Internal Audit refer to this action as a 'Follow Up'.

- 3.25 Progress on follow ups is reported to Audit Committee on quarterly basis. The Audit Committee can request full explanation from Management on areas that are not implemented.
- 3.26 During 2017/18 Internal Audit carried out follow up work on 6 audit areas with a total of 15 actions agreed. Follow up work revealed that 11 had been fully implemented, 2 were ongoing changes that would continue to operate and the remaining 2 had not been implemented. The 2 that had not been implemented related to a differing view between a former manager (manager at the time of audit) and current manager of an area regarding the open plan nature of the office, the current manager does not see an issue. The remaining area related to the Retention and Disposal Schedule being out of date. This is being addressed as part of the preparations for the General Data Protection Regulations (GDPR).

### **Internal Audit Team – Staff Turnover**

- 3.27 The level of staffing within the Audit Team remained constant throughout 2017/18 at 3.0 FTE being available.
- 3.28 The Audit Team lost 9 days as a result of sickness absence of one member of the team.

### **Use of Audit Time**

- 3.29 TABLE 5 below shows an analysis of Internal Audit time during 2017/18 with the comparative figures for the previous 2 financial years. This is based on actual time spent excluding both statutory and annual leave together with any other absences such as sickness.

**TABLE 5**

<b>Analysis of Audit Time</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
Audit Days	85.0%	82.9%	<b>81.6%</b>
Training	3.5%	2.8%	<b>3.9%</b>
Management	7.6%	9.5%	<b>9.3%</b>
Other Non-Audit Time	3.9%	4.8%	<b>5.2%</b>

- 3.30 The 2017/18 figures show a slight decrease in the amount of time devoted to audit but an increase in training. The amount of management time has decreased slightly whilst the amount of non-audit time has slightly increased. Members of the Audit Team undertook more training in 2017/18 to reflect preparation for external review of the team under the Public Sector Internal Audit Standards in addition to other initiatives such as General Data Protection Regulations (GDPR).

## ANALYSIS OF AUDIT ACTIVITY DURING 2017/18

- 4.1 TABLE 6 below details the work carried out by Internal Audit during 2017/18 and is based on actual time recorded against the original approved time allocated within the Audit Plan for 2017/18.
- 4.2 A total of 532.71 days were delivered against 566 planned audit days. There were 90.55 days recorded in non-audit work as opposed to 64 days allocated in the audit plan. Non-audit work includes management meetings, personal development reviews, regional audit groups, team meetings, timesheets etc. There were 147.30 days recorded in absences as opposed to the 150 days allocated in the audit plan. Absences cover statutory leave, annual leave, sickness etc. Absences in 2017/18 included sickness, special leave, compassionate leave and other leave in addition to annual leave or statutory leave for bank holidays.
- 4.3 TABLE 6 does not include the areas within the audit plan where no time was recorded and therefore the table does not reflect the whole audit plan, only the areas where time was recorded during 2017/18.

**TABLE 6**

Core Systems	Plan Days	Actual Days	Comments
<b>Systems Based Reviews</b>			
Council Tax		2.31	Audit Completed – 2016/17 W.I.P.
Creditor Payments	18	10.18	Audit Commenced – W.I.P.
Debtors	20		Audit Commenced Apr18 – W.I.P.
General Ledger		6.03	Audit Completed – 2016/17 W.I.P.
Housing Benefits	28	18.99	Audit Commenced – W.I.P.
Treasury Management	12	11.98	Audit Completed
<b>Systems Queries / Work</b>			
Bank Reconciliation		0.07	Audit Query
Cash Receipting		0.84	Audit Query
Council Tax		0.57	Audit Query
General Ledger		0.37	Audit Query
Housing Benefits		0.20	Audit Query
NDR		0.10	Audit Query
<b>TOTAL for Core Systems</b>	<b>78</b>	<b>51.64</b>	<b>Utilised 66.21% of Allocated Audit Days</b>

Non-Core Systems	Plan Days	Actual Days	Comments
Car Allowances	15	14.74	Audit Completed
Cashflow Management	8		Audit C/fwd to 2018/19
CCTV	15	18.75	Audit Completed
Charities		2.79	Audit Work Completed
Drivers Policy & Handbook		0.12	Audit Query
Equalities		0.14	Audit Query

Flexi Scheme		0.51	Audit Queries
Insurance Arrangements		0.07	Audit Query
Lease Arrangements	15	10.86	Audit Completed.
Licences - Taxi	15	17.35	Audit Completed
Officers Imprests & Subsistence		0.20	Audit Queries
P-Card Processes		0.03	Audit Query
Selective Licensing Priv Landlords		0.24	Audit Queries
Separation of Duties – Post Cuts	15	14.61	Audit Completed
Street Traders		0.03	Audit Query
<b>TOTAL for Non-Core Systems</b>	<b>83</b>	<b>80.44</b>	<b>Utilised 96.92% of Allocated Audit Days</b>

Establishments	Plan Days	Actual Days	Comments
Environmental Health	15	0.03	Audit Deferred to 18/19 by Mgt
Howarth Art Gallery	15	13.40	Audit Completed
Fleet Management	15	0.07	Audit Deferred to 18/19 by Mgt
Haworth Art Gallery		0.10	Audit Query
Markets		0.20	Audit Query
<b>TOTAL for Establishments</b>	<b>45</b>	<b>13.80</b>	<b>Utilised 30.67% of Allocated Audit Days</b>

Computer Audit	Plan Days	Actual Days	Comments
Assets	9	9.69	Audit Completed
BACS Direct Debits & Credits	12	12.96	Audit Completed
Data Protection		0.17	Audit Query
Internet / Email	10	0.03	Audit C/fwd to 2018/19
Mobile Telephony		0.03	Audit Query
PCI & DSS Security		3.23	Audit Work Carried Out
System Development		0.95	Audit Advice & Input
<b>TOTAL for Computer Audit</b>	<b>31</b>	<b>27.06</b>	<b>Utilised 87.29% of Allocated Audit Days</b>

Contract Audit	Plan Days	Actual Days	Comments
Contracts CDM + H&S	12		Audit Deferred to 18/19 by Mgt
Lyndon Playing Fields	10		Audit Work C/fwd to 2018/19
Other Contract Issues		2.97	Audit Compliance Work
<b>TOTAL for Contract Audit</b>	<b>22</b>	<b>2.97</b>	<b>Utilised 13.5% of Allocated Audit Days</b>

Grant Funding Initiatives	Plan Days	Actual Days	Comments
NNDR3 Claim	4	2.62	Audit Completed
Other Funding Streams		0.07	Audit Advice
Townscape Heritage Funding	12	0.14	Audit C/fwd to 2018/19
<b>TOTAL for Contract Audit</b>	<b>16</b>	<b>2.83</b>	<b>Utilised 17.69% of Allocated Audit Days</b>

Follow Ups	Plan Days	Actual Days	Comments
General Follow Up Work	8	4.64	General Follow Up Work/Admin
<b>TOTAL for Follow Ups</b>	<b>8</b>	<b>4.64</b>	<b>Utilised 58% of Allocated Audit Days</b>

Audit Advice	Plan Days	Actual Days	Comments
Benefit Issues		7.34	Advice & Audit Liaison
Internet		13.29	Advice & Compliance Monitoring
Coaching		0.07	Coaching Employees & Advice
Residual Fraud Issues		0.51	Audit Input & Advice
Ext Audit Governance Questions		0.20	Audit Input
ICO Web Info		2.44	Audit Awareness & Advice
Missing Persons Queries		0.61	Audit Input
Future External Audit Agenda		0.21	Audit Advice
Audit Charter		1.69	Audit Work Carried Out
Ethics		0.10	Audit Input & Advice
BwD Data Protection Query		0.14	Audit Advice
GDPR		9.58	Audit Input & Advice
Safe Key – Contact Centre		0.14	Audit Advice
Transparency Code - Frauds		0.07	Audit Advice
NCA Query		0.07	Audit Advice
ELE Company		0.07	Audit Awareness
Subsidy Auditors		0.24	Audit Input & Advice
HR Self-Serve Query		0.07	Audit Advice
Invoice Payment Query		0.04	Audit Advice
Lift Breakdown		0.27	Audit Input
Planning Enforcement Plan		0.10	Audit Advice
Election Pay Issue - HAG		0.24	Audit Input & Advice
Broadway Fire Security		0.27	Audit Advice
Broadway Windows H&S		0.27	Audit Input & Advice
Taxi Licensing – RVBC Query		0.07	Audit Advice
Emergency Payment Issues		0.24	Audit Advice
Operational Safety Group		0.20	Audit Advice
Document Retention Queries		1.46	Audit Advice
Authorised Signatories Query		0.57	Audit Advice
HAG – Banking Query		0.51	Audit Advice
Broadway Graffiti		0.10	Audit Advice
Alchometer Recalibration		0.13	Audit Input
BACS Card Advice		0.10	Audit Advice
Personnel & Bldg Security B'way		0.41	Audit Input & Advice
Emails Query		0.03	Audit Advice
BODET Query		0.07	Audit Advice
Bank Charges / BACS - Benefits		0.34	Audit Advice
DFG – DCLG Return		0.10	Audit Advice
Big Thankyou		0.88	Audit Input
P-Card Query Re: Dollars		0.10	Audit Advice
Destitute Dead Query		0.14	Audit Advice
CCTV Policy		0.62	Audit Input
Regeneration Ordering System		0.24	Audit Input & Advice
Haworth Art Gallery Board Query		0.10	Audit Advice
Franking Machine Usage		0.74	Audit Advice

Parks – Troughs Disposal		0.07	Audit Advice
Year End Preparations / Advice		0.38	Audit Advice
Pest Control – Damage Query		0.10	Audit Input
Markets – Counterfeit Notes		0.10	Audit Advice
Local Plan		0.14	Audit Awareness
Standby Info Request		0.37	Audit Advice
CCTV Licensing Incident		0.20	Audit Advice
	42		Plan Allocation for Advice
<b>TOTAL for Audit Advice</b>	<b>42</b>	<b>46.54</b>	<b>Utilised 110.81% of Allocated Audit Days</b>

Other Audit Areas	Plan Days	Actual Days	Comments
Anti-Fraud & Corruption Issues		4.38	Audit Input & Queries
Anti-Social Behav – Com Triggers		5.97	Audit Input / Queries / Work
Business Continuity Planning		0.68	Audit Queries
Corporate Strategy	9		Audit C/fwd to 2018/19
FOI Requests		0.58	Audit Work Carried Out
PSIAS		2.89	Audit Input & Queries
Risk Management		0.20	Audit Input & Queries
Safeguarding & Prevent		4.09	Audit Input & Queries
<b>TOTAL for Other Audit Areas</b>	<b>9</b>	<b>18.79</b>	<b>Utilised 208.77% of Allocated Audit Days</b>

Ad-hoc Work & Investigations	Plan Days	Actual Days	Comments
Benefits Subsidy Issues	15		Audit Deferred to 2018/19 by Mgt
External Body Nominations	10	9.17	Audit Completed
Food Team	12		Audit Deferred to 2018/19 by Mgt
Pest Control Pay Methods	10	7.56	Audit Completed
Project Quillen	10	6.75	Audit Completed
Recovery Processes – CC	12	13.69	Audit Completed
Training Budgets	10		Audit Completed with PDR Audit
Write Off Processes	12	1.05	Audit Deferred to 2018/19 by Mgt
DFGs	13	10.49	Audit Completed
PDR Process	13	21.54	Audit Completed
Overtime / Standby Issue		0.98	Audit Input
Benefits Issue 2		0.10	Audit Input
Markets Issue		0.38	Audit Input
Markets Leases		2.95	Audit Work Carried Out
CVMU Maintenance Schedules		3.18	Audit Completed – 2016/17 W.I.P.
Subsidy Issues		2.52	Audit Work Carried Out
Cyber Security – Ransomware		0.71	Audit Input & Work Carried Out
Licensing Issue		0.10	Audit Input
Communications Policy Update		0.24	Audit Input
Tracker Issue		2.06	Audit Work Carried Out
HR Issue – Willows Lane		1.18	Audit Work Carried Out
NNDR A/cs Issue		15.11	Audit Work Carried Out
Willows Lane Issue		1.79	Audit Work Carried Out
Whistleblowing Issue		12.84	Audit Work Carried Out
Grievance Case		12.67	Audit Work Carried Out
Benefits October Issue		0.87	Audit Input
Regeneration Issue		29.52	Audit Work Carried Out



Contact Centre Issue		1.51	Audit Input
Property Issue		10.10	Audit Work Carried Out
Contingency Allocation	-26		
Contingency	78		Contingency Days
<b>TOTAL for Ad-hoc Work &amp; Investigations</b>	<b>169</b>	<b>169.06</b>	<b>Utilised 100.03% of Allocated Audit Days</b>

<b>Consultancy &amp; Corporate Objectives</b>	<b>Plan Days</b>	<b>Actual Days</b>	<b>Comments</b>
Annual Governance Statement	1	0.47	Audit Work Carried Out
Annual Audit Report	3	3.22	Audit Work Carried Out
Audit Committee	6	3.86	Committee Prep / Mtgs / Training
Audit Plan & Planning	15	16.44	Monitor Plan & Prep of 16/17 Plan
Cabinet		2.82	Support Audit Work / Knowledge
External Audit	3	1.65	Liaison Mtgs & Supply IA Work
Money Launder & Proc of Crime		0.98	Queries dealt with
National Fraud Initiative	8	5.98	Support & Audit Work Carried Out
Peer Review of Internal Audit	10	41.27	Audit Work Completed
RIPA		0.34	Audit Query
Schools Ambassador Scheme		5.62	Support & Mentoring
Service Planning	2	0.14	Audit Work Carried Out
Stage 3 Complaint Investigations		5.47	Work Carried Out
Whistleblowing		0.28	Audit Input
<b>TOTAL for Other Audit Areas</b>	<b>48</b>	<b>88.54</b>	<b>Utilised 184.46% of Allocated Audit Days</b>

<b>Service Improvement</b>	<b>Plan Days</b>	<b>Actual Days</b>	<b>Comments</b>
LDCAG Benchmarking		1.96	Cross Authority Benchmarking
<b>TOTAL for Service Improvement</b>	<b>0</b>	<b>1.96</b>	<b>No Audit Days had been Allocated</b>

<b>Training</b>	<b>Plan Days</b>	<b>Actual Days</b>	<b>Comments</b>
Staff Development & Training	15	24.44	Various Training – mainly in-house
<b>TOTAL for Training</b>	<b>15</b>	<b>17.63</b>	<b>Utilised 162.93% of Allocated Audit Days</b>

- 4.4 There were 3 audit engagements that were in progress at year end but not quite completed, these will all be reported in 2018/19. There were 5 audit engagements that had not been commenced by the end of 2017/18 as a result of direct requests by Management to defer the work to 2018/19 either because changes they were putting in place were not complete or because of changes they were now making which they wanted to be part of the future audit process. There were just 3 outstanding audit engagements which had not been commenced at the end of 2017/18. One of the 3 was due to the key Strategy not being completed until towards the end of the financial year which the audit would have been based around and the other 2 were just due to insufficient time. All of the 5 deferred by Management and the 3 not started have been re-risk assessed as part of the 2018/19 Audit Plan process and all 8 are included in the 2018/19 Audit Plan.

- 4.6 The Audit Plan is monitored monthly by the Head of Audit & Investigations therefore emerging risks are considered and absorbed into the work of the team as required. The Head of Audit & Investigations will seek re-approval of the Audit Plan from Audit Committee if there is major slippage or significant risks arising that result in a major deviation from planned audit work. Long term sickness of a team member can have an impact on the Audit Plan although this did not occur in 2017/18.
- 4.7 Target coverage for the 2017/18 Audit Plan was 98% and 94.12% was achieved. Whilst the out-turn figure was not significantly below the actual target, the Head of Audit & Investigations has carried out additional calculations and established that had there been no sickness, special leave, compassionate leave and other leave then the out-turn figure for the year would have been 96.24% which would have been 1.76% below the target coverage. Therefore the 2018/19 Audit Plan coverage target remains at 98%.

## REPORT DISTRIBUTION

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The report has been distributed to the following:-

- Corporate Management Team
- Members of Audit Committee
- External Audit
- Internal Audit

## REPORT VERSION

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Draft Report Checked & Approved: 30 April 2018

Final Report Issued: 01 May 2018



<b>REPORT TO:</b>		Audit Committee	
<b>DATE:</b>		30 July 2018	
<b>PORTFOLIO:</b>		Cllr Joyce Plummer - Resources	
<b>REPORT AUTHOR:</b>		Mark Beard – Head of Audit & Investigations	
<b>TITLE OF REPORT:</b>		<b>AUDIT REPORTS &amp; KEY ISSUES – PROGRESS REPORT FOR THE PERIOD APRIL – JULY 2018</b>	
<b>EXEMPT REPORT (Local Government Act 1972, Schedule 12A)</b>	<b>Options</b>	Not applicable	
<b>KEY DECISION:</b>	<b>Options</b>	If yes, date of publication:	n/a

## 1. Purpose of Report

- 1.1 To inform members of the Audit Reports issued during the period April – July 2018 and bring to the attention of the Committee what the key issues were.

## 2. Recommendations

- 2.1 I recommend that Audit Committee:
  - notes the content of this report for informational purposes.

## 3. Reasons for Recommendations and Background

- 3.1 This report covers the period April to July 2018 with the audit areas and any key issues detailed at Appendix 1.
- 3.2 Members should be aware that the number of audit reports that are issued each quarter is subject to variation dependent on the size of the audit and any non-routine audit work, such as investigations, that the Team may be involved in. Therefore, for the purpose of the quarterly reporting, only the audit reports fully completed, issued and agreed will be included.
- 3.3 Any investigations that may be carried out will not be included as a matter of routine in this report, particularly if they relate to a specific individual or individuals.
- 3.4 There is a target of 98% of the audit plan to be completed by the end of the current financial year in terms of audit days completed. As the audit team complete timesheets

which then feed into the audit plan, it is possible to state the progress to date and the projected end of year position if that date is extrapolated out. Therefore:-

Position as at end of June 2018 = 22.64% of the plan completed  
 Projected out-turn position for 2018/19 = 90.56% of the plan completed

3.5 The position at the end of June 2018 can be broken down as follows:-

Month	% of the Plan Completed that Month
April 2018	7.74%
May 2018	8.52%
June 2018	6.38%

3.6 The projected out-turn position for the year is based on the 3 month period April 2018 to June 2018 and assumes that the output remains at a constant for the remainder of 2018/19. The out-turn position so early in the financial year is unlikely to be the actual out-turn.

#### 4. **Alternative Options considered and Reasons for Rejection**

4.1 Not applicable as the report is for informational purposes only

#### 5. **Consultations**

5.1 No consultations required as this report is based on data and information held by the audit team based on the work completed

#### 6. **Implications**

<b>Financial implications (including any future financial commitments for the Council)</b>	There are no financial implications arising from this report
<b>Legal and human rights implications</b>	There are legal or human rights implications arising from this report.
<b>Assessment of risk</b>	Risks are taken into consideration during the audit process itself, there is no direct risk implication from this report.
<b>Equality and diversity implications</b> <i>A <a href="#">Customer First Analysis</a> should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	This report is produced for information awareness of the progress of the Audit Team against the annual Internal Audit Plan. The Audit Planning process has had an equality impact assessment which remains valid and it is not necessary to update this with a Customer First Analysis at this time. The

	individual audit assignments may, in some cases, feed into the needs of equality and diversity issues within individual service areas of the Council
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**7. Local Government (Access to Information) Act 1985:  
List of Background Papers**

- 7.1 No background papers were necessary for the preparation of this report.

## **APPENDIX 1**

### **AUDIT COMMITTEE – 30<sup>th</sup> July 2018**

#### **Summary of the main issues arising from audits carried out April – June 2018**

##### **Project Qulien (Garden Waste Payment System):-**

###### **Audit Assurance Opinion Issued:- Comprehensive assurance**

*The work undertaken showed a sound system of internal control which is designed to meet the service objectives, in addition the work carried out showed controls are consistently being applied.*

- No issues arising.

##### **Housing Benefit & Council Tax Support:-**

###### **Audit Assurance Opinion Issued:- Comprehensive assurance**

*The work undertaken showed a sound system of internal control which is designed to meet the service objectives, in addition the work carried out showed controls are consistently being applied.*

- No issues arising.

##### **Creditors:-**

###### **Audit Assurance Opinion Issued:- Substantial assurance**

*The work undertaken showed there is generally a sound system of internal control designed to meet service objectives, and controls are generally being applied consistently. However, some weaknesses in the design and / or inconsistent application of controls put the achievement of particular objectives at risk.*

- The audit found that not all staff who are involved with Creditor Payments were fully aware of the Financial Procedure Rules and/or were uncertain how to access these. It was agreed with Management that a copy would be placed on the Hyntranet for ease of access to all staff involved in the process.

##### **Cemeteries & Crematorium:-**

###### **Audit Assurance Opinion Issued:- Comprehensive assurance**

*The work undertaken showed a sound system of internal control which is designed to meet the service objectives, in addition the work carried out showed controls are consistently being applied.*

- No issues arising.

### **Outstanding Report – Not Finalised by Management**

#### **External Body Nominations:-**

The audit was carried out and completed in 2017/18 financial year with the draft report issued to management on 2<sup>nd</sup> February 2018.

The Senior Auditor has spoken and emailed Management to progress this report so that it can be finalised but has been unable to do so as Management have stated other issues have greater importance.

The report itself has 3 recommendations which remain outstanding and was given an assurance rating of substantial assurance at the time of issue.

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<b>REPORT TO:</b>		Audit Committee	
<b>DATE:</b>		30 July 2018	
<b>PORTFOLIO:</b>		Cllr Joyce Plummer - Resources	
<b>REPORT AUTHOR:</b>		Mark Beard – Head of Audit & Investigations	
<b>TITLE OF REPORT:</b>		<b>AUDIT FOLLOW-UPS REPORT FOR THE PERIOD APRIL – JULY 2018</b>	
<b>EXEMPT REPORT (Local Government Act 1972, Schedule 12A)</b>	<b>Options</b>	Not applicable	
<b>KEY DECISION:</b>	<b>Options</b>	If yes, date of publication:	n/a

## 1. Purpose of Report

- 1.1 To inform members of the outcome of routine follow-ups following the previously agreed action plans for completed Audit Reports. The follow-ups detailed within this report are those carried out during the period April – July 2018.

## 2. Recommendations

- 2.1 I recommend that Audit Committee:
  - notes the content of this report for informational purposes.

## 3. Reasons for Recommendations and Background

- 3.1 This report covers the period April to July 2018 with details of the follow-ups carried out shown at Appendix 1.
- 3.2 Following the agreement of the recommendations between Management and Internal Audit following the completion of the audit assignment, the area is revisited by Internal Audit and the recommendations are reviewed to ensure they have been implemented as agreed. This process is known as the 'Follow-Up'.
- 3.3 Internal Audit assesses the current position to what was agreed at the end of the audit. Where no action has been taken by the Service Area, then Internal Audit will question why and issue a revised Action Plan. Part of the control within this process is consideration by Audit Committee of any issues that arise. The Committee has the ability to ask questions of Management in the relative service areas why they have not

acted upon the agreed Action Plan. The Committee can also express what its expectations would be with regard to such a problem occurring.

- 3.4 Internal Audit aim to carry out a Follow Up for each completed audit area within 6 months of completion. However there are a number of exceptions to that aim:-
- i.) Follow-Up in 6 months would be pointless if the recommendations are low enough priority to allow a longer time frame.
  - ii.) Work of the Audit Team does not allow the Follow-Up to be carried out. Although Follow Ups are an important part of the process the Head of Audit & Investigations must always weigh this against the need for achieving the Audit Plan and auditing the risks the Council faces.
  - iii.) There were no recommendations arising from the original audit.

#### **4. Alternative Options considered and Reasons for Rejection**

- 4.1 Not applicable as the report is for informational purposes only

#### **5. Consultations**

- 5.1 No consultations required as this report is based on data and information held by the audit team based on the work completed

#### **6. Implications**

<b>Financial implications (including any future financial commitments for the Council)</b>	There are no financial implications arising from this report
<b>Legal and human rights implications</b>	There are legal or human rights implications arising from this report.
<b>Assessment of risk</b>	Risks are taken into consideration during the audit process itself, there is no direct risk implication from this report.
<b>Equality and diversity implications</b> <i>A <a href="#">Customer First Analysis</a> should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	This report is produced for information awareness of the progress of the Audit Team in terms of following up on actions previously agreed for implementation at the end of an audit assignment. Whilst individual actions may occasionally have equality or diversity requirements, this report does not as it is presenting facts from other sources.



**7. Local Government (Access to Information) Act 1985:  
List of Background Papers**

- 7.1 No background papers were necessary for the preparation of this report.

## APPENDIX 1

### AUDIT COMMITTEE – 30<sup>th</sup> July 2018

#### Follow-Ups April – July 2018

#### Follow-Ups Carried Out

The following Follow-Ups were carried out during the period April 2018 to July 2018:-

- Data Security & Storage
- Pest Control Payment Methods
- Taxi Licences
- ICT Assets
- CVMU Maintenance Schedules

#### Issues arising from follow-up

- The table below shows an analysis of the results of the above Follow-Up work having taken place:-

Audit Area	No. of Actions Agreed as Reported	No. of Actions Agreed Implemented	Comments
Data Security & Storage	2	2 Implemented	ICT Policies have been reviewed to ensure that the latest version of all policies is published on the Hyntranet. The Haworth Art Gallery general office door will be kept locked when no member of staff is in the office, the key will be held by the reception desk which is staffed at all times.
Pest Control Payment Methods	4	1 Implemented	The fees and charges in relation to Pest Control Services have been published on the Hyndburn Borough Council website. Three recommendations were not implemented due to related costs and the potential outweighing of actual income raised. Changes were made to ensure that customers may now pay for extra charges by credit/debit card by contacting the Shared Service Contact Centre.
Taxi Licences	1	1 Implemented	Consideration was to be given to carrying out the DBS checks in line with licence renewal to ensure that

			the DBS check is as up to date as possible, reducing the risks open to public safety and serious reputational damage to the Council. This is being carried out when applicants are renewing their licence and the process is ongoing.
ICT Assets	1	1 Implemented	The Head of ICT has passed correct information relating to the value of ICT Assets to the Principal Accountant for inclusion on the insurance schedules.
CVMU Maintenance Schedules	2	2 Implemented	<p>The latest agreement between HBC and Lex Autolease has been obtained and expires on 15 May 2019. This lease relates to all current lease vehicles.</p> <p>Following receipt of an external report relating to Transport, tachographs will be installed across the relevant fleet vehicles commencing in July 2018. This report also recommended that the Council move to a National Operator Licence – this was done on 7 August 2017.</p>

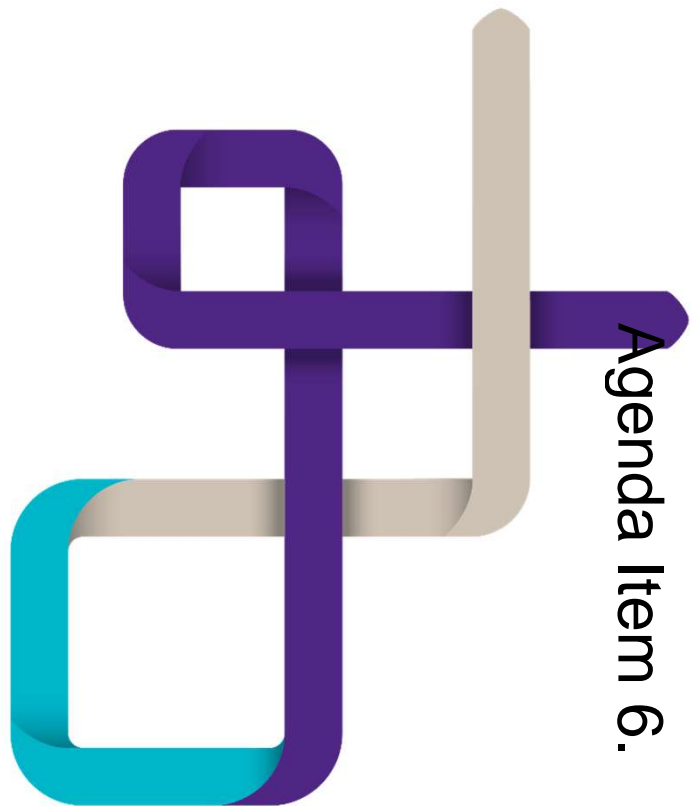
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# Audit Findings

*Year ending 31 March 2018*

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Hyndburn Borough Council  
19 July 2018



# Contents



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key issues arising from the statutory audit of Hyndburn Borough Council ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2018 for those charged with governance.

<b>Financial Statements</b>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"><li>the Authority's financial statements give a true and fair view of the Authority's financial position and of the group and Authority's expenditure and income for the year; and</li><li>have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July 2018. Our findings are summarised in Section 2. We have identified one adjustment affecting the group and Council's reported financial position relating to income from the partial disposal of land not being recognised. The net impact is additional income of £190k. The draft financial statements for the year ended 31 March 2018 recorded a deficit on the provision of services of £1,308k, following this adjustment, the deficit on the provision of services has reduced to £1,118k. A number of amendments have been made following our audit in respect of disclosure and classification changes. These have no impact on the group and Council's reported financial position for 2017/18.</p> <p>We have raised 1 recommendation for management as a result of our audit work at Appendix A. Our follow up of the recommendation from the prior year's audit is detailed at Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 30 July 2018, as detailed at Appendix E. These outstanding items include:</p> <ul style="list-style-type: none"><li>reviewing the final version of the financial statements</li><li>reviewing the revised version of the Narrative Report</li><li>obtaining and reviewing the management letter of representation</li><li>updating our post balance sheet events review, to the date of signing the opinion.</li></ul> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"><li>the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</li></ul>	<p>We have completed our risk based review of the Authority's value for money arrangements. We have concluded that Hyndburn Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed at Appendix E. Our findings are summarised in Section 3.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>certify the closure of the audit.</li></ul>	<p>We have not exercised any of our additional statutory powers or duties</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

# Summary

## Overview of the scope of our audit

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

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

## Audit approach

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

- an evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a targeted approach was required for Globe Enterprise Ltd and Barnfield and Hyndburn Ltd, whilst an analytical approach was considered appropriate for Barnfield & Hyndburn Partnership

## Audit approach (continued)

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

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 30 July 2018, as detailed at Appendix E.

These outstanding items include:

- reviewing the final version of the financial statements;
- reviewing the revised version of the Narrative Report;
- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

## Our approach to materiality

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

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for the Council.

	Group amount (£)	Authority amount (£)	Qualitative factors considered
Materiality for the financial statements	£939,320	£939,000	Materiality has been based on 2% of the Authority's gross expenditure
Performance materiality	£704,240	£704,000	Our performance materiality has been set at 75% of our overall materiality
Trivial matters	£47,016	£47,000	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.
Materiality for specific transactions, balances or disclosures	N/a	£15,000	The senior officer remuneration disclosure in the Statement of Accounts has been identified as an area requiring a lower materiality due to its sensitive nature



# Going concern

## Our responsibility

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

Going concern commentary	Auditor commentary
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<b>Management’s assessment process</b>	
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Management has an established process in place and prepare a detailed budget each year which is approved by Members. The budget is developed based on a number of assumptions including funding from Government, cost improvement programmes required to be delivered and the pressures facing the Council. To ensure effective management, the budget is broken down by service area and routinely monitored on a monthly basis with performance reported to Cabinet. Cash flow is also routinely monitored as part of the Council’s treasury management arrangements.

The Council has in place a three year Medium Term Financial Strategy to 2020/21 to allow it to effectively plan its finances ahead and ensure it is able to effectively manage its financial position.

In assessing its going concern position, management look ahead twelve months from its reporting date and have regard to its future cash flow position including whether current spending is in accordance with budget.

- Following its review of going concern, management has concluded it remains a going concern and it is appropriate to continue to prepare its accounts on a going concern basis.
- The Council has a good track record of delivering savings targets and managing financial pressures to ensure expenditure remains below budget. The Council has delivered underspends in 2016/17 and 2017/18.
- We have considered management’s assessment of going concern as a basis for compiling the financial statements. The arrangements management has in place appear appropriate.
- The budget setting processes used to prepare the annual budget and the monitoring arrangements in place are considered appropriate and adequate.
- The Deputy Chief Executive and s151 Officer routinely monitors the Council’s financial position and reports regularly to Members.

<b>Work performed</b>	
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We considered management’s going concern assessment including the assumptions used.

- Our work confirmed the management’s arrangements for assessing going concern are adequate and management’s use of the going concern basis of preparation is reasonable.
- We have not identified any material uncertainties that may cast significant doubt on the Authority’s ability to continue as a going concern for the foreseeable future.

<b>Concluding comments</b>	
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- On the basis of our work, it is appropriate to issue an unmodified audit opinion on going concern.

# Significant audit risks

Risks identified in our Audit Plan		Commentary
1	<b>Improper revenue recognition</b>  Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.  This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• the culture and ethical frameworks of local authorities, including at Hyndburn Borough Council, mean that all forms of fraud are seen as unacceptable</li></ul> <p>Therefore, we do not consider this to be a significant risk for Hyndburn Borough Council.</p>
2	<b>Management override of controls</b>  Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	<p>We have:</p> <ul style="list-style-type: none"><li>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness</li><li>• obtained a full listing of journal entries, identified and tested any unusual risk journal entries for appropriateness</li><li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions</li><li>• reviewed significant related party transactions.</li></ul> <p>Our audit work has not identified any issues in respect of management override of controls.</p>




# Significant audit risks

Risks identified in our Audit Plan	Commentary
<p><b>3 Valuation of pension liability</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p><b>We have:</b></p> <ul style="list-style-type: none"> <li>identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement</li> <li>reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation</li> <li>gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>reviewed the consistency of the pension fund net liability disclosures in the notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p>Our audit work has not identified any issues in respect of the valuation of the pension fund liability.</p>
<p><b>4 Valuation of plant, property and equipment</b></p> <p>The Council carries out a rolling programme of valuations that ensures property, plant and equipment is revalued at least every five years. This aims to ensure that the carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p><b>We have:</b></p> <ul style="list-style-type: none"> <li>reviewed management's processes and assumptions for the calculation of the estimate</li> <li>considered the competence, expertise and objectivity of the management experts used</li> <li>reviewed the instructions issued to valuation experts and the scope of their work</li> <li>reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding</li> <li>tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li> </ul> <p>Our testing of assets held for sale identified two instances where assets which had been sold or partly disposed of had not been correctly removed from assets held for sale. Whilst both of these transactions were complex, there is a need for management to introduce a formal process to review disposals and the associated accounting entries each year to ensure they are correctly categorised and recorded in the financial statements. We have raised a recommendation at Appendix A to address this issue. Management have corrected the financial statements to record both transactions. The changes made are classification and disclosure only with no impact on the Council's reported outturn position.</p> <p>Our audit procedures did not identify any other significant issues in relation to the valuation of plant, property and equipment.</p>




# Reasonably possible audit risks

Risks identified in our Audit Plan		Commentary
5	<p><b>Operating expenses</b></p> <p>Non-pay expenses on other goods and services represents a significant percentage of the Authority’s operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We have identified completeness of non-pay expenses as a risk requiring particular audit attention.</p>	<p>We have:</p> <ul style="list-style-type: none"><li>• evaluated the Authority's accounting policy for recognition of non-pay expenditure for appropriateness</li><li>• gained an understanding of the Authority's system for accounting for non-pay expenditure and documented our understanding of processes and key controls over the transaction cycle</li><li>• undertaken a walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li><li>• tested a sample of operating expenses covering the full financial year</li><li>• agreed the year-end creditor balance to system balances and control account reconciliations</li><li>• tested a sample year-end accruals and creditor balances and where possible confirmed that balances due have been settled after year end.</li><li>• performed cut-off testing to obtain assurance that creditors have been accounted for in the correct financial year.</li></ul> <p>Our audit work has not identified any issues in respect of operating expenses.</p>
6	<p><b>Payroll expenses</b></p> <p>Payroll expenditure represents a sizeable percentage of the Council’s operating expenses.</p> <p>As payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We have:</p> <ul style="list-style-type: none"><li>• documented our understanding of processes and key controls over the payroll cycle</li><li>• undertaken a walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li><li>• completed some substantive testing of starters and leavers</li><li>• used analytical techniques to compare expected payroll costs with actual costs</li><li>• reviewed payroll reconciliations including at the year end.</li></ul> <p>Our audit work has not identified any issues in respect of payroll expenses.</p>

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council</li> <li>Council Tax and Non Domestic Rate income is recognised in the Collection Fund on an accruals basis, when it is due from the Council Tax or Non Domestic Rate payer. The Council's share of this income is recognised in the CIES</li> <li>Government grants are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments, and the grants or contributions will be received.</li> </ul>	<ul style="list-style-type: none"> <li>The Council's policy is appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code)</li> <li>The main elements of the Council's revenues are predictable and there is minimal judgement required from the Council</li> <li>The accounting policy is appropriately disclosed in note 1 to the financial statements.</li> </ul>	
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>Useful life of PPE</li> <li>Revaluations</li> <li>Impairments</li> <li>Accruals</li> <li>Valuation of pension fund net liability</li> <li>Provision for NDR appeals</li> <li>Other provisions.</li> </ul>	<ul style="list-style-type: none"> <li>The Council's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code)</li> <li>The accounting policies are appropriately disclosed in notes 1 and 3 to the financial statements</li> <li>Our review of key estimates and judgements has considered the extent of judgement involved, the potential impact of different assumptions and the range of possible outcomes. We are satisfied that the key estimates and judgements are appropriate and adequately disclosed.</li> </ul>	
<b>Other critical policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code.</li> </ul>	We have reviewed the Authority's policies against the requirements of the CIPFA Code of Practice. The Authority's accounting policies are appropriate and consistent with previous years.	

## Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Other communication requirements

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

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have written to the Chair of the Audit Committee in relation to the risk of fraud. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council which is included at Appendix E.</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send a number of confirmation requests to confirm balances and investments. This was granted and the requests were returned with positive confirmation.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
⑦ <b>Audit evidence and explanations</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided. Working papers were provided in accordance with the timetable agreed with the Council and were of a good quality. Officers were also available to answer our questions and provide supporting information in a prompt manner.</li> </ul>
⑧ <b>Significant difficulties</b>	<ul style="list-style-type: none"> <li>No difficulties were encountered during the audit process.</li> </ul>

# Other responsibilities under the Code

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

Issue	Commentary
① <b>Other information</b>	<ul style="list-style-type: none"> <li>• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> <li>• No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to Appendix E.</li> <li>• Our review of the Narrative Report identified a few areas where disclosures could be further developed, for example in respect of the Council's Corporate Strategy and Vision. Officers have updated the Narrative Report in a number of areas to reflect the findings from our review.</li> </ul>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties.</li> </ul> <p>We have nothing to report on these matters.</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>• Note that work is not required as the Authority does not exceed the threshold.</li> </ul>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2017/18 audit of Hyndburn Borough Council in the audit opinion, as detailed at Appendix E.</p>

# Value for Money

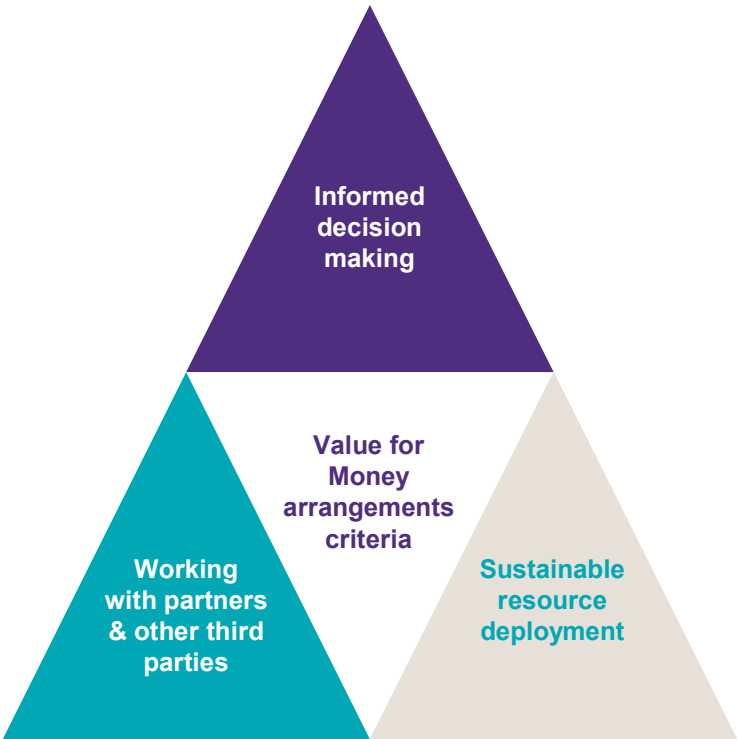
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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



## Risk assessment

We carried out an initial risk assessment in February 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2018.

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

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



# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were:

- the Council, as other local authorities continues to operate under significant financial pressures and funding reductions. However, Hyndburn Borough Council has a good track record of delivering its budget with an underspend outturn position. Whilst the Council does not have a history of financial difficulty, this position is becoming more challenging
- the Council has an ambitious capital programme to regenerate parts of the borough. The Council approved a capital programme for 2017/18 of £9.3m which was subsequently increased to £12.01m. There is a need to closely manage this significant programme of work.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 14.

## Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

*"The Authority had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources."*

The text of our report, which confirms this can be found at Appendix E.

## Significant difficulties in undertaking our work

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

## Significant matters discussed with management

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

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment. There were no further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	<b>Financial position and sustainability</b>  The Council as other local authorities continues to operate under significant financial pressures. However, whilst the Council does not have a history of financial difficulty, the position is beginning to become more challenging.  At the December review of budget performance, the Council was forecasting a favourable variance on the General Revenue Account (GRA) of £336,000 for 2017/18.  In January, the Council identified a forecast budget gap of £1.687m for 2018/19. The Council has identified around £1.687m of savings for 2018/19 via the policy options process. The Council continues to face a challenging financial position going forward with a budget gap of around £0.560 in 2019/20 and £1.424m in 2020/21.	As part of our audit we: <ul style="list-style-type: none"> <li>reviewed budget monitoring reports and updates to the Medium Term Financial Plan</li> <li>reviewed plans to address future potential budget gaps</li> <li>reviewed how the Council is identifying, managing and monitoring financial risks</li> <li>reviewed revenue and capital reports.</li> </ul>	We found: <ul style="list-style-type: none"> <li>for 2017/18, the Council delivered an actual deficit on the provision of services of £1,118k (£1,332k in 2016/17) based on total net expenditure of £13,049k. An outturn underspend was achieved of £438,000 on the GRA for 2017/18 compared to the favourable variance projected in December 2017 of £336,000</li> <li>the Council delivered savings during the year of £1,486k, some £438k higher than the budgeted savings of £1,048k included in the 2017/18 budget. Total savings delivered by the Council over the last six years amount to over £7,700k</li> <li>the Council's capital spend during 2017/18 amounted to £3,432k. The main areas of spending related to Accrington Town Centre (£1,375k), housing related schemes (£940k) and a further £458k being spent on parks and open spaces</li> <li>the Council approved it's 2018/19 budget in February 2018 with a 2.12% increase in Council Tax. Total expenditure was estimated at £12,861k with resources expected of £11,174k requiring savings during the year of £1,687k. Whilst challenging, the Council believes it will be able to deliver the necessary savings required during the year</li> <li>in February 2018, the Council approved the updated Medium Term Financial Strategy covering the period, 2018/19 to 2020/21. Whilst not as challenging as in 2018/19, savings required are estimated at £560k in 2019/20 and £1,424k in 2020/21</li> <li>whilst the first budget monitoring report is not expected to be produced until later in July 2018 for the first two months of 2018/19, senior officers consider activity to date is in accordance with budget and whilst risks remain, these will be managed with a balanced outturn position projected.</li> </ul> <b>Conclusion</b> <ul style="list-style-type: none"> <li>The Council has a history of effective financial management and control and delivering a surplus outturn position.</li> <li>Whilst a surplus has been delivered in 2017/18, next year, 2018/19 will continue to be challenging given the significant savings required to be delivered of £1,687k. There is a need for the Council to continue to closely monitor its budget and the savings being delivered.</li> </ul>

	Significant risk	Findings	Conclusion
2	<b>Capital Programme</b> <p>The Council has an ambitious capital programme to regenerate parts of the borough. The Council approved a capital programme for 2017/18 of £9.3m which was subsequently increased to £12.01m.</p> <p>The capital programme consists of housing improvements and various other schemes. We understand from discussions with officers that a major new development is also currently under discussion.</p> <p>We will consider the delivery of the Council's capital programme for 2017/18 against budget and any associated slippage. We will also continue to discuss with officers proposals for major future developments and how the Council is identifying and managing any associated risks.</p>	<p>As part of our audit we:</p> <ul style="list-style-type: none"> <li>considered the delivery of the Council's capital programme for 2017/18 against budget and any associated slippage</li> <li>discussed with officers proposals for major future developments and how the Council is identifying and managing any associated risks</li> <li>reviewed revenue and capital reports.</li> </ul>	<p>We found:</p> <ul style="list-style-type: none"> <li>that in 2017/18, the Council delivered a total capital programme of £3,432k, or some 37% of the original capital programme for the year</li> <li>discussions with officers indicates that slippage has mainly arisen during the year due to deferring some capital schemes given the potential revenue implications and the significant savings that need to be achieved. However, officers consider all approved schemes will be delivered and have not been cancelled, only deferred. Delays to the delivery of individual schemes can result in service benefits being postponed and potentially impact on availability and service quality issues</li> <li>the Council has a clear focus on redevelopment within the borough and wherever possible, encouraging business and developments which create jobs and boost the local economy. To this end, the Council has been working with an external company to support in the building of a hotel and conference centre with the potential for future development of shops and industrial units. This support has been on-going for some time and the development has now started to be built</li> <li>housing is a key focus for the Council and it has been in discussions with Homes England regarding a former power station site in the borough consisting of some 90 acres and the potential to build a significant number of new homes. A masterplan for this development is currently being prepared which is expected to be available by December 2018</li> <li>the Council has a clear focus on assessing risks in all the developments it considers and takes appropriate legal advice both internally and externally when required.</li> </ul> <p><b>Conclusion</b></p> <ul style="list-style-type: none"> <li>The Council has been unable to fully deliver its planned capital programme for the year due in the main to deferring some capital schemes given their future revenue impact. Officers remain aware of this situation and are confident that all schemes will be delivered. However, delays to the delivery of individual schemes can result in service benefits being postponed and potentially impact on availability and service quality issues</li> <li>The Council has good partnership working arrangements in place which it utilises to support the regeneration of the borough. It has been successful in attracting a major development of a new hotel and conference centre and is working towards a significant scheme for new homes.</li> </ul>

# Independence and ethics

## Independence and ethics

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

## Non-audit services

No non-audit services were identified except for the certification of grant claims. Further details are provided on page 21.

# Action plan

We have identified three recommendations for the Authority as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations	Management response
<div><div>1</div><div></div></div>	<p>Our testing of assets held for sale identified two instances where assets which had been sold or partly disposed of had not been correctly removed from assets held for sale. We recognise that both of these transactions were complex and not routine disposals.</p>	<p>There is a need for Management to introduce a formal process to review disposals and the associated accounting entries each year to ensure they are correctly categorised and recorded in the financial statements.</p>	<p><b>Agreed action</b></p> <p>We will further improve the liaison arrangements between the finance department, the regeneration team and the valuers to consider these more complex disposals in greater detail and avoid future repetition. We will also introduce a formal review process to consider disposals each year and the associated accounting entries.</p> <p><b>Responsible officer</b></p> <p>Head of Accountancy Services</p> <p><b>Due date</b></p> <p>April 2019</p>

Key

- High
- Medium
- Low

# Follow up of prior year recommendations

We identified the following issue in the audit of Council's 2016/17 financial statements, which resulted in one recommendations being reported in our 2016/17 Audit Findings report. We are pleased to report that management have implemented this recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	We identified a small accrual that should have been accounted for in 2016/17 but which was accounted for in 2017/18. A similar issue was identified in the prior year and budget holders were reminded of the need to ensure year end accruals are identified so that expenditure is accounted for in the correct year. Budget holders should be advised that such errors are still occurring and be reminded again to ensure year end accruals are correctly identified and accounted for, particularly in light of the earlier timetable for the production of the draft accounts in 2017/18 which may increase the risk and level of such errors occurring.	<p>A reminder was issued to budget holders to reinforce this message and avoid repetition.</p> <p><b>Audit Update – 2017/18</b></p> <p>We are pleased to report no similar issues were identified during the current year audit.</p>

Assessment  
✓ Action completed  
X Not yet addressed

# Audit Adjustments

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

### Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1 Net proceeds from the partial disposal of land adjacent to Lyndon House has not been recognised.	(190)	-	(190)
Overall impact	(190)	-	(190)

### Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Exit Package	An exit package for over £40k has been included incorrectly in the £20-£40k banding.	The exit package should be disclosed correctly in the £40-£60k banding.  <b>Management response</b> This has now been corrected.	✓
Assets held for Sale	Land adjacent to Lyndon House has partially been disposed of but remains incorrectly within assets held for sale.	The partial land disposal should be removed from Assets held for Sale as the land has been sold.  <b>Management response</b> This has now been corrected.	✓

# Audit Adjustments

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Assets held for Sale</b>	Project Phoenix Phase 2 has now been leased by the Council with the Council retaining the leasehold of the land.	<p>Given the land has been leased, it should now be removed from Assets Held for Sale and transferred to Plant, Property and Equipment given ownership still remains with the Council.</p> <p><b>Management response</b></p> <p>This has now been amended.</p>	✓
<b>Notes to the Group Accounts</b>	The notes to the Group Accounts should include further detail to explain the investment in associates and retained earnings.	<p>The two key notes to the accounts, investment in associates and retained earnings, should include further detail including comparatives for 2016/17. A note should also be added referencing all other notes to the Authority's notes where all figures are the same.</p> <p><b>Management response</b></p> <p>This has now been updated and further detail added.</p>	✓
<b>Critical Judgement</b>	Note 3 to the Accounts sets out the Council's Critical Judgements and includes reference to Leisure in Hyndburn. This judgement does not appear to be a Critical Judgement.	<p>Following discussion with management, it appears this disclosure is not a Critical Judgement for the Council's 2017/18 financial statements and should be removed.</p> <p><b>Management response</b></p> <p>This has now been removed.</p>	✓
<b>Various notes</b>	A number of notes included small differences to the primary statements mainly due to rounding.	<p>A number of small differences were identified including:</p> <ul style="list-style-type: none"> <li>• Expenditure and Funding Analysis - Waste Services and Culture figures being different to the Comprehensive Income and Expenditure Statement by £1k</li> <li>• Group Balance Sheet – Note 1 and Note 2 figures are out by £1k</li> <li>• Group Comprehensive Income and Expenditure Statement - the Surplus / Deficit on Provision of Services is incorrectly shown.</li> </ul> <p><b>Management response</b></p> <p>These amendments have all now been processed.</p>	✓
<b>Officers Remuneration</b>	Note 31 Officers Remuneration includes non-taxable expenses reimbursed to employees.	<p>There is no requirement for this to be included in the Note and we have recommended as last year, a note is added to explain that non-taxable expenses reimbursed to employees is included in the expenses paid to senior officers.</p> <p><b>Management response</b></p> <p>This disclosure has now been added.</p>	✓



# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail		Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	NONE – there are no unadjusted misstatements	-	-	-	-
Overall impact		-	-	-	-

# Fees

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

Audit fees	Proposed fee	Final fee
Audit of the Authority*	£46,927	£46,927
Total audit fees (excluding VAT)	£46,927	£46,927

In addition to the audit fee of £46,927, we agreed last year a fee variation with the Deputy Chief Executive to cover the additional work required as a result of the requirement for the Council to produce group accounts. We propose a similar fee variation for this year, 2017/18 of £3,000. This fee variation is subject to agreement by Public Sector Audit Appointments Ltd.

Provide details of any variations in final fees from the proposed fee (per the audit plan).

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other work, such as reasonable assurance reports, are shown below.

Fees for other services	Fees £
Audit related services:	
• Certification of 2016/17 housing benefits subsidy claim	4,224
Non-audit services:	
• None	-
Total non-audit fees	£4,224

# Draft Audit opinion - Draft

We anticipate we will provide the Council with an unmodified audit report

## Independent auditor's report to the members of Hyndburn Borough Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Hyndburn Borough Council (the 'Authority') and its associates (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Who we are reporting to

The report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement, other than the group and Authority financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

# Draft Audit opinion - Draft

## Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, **the Narrative Report and the Annual Governance Statement** for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

## Responsibilities of the Authority, the **Chief Financial Officer** and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the **Chief Financial Officer**. The **Chief Financial Officer** is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the **Chief Financial Officer** determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the **Chief Financial Officer** is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit **Committee** is Those Charged with Governance.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the **year** ended **31 March 2018**.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Andrew Smith  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
**[x]** July 2018

# Draft Letter of Management Representations

**{\*\*To be typed on Hyndburn BC letter headed paper\*\*}**

Our Ref  
Your Ref

Grant Thornton UK LLP  
4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

30 July 2018

Dear Sirs

**Hyndburn Borough Council**

**Financial Statements for the year ended 31 March 2018**

This representation letter is provided in connection with the audit of the financial statements of Hyndburn Borough Council and its subsidiary undertakings, Globe Enterprise Limited, Barnfield and Hyndburn Limited and Barnfield & Hyndburn Partnership for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the group and parent Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

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

**Group Financial Statements**

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We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.

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

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

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

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

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Except as disclosed in the group and parent Council financial statements:

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there are no unrecorded liabilities, actual or contingent

none of the assets of the group and parent Council has been assigned, pledged or mortgaged

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

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

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

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

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

The group and parent Council financial statements are free of material misstatements, including omissions.

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

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

We believe that the group and parent Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

# Draft Letter of Management Representations

Information Provided

- i. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- ii. We have communicated to you all deficiencies in internal control of which management is aware.
- i. All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.
- i. We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.
- i. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the group and parent Council financial statements.
- ii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.
- i. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- i. We have disclosed to you the identity of the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.
- i. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 30 July 2018.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of Hyndburn Borough Council



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# Agenda

MUNICIPAL YEAR 2018-2019



**HYNDBURN**

The place to be  
an excellent council

## Audit Committee

Monday 30<sup>th</sup> July 2018 at 5.00 p.m  
QE Room, Scaitcliffe House, Accrington

### Membership

Chair: Councillor Noordad Aziz  
Vice-Chair: Diane Fielding

Councillors:  
Michael Miller, Tim O’Kane, Bernadette Parkinson and Kath Pratt

## SUPPLEMENTAL AGENDA

### Urgent Business

The Chair is of the opinion that the following items should be considered as urgent, in accordance with Section 100b (4) of the Local Government Act 1972.  
Due to the reports being unavailable by the deadlines imposed to publish the agenda in line with legal regulations.

#### 9. Statement of Accounts 2017/2018

The report informs Members of Audit the Committee on the production of the Annual Accounts and their External Audit and deal with issues arising from this work.

- Recommended**
- (1) That Audit Committee approve and sign the Council’s Statement of Accounts for 2017/18; and
  - (2) That Audit Committee approve and sign the letter of representation; and
  - (3) That Audit Committee approve the slippage on the Capital Programme; and
  - (4) That Audit Committee note the audit findings report.



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Published on Thursday 26<sup>th</sup> July 2018

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<b>REPORT TO:</b>		AUDIT COMMITTEE	
<b>DATE:</b>		30 July 2018	
<b>PORTFOLIO:</b>		Cllr Joyce Plummer - Resources	
<b>REPORT AUTHOR:</b>		David Donlan, Head of Accountancy	
<b>TITLE OF REPORT:</b>		Statement of Accounts 2017/18	
<b>EXEMPT REPORT (Local Government Act 1972, Schedule 12A)</b>	<b>No</b>	Not applicable	
<b>KEY DECISION:</b>	<b>No</b>	If yes, date of publication:	

## 1. Purpose of Report

- 1.1 The report is to inform the Committee on the production of the Annual Accounts and their External Audit and deal with issues arising from this work.

## 2. Recommendations

- 2.1 The Audit Committee is recommended to:
- Approve and sign the Council's Statement of Accounts for 2017/18 in Appendix A.
  - Approve and sign the letter of representation in Appendix B.
  - Approve the Slippage on the Capital Programme as shown at Appendix C.
  - Note the audit findings report which is found separately on the agenda.

## 3. Reasons for Recommendations and Background

- 3.1 To ensure that the Council complies with its statutory duty to submit the audited accounts for 2017/18 by the 31 July 2018 deadline and places a copy of the accounts and notice of completion of the audit on the Council website.
- 3.2 The draft accounts were completed and published on the Council's website on the 31 May 2018. Subsequently, Grant Thornton, our external auditors, have undertaken their on-site audit of the accounts and work is close to completion.
- 3.3 The formal audit findings are presented in a separate report from Grant Thornton elsewhere on this agenda.

- 3.4 The period of public inspection of the accounts began on the 1 June 2018 and ended on the 12 July 2018. The Accounts and Audit regulations 2015 say the Council must, following the conclusion of the right of public inspection:
- Consider the statement of accounts by way of committee (this committee) or by the members as a whole
  - Approve the statement of accounts by resolution of that committee
  - Ensure that the statement of accounts is signed and dated by the person presiding at the committee at which their approval is given.
- 3.5 Subject to the Committee's approval and receipt of the auditor's opinion, the accounts will be published on the Council's website.
- 3.6 Once confirmation has been received from Grant Thornton that the audit is complete, a 'Notice of Conclusion of Audit' will be published. It will explain that the audit of the Council's accounts has finished and state where the accounts and auditor's report can be inspected.
- 3.7 The Audit Committee has responsibility under the Council management arrangements for approving the roll forward of Slippage on the Capital Programme from one year to the next. Cabinet have previously received the attached report at Appendix C on the Capital Programme for 2017/18 and asked Audit Committee to approve the list as shown in this report.

#### **4. Alternative Options considered and Reasons for Rejection**

- 4.1 There are no alternative options.

#### **5. Consultations**

- 5.1 None

#### **6. Implications**

<b>Financial implications (including any future financial commitments for the Council)</b>	As described in the Statement of Accounts.
<b>Legal and human rights implications</b>	Accounts and Audit Regulations 2015 require the Council to approve and publish its audited Statement of Accounts by 31 July 2018. Councillors' approval at this meeting will satisfy the requirement.
<b>Assessment of risk</b>	None.
<b>Equality and diversity implications</b> <i>A <a href="#">Customer First Analysis</a> should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	None.

7. **Local Government (Access to Information) Act 1985:**  
**List of Background Papers**

7.1 None.

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# **HYNDBURN BOROUGH COUNCIL**

## **Statement of Accounts**

**Year Ended 31st March, 2018**



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# Narrative Report

## An Introduction to Hyndburn

Hyndburn is one of 14 district and unitary councils in Lancashire. It covers 73 square kilometres between Burnley and Blackburn. There are over 80,000 residents with an ethnic minority community of just over 12.3%. The borough is a mix of urban and rural areas: Accrington is the largest town, while Altham and Knuzden are more isolated rural settlements. There are road and rail links with Manchester, Blackburn and Preston; and to the East with Leeds, Bradford and York.

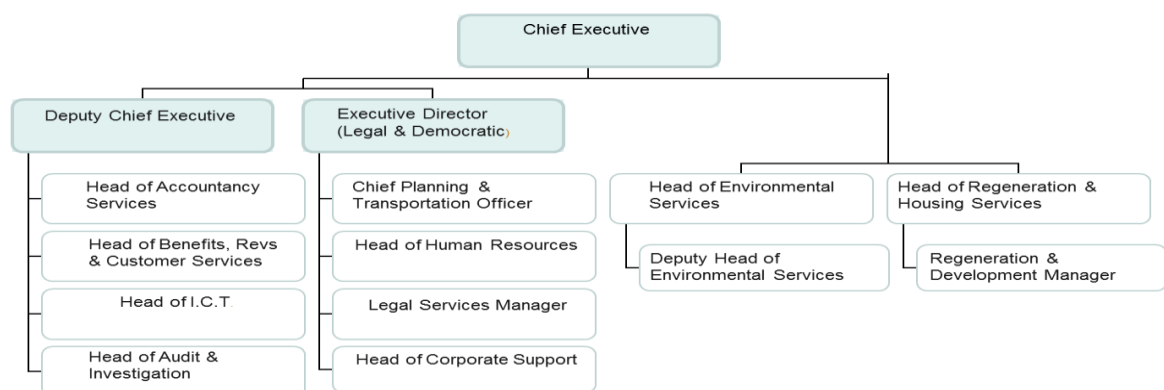
The economic base of Hyndburn was founded on textiles, engineering and extractive industries. Today, manufacturing is still one of the area's largest employers with 18% of the workforce.

Hyndburn has 16 wards and the Council consists of 35 councillors, which following the local elections of 3<sup>rd</sup> May 2018, comprises 26 Labour and 9 Conservative members.

The Council has adopted the Leader and Cabinet model as its political management structure. The Leader of the Council is responsible for appointing members of the Cabinet and the allocation of portfolios. Cabinet members are held to account by a system of scrutiny as set out in the Constitution.

## The Council Management Structure

The Council has a senior management team of three and an additional twelve Heads of Service as detailed in the chart below.



In addition, the Council employs a further 257 members of staff, making it one of the biggest employers in the area, and providing services for a population of 80,228 living in approximately 36,800 dwellings and for 2,275 active businesses.

## **The Council's Corporate Strategy**

The corporate strategy document can be found on the Council website. It states the Vision of the Council is to make Hyndburn the place to be. It also enshrines the Values that we as a Council wish to promote.

These Values are:

**Customer First** – We will treat customers with courtesy and respect at all times and listen to customer feedback to constantly improve service provision.

**Bright Futures** – We will provide our elected members, our staff and our customers' opportunities to create the best life possible for them and their families.

**Narrow The Gap** – We will raise standards across the Borough in order to reduce inequality within the Borough and between the Borough and the rest of the Country.

**Environmental Impact** – We will continue to work to reduce our carbon footprint and our consumption of natural resources and encourage and support our communities and partners to do the same

**Value for Money** – We will continue to manage our finances responsibly, increase efficiency and provide high quality services.

**Partnership** – We will continue to work side by side with all partners to achieve our Vision and deliver on the challenging priorities set out in the strategy.

## **Financial Performance**

In 2017/18 Hyndburn Council collected £36.216m in council tax and paid out in precepts and demands £34.109m which gave a surplus of £2.107m. This surplus is shared with the other preceptors and included in future funding streams to support Hyndburn's expenditure.

In 2017/18 Hyndburn Council collected £19.885m in business rates and paid out in precepts and demands £16.839m, a surplus of £3.046m. As with council tax this surplus is shared with the other preceptors and included in future funding streams to support Hyndburn's expenditure.

The authority is a member of the Lancashire Business Rates Pool. The organisation's aim is to reduce the amount of levy paid to central government. In 2017/18, Hyndburn BC reduced its payment by £389k after making a payment to Lancashire County Council of £43k.

The Council has £36.7m assets which it has used for service delivery and investment purposes.

The Council also generates £5.4m income to support the revenue budget.

In preparing these accounts, the Council has used a materiality threshold of £939k and a triviality threshold of £47k as the basis of preparation and presentation.

## Service Provision

The Council set a revenue budget of £11.197m for 2017/18 on the 23<sup>rd</sup> February 2017 intended to provide day to day services for the local community. It was in line with its medium term financial strategy and required the achievement of £1.048m savings to balance the budget. This is in addition to the £6.266m savings in the previous 5 years. In 2017/18, the Council also achieved an overall revenue underspend of £438k which is detailed in the table below. The principal savings were achieved in waste services, culture and leisure, corporate governance and revenue costs of capital borrowing.

As part of the budget setting process:

- All Hyndburn BC employees were paid at least a 'Living Wage'
- Free car parking in Hyndburn was continued in order to stimulate local shopping

The year-end position for service provision is summarised in the table below.

<i>Description</i>	<i>Budget £000</i>	<i>Actual £000</i>	<i>Variance (Under)/Over £000</i>
Planning & Transportation	776	722	(54)
Environmental Health	449	411	(38)
Waste Services	3,076	2,940	(136)
Parks & Cemeteries	1,052	1,048	(4)
Culture & Leisure	1,127	936	(191)
Regeneration Services	1,202	1,493	291
Policy & Corporate Governance	3,432	3,206	(226)
Non Service Related Budgets	83	3	(80)
<b>Total</b>	<b>11,197</b>	<b>10,759</b>	<b>(438)</b>
<i>Funding</i>	<i>£000</i>		
Council tax	4,757		
Business Rates	3,608		
Revenue Support Grant	2,445		
All other items (net)	387		
<b>Total</b>	<b>11,197</b>		

The Expenditure and Funding Analysis provides further information (see Note 1).

## Capital Investment in the Year

Each year the Council invests money to provide new services to the public or update existing facilities, buy new infrastructure, buildings and equipment and to pay for long term improvements to existing assets. The spending is needed to maintain and develop the services provided by the Council.

The capital programme has reduced in recent years from £15m per annum in 2004 to its current level of spend shown in the table below.

The council relies on securing external sources of funding, using capital receipts and contributions from the revenue budget. Government funding is through the disabled facilities grant.

The funding strategy is to limit investment to essential projects and use capital receipts to repay debt. In 2017/18 the Council aimed for debt financing costs of less than 5% of general revenue spend; and that rate is expected to remain stable for the next three years.

The Council repaid the last of its short term loans in 2014/15 and now has only long term debt of just under £10m which it cannot repay for at least twenty four years.

The table below show the source of funding used to finance our capital spend this year and the major categories of expenditure.

<b>Capital Spend</b>	<b>£000</b>
Housing Projects	940
Community & Leisure Projects	2,308
Internal Projects	184
<b>Total</b>	<b>3,432</b>
Financed By:	
Capital Receipts	223
Grants	1,438
Contributions	5
Revenue	1,472
Reserves	294
<b>Total</b>	<b>3,432</b>

Major projects undertaken by the Council include:

- £1.275m spent on Accrington Town Centre
- £940k spent on housing related schemes including £644k on disabled adaptations
- £458k spent on parks and open spaces to enhance facilities and promote use
- £257k spent on improving facilities at Hyndburn Sports Centre

### **Pensions & Provisions**

Hyndburn BC participates, as an employing authority, in the Lancashire County Pension Fund administered by Lancashire County Council. The scheme is a defined benefit scheme i.e. retirement benefits are determined independently of scheme investments. A pensions reserve and pensions liability are incorporated within the Council's accounts reflecting the amount by which the Hyndburn element of the Lancashire Fund is underfunded compared with the assessed payment liabilities to pensioners. At 31<sup>st</sup> March 2018 the overall liability of the Council was £38.796m (£44.209m as at 31<sup>st</sup> March 2017). Note 38 shows the position in detail. The Council has an agreed long term strategy with the Pension Fund's Actuary for meeting the cost of these liabilities and they are contained within the current financing plans of the Council; the remaining recovery period to eliminate the deficit is fifteen years.

The Council has set aside a provision for business rate appeals against rateable valuations. The number of appeals outstanding at 31<sup>st</sup> March is 106 and the provision is valued at £3.706m of which Hyndburn's share is £1.482m, which is 40% of the total.

## Financial Position

The Council has a strong balance sheet:

	£000	£000
	2016/17	2017/18
Long Term Assets	36,564	36,677
Net Current Assets	23,804	24,346
Long term liabilities	-55,957	-50,872
Net assets at	<b>4,411</b>	<b>10,151</b>
Funded by:		
Usable reserves	18,568	20,482
Unusable reserves	-14,157	-10,331
Total reserves	<b>4,411</b>	<b>10,151</b>

## Cashflow

The paragraphs above show Hyndburn had sufficient cash to meet its day to day needs. It has maintained a balance of approximately £23m year on year.

	31 March 2017	31 March 2018
	£m	£m
Cash and other cash equivalents	3.748	2.036
Short term investments	21.069	21.052
<b>Total</b>	<b>24.817</b>	<b>23.088</b>

The main factors that would affect cash in the future are acquisition and disposal relating to the capital programme, the value of the reserve balances, appeals provisions and unapplied grants.

## Housing and Employment

Housing and employment growth are central to Hyndburn Borough Council's strategic vision for the Borough. During 2017/18 we made major progress in ensuring residents have access to jobs and a wide choice of good quality homes:

- 217 new homes will be built by Keepmoat Homes Limited, partly on former Council owned land generating the Council circa £3m capital receipt to be paid over the next four years.
- Outline consent is in place for the 90 acre development of Frontier Park (Junction 6 on the M65) which will see circa 2,000 jobs created on the site. Following reserved matters consent for the first two phases the site owner and developer Euro Garages, is busy building out phase 1 which will provide a big boost in the year ahead for jobs and the local economy.
- After obtaining Housing Zone status for Huncoat, the Council secured £223,000 from the Homes and Communities Agency's 'Large Sites and Housing Zones' capacity fund for the purpose of a

Masterplan and Delivery Strategy. This is a major step forward for plans to create up to 2,000 new homes and approximately 1,000 jobs within the Housing Zone.

- A new 5 year selective licensing designation for parts of Accrington and Church came into force on the 5<sup>th</sup> March 2018. The scheme is self-financing and will ensure that approximately 1,800 private rented dwellings are licensed raising landlord and property standards in an area of low housing demand.

### **Financial Prospects for Hyndburn Borough Council**

Nationally the important events affecting Hyndburn Council are the Government and Brexit. Continuing pressure from Central Government to reduce public spending, the uncertainty caused by the Brexit vote and a minority Government in power that could fall at any given moment. The Government has reiterated its present proposals amongst which are:

- Revenue Support Grant (RSG) is the main non-ring fenced grant for local government. It will end in 2020 under present arrangements although the Council has agreed its outstanding annual amounts until then.
- By 2020 local government as a whole will retain 75% (previously forecast 100%) of its business rates. While Hyndburn BC will collect all its tax it is unclear how much will be retained and available for local use.
- Local authorities have been given more freedom to use capital receipts to fund the revenue costs of business transformation which has now been extended to 2022.

And whether

- Central government will transfer additional responsibilities to local government which will be accompanied by sufficient funding.

Brexit consequences are unknown and unquantified but likely affected areas are:

- General inflation affecting the cost of resources
- Labour costs
- Interest rates for both borrowing and investment purposes
- The value of property

### **Cost Pressures**

The government is still committed to the new benefits system, Universal Credit. As part of the change, housing benefit which is administered by local authorities will end; consequently, the amount government pays local authorities to run the system will reduce substantially.

The Council's waste service receives about £800k from its recycling activities. The money is made up of payments from Lancashire County Council for help in avoiding waste going to landfill and the sale of recyclable material. The County Council has confirmed it is stopping payments to district councils from 2018/19. It will result in £800k less funding for the authority and as a consequence, the Council has increased Council Tax in 2017/18 and 2018/19, the first increases for 8 years. Despite these increases, the Council is one of only six in the whole country to have increased council tax by less than inflation since 1997.

Hyndburn Council's largest expense is salaries at roughly £10m per annum. The Employers have agreed a 2% pay increase for both 2018/19 and 2019/20 which represents a loosening of the Government's public sector pay policy and represents an additional burden on the Council which has been built into the Medium-Term Financial Strategy.

## **Conclusion**

The Council's financial position and history is relatively healthy i.e. setting and balancing the revenue budget and delivering services within it, funding and delivering a capital programme; there is a strong balance sheet with adequate reserves. However, the medium term financial strategy shows potential costs exceeding resources by 5.01% in 2019/20 and 12.80% in 2020/21. The lack of clarity about what is believed to be now 75% (not 100% as first suggested) business rates retention and associated policy lends itself to volatility in cash collection and therefore funding. Managing the cashflow and having adequate provisions in place become more important than ever in maintaining the standard and integrity of everyday services.

The Council's financial performance can demonstrate economy, efficiency and effectiveness in the use of its resources in 2017/18. It has a track record of making savings as dictated by resource availability. I am therefore confident that the Council will continue to maintain a balanced budget in the medium term.

## Explanation of Accounting Statements

### **Introduction**

This publication contains the Council's Statement of Accounts for the year ended 31<sup>st</sup> March 2018.

They provide details of the money the Council spent on delivering services and where this money came from. The accounts also show the Council's financial performance and financial position for the year.

### **Stewardship of Public Money**

The accounts have been prepared in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice on Local Authority Accounting in the United Kingdom and are based on International Financial Reporting Standards.

The Council's Internal and External Auditors verify the regulations are being followed and the Council's accounts are subject to scrutiny by its elected Councillors and External Auditors.

### **Contents of the Accounts**

The different parts of the accounts and their purposes are set out below:

#### Annual Governance Statement

This sets out key elements of the Council's governance framework, provides a review of its effectiveness and sets out plans for future development.

#### Independent Auditor's Report

The report sets out the External Auditor's opinion on whether the accounts present a true and fair view of the financial performance and position of the authority and whether the authority has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

#### Statement of Responsibilities

This sets out the responsibilities of the Council and its Chief Financial Officer in relation to the Statement of Accounts.

#### Expenditure and Funding Analysis

The analysis shows how expenditure and income is used to support the Council's services.

#### Comprehensive Income and Expenditure Statement

This statement consolidates all the gains and losses experienced by the Council during the financial year. As Councils do not have equity in their Balance Sheets, these gains and losses will reconcile to the overall movement in net worth.

The statement has two sections:

- Surplus or Deficit on the Provision of Services – the increase or decrease in the net worth of the Council as a result of incurring expenses and generating income.
- Other Comprehensive Income and Expenditure – shows any changes in net worth which have not been reflected in the Surplus or Deficit on the Provision of Services. Examples include the



increase or decrease in the net worth of the Council as a result of movements in the fair value of its assets and actuarial gains or losses on pensions assets and liabilities.

#### Movement in Reserves Statement

The Movement in Reserves Statement (MiRS) is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. It does this by analysing:

- The increase or decrease in the net worth of the Council as a result of incurring expenses and generating income
- The increase or decrease in the net worth of the Council as a result of movements in the fair value of its assets
- Movements between reserves to increase or reduce the resources available to the Council according to statutory provisions

#### Balance Sheet

This statement sets out the financial position of the Council at year-end 31 March. Its top half contains the assets and liabilities it holds or has accrued with other parties. As Councils do not have equity, the bottom half is comprised of reserves that show the nature of the Council's net worth, falling into two categories:

- Usable Reserves – which include the revenue and capital resources available to meet future expenditure.
- Unusable Reserves – unrealised gains and losses, particularly the revaluation of property, plant and equipment e.g. Revaluation Reserve and adjustment accounts e.g. Capital Adjustment Account.

#### Cash Flow Statement

The Cash Flow Statement summarises the flows of cash that have taken place in and out of the Council's bank accounts over the financial year. It separates the flows into:

- Those that have occurred as a result of the Council's operations
- Those arising from the Council's investing activities (including cash flows relating to non-current assets)
- Those attributable to financing decisions

#### Collection Fund

This reflects the statutory requirement for billing authorities, such as Hyndburn Borough Council, to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and non-domestic rates (NDR). There is no requirement for a separate Collection Fund Balance Sheet. Instead Collection Fund balances are distributed across the balance sheets of the billing authority, the government and precepting bodies.

#### Acknowledgement

I wish to record my thanks to colleagues in Finance services and in other service areas for their work and commitment in completing this Statement of Accounts and associated disclosures and supporting information.

#### Further information

A Statement of Accounts inevitably uses technical terms and language. A comprehensive Glossary of Accounting Terminology is on the Council's website [www.hyndburnbc.gov.uk](http://www.hyndburnbc.gov.uk)

The availability of the accounts for inspection is advertised by the Council on its website.

The Statement of Accounts, initially before audit completion and subsequently afterwards, is also placed on the Council's website.

If required, further information about the 2017/18 accounts is available from the Head of Accountancy Services, Hyndburn Borough Council, Scaitcliffe House, Ormerod Street, Accrington, BB5 0PF.

J.V. McIntyre CPFA  
Deputy Chief Executive

# ANNUAL GOVERNANCE STATEMENT

## Annual Governance Statement

### Introduction

Hyndburn Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for. The Council also has a duty, under the Local Government Act 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised having regard to a combination of economy, efficiency and effectiveness.

To discharge this overall responsibility, the Council must have in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions which include arrangements for the management of risk.

Hyndburn BC has approved and adopted a Code of Corporate Governance which is consistent with the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) principles.

This statement explains how Hyndburn Council complied with the Code and also meets the requirements of regulation 6(1)[a] of the Accounts and Audit (England) Regulations 2015, which requires all relevant bodies to prepare an Annual Governance Statement. The purpose of the governance framework is to ensure that the system of internal control is a significant part of the Council framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The Governance Framework has been in place at Hyndburn Borough Council for the year ended 31<sup>st</sup> March 2018 and up to the date of the approval of the statement of accounts.

### **Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

Hyndburn Borough Council has put in place arrangements to ensure that systems and processes conform to appropriate ethical standards, and monitor their continuing effectiveness in practice. Such arrangements are embodied in:

- The Council's Constitution including Procedure Rules and Codes of Conduct which set out the rules on how the Council conducts its business
- The Codes of Conduct for planning and licensing functions
- Codes of Conduct for Officers (employees) and Members
- The Member / Officer Relations Protocol

- The Anti-fraud and Corruption Strategy
- The Whistleblowing Policy
- The Complaints Policy and Procedures
- The procedures for dealing with complaints about elected members
- The Council's values are in place (Teamwork, Customer Focus, Integrity and Positive Attitude)

All chief officers are required to plan and discharge their departmental functions in accordance with Council policies and legislative requirements. Senior officers and other key post holders receive support from Legal Services in this regard and if specialist legal advice is required, then the Council will engage counsel.

Corporate management is provided by the Corporate Management Team led by the Chief Executive. The Chief Finance Officer (section 151) and the Monitoring Officer have the ability, after consulting with the Chief Executive, to report to the Cabinet or full Council and the Council's External Auditor, if s/he considers that any proposal, decision or course of action will incur unlawfulness or unlawful expenditure.

Within the reporting system all committee reports contain a financial implications paragraph and legal implications paragraph which must be completed, together with a section requiring consideration of the equalities implications of any proposed decision. The section 151 officer and the monitoring officer have the opportunity to review and comment on all Cabinet and Council reports before they sign them off. The reports are only then included on the relevant agendas.

The Council's external auditors are Grant Thornton UK LLP whose most recent Annual Audit letter concluded the Council has effective management in place for internal control.

#### **Principle B: Ensuring openness and comprehensive stakeholder engagement**

Council and Cabinet meetings are open to the public and agenda papers, reports and decisions made by the Council are published on its website. It also publishes its Statement of Accounts.

Hyndburn BC has a strong record of successful partnerships delivering outcomes which meet the requirements of the local communities. To achieve this, the Council has been able to:

- Exercise appropriate leadership in the community which effectively engages with local people, partnerships and other stakeholders and develops constructive accountable relationships
- Make clear to whom it is accountable and for what
- Ensure that the Council as a whole is open and accessible to the community, and that it has made a commitment to openness and transparency in all partnership dealings, subject only to preserve confidentiality in those circumstances where it is proper and appropriate to do so.

When working in partnership, Hyndburn BC ensures its members are clear about their roles and responsibilities, both individually and collectively, in relation to the partnership and to the Council.

The Council also ensures there is clarity about the legal status of the partnership, and that representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.

All Council partnerships relate to the agreed corporate priorities and embody, and uphold, proper conduct, funding and monitoring arrangements.

**Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits**

The Council's purpose and vision has been developed and promoted through its:

- Corporate Strategy 2008-2018 which is the Council's own planning document.
- The Medium Term Financial Strategy which describes how Hyndburn BC will meet the financial challenges facing it as a result of government decisions and grant funding changes

The capital programme is monitored by the capital party working group. Project bids supported by a business case are submitted to the group; they are assessed against the Council's strategic objectives and value for money. A list of recommended projects is produced backed by defined funding streams; the list is taken to Cabinet for approval and amendment before being presented to the full Council as part of the annual budget setting.

**Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes**

The Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure transparency and accountability to local people. It includes:

- Articles of the Constitution – principal arrangements
- Responsibility for Functions – terms of reference and scheme of delegation
- Rules of procedure for Council, Executive and other key areas
- Codes and Protocols for Council, members and officers

The Council's two Overview and Scrutiny Committees (Resources and Communities and Well Being) assist the Council and Cabinet in the development of a Budget and Policy Framework. Specific Procedure Rules and Terms of Reference are in place within the Constitution to govern these arrangements and ensure an appropriate and full role is played in the corporate governance of the Council by its scrutiny committees.

The Council has in place arrangements to identify and deal with failure in service delivery. They include:

- Corporate complaints policy and procedures
- Procedure for dealing with complaints about elected members
- Whistleblowing policy and procedures
- Internal Audit's Annual audit Plan and inspection reports
- External Annual Audit
- Scrutiny Committee annual work plan and 'call in' arrangements
- Councillors Call for Action

Hyndburn Borough council also has a number of core customer service standards which apply to all customers and staff. They include response times for:

- Letters and e-mails
- Telephone calls
- Complaints
- Visits to council offices
- Visits to customer homes
- Out of hours emergencies

They cover the attitude and behaviour of staff and customers.

The Resources Overview and Scrutiny Committee monitors the performance of Council services and suggests improvements. It monitors

- The Council's budgetary position during the year and advises of possible efficiency savings and steps required to address any budget deficit
- Service delivery and improvements and the Council's Treasury Management strategy
- The achievement of the annual business plans for each service area

The Leader allocates portfolios to each cabinet member and s/he is then responsible for performance matters in that area.

At the corporate level the Corporate Management Team manages issues relating to performance management.

At service level, heads of service undertake day to day monitoring of performance.

At the operational level, Performance Development reviews for staff ensures employees' work task objectives link into the corporate strategy and they are monitored by line managers.

**Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it**

All posts have a job description and person specification. Training needs are identified through the Performance Development reviews and are recorded in an employee's work plan.

Strategic training needs are defined in the Corporate Training Plan as are generic operational ones in development action plans.

The Corporate Training Plan is produced annually in consultation with Directors, Heads of Service and other senior managers and is approved by the Management Team and sent to Cabinet for information.

In assessing the skills needed by members the Council has made a commitment to develop those skills to enable roles to be carried out effectively. It will use the annual Members Development Programme and member personal development plans.

The Council has been awarded the North West Charter for member development.

New officers receive corporate and service unit inductions.

**Principle F: Managing risks and performance through robust internal control and strong public financial management**

The Council adopted a Risk Management Strategy and Strategic Risks Policy in 2003 and was last updated in 2012. Three risk registers (Strategic, Generic and Operational) are in place and appropriate staff have been trained in the assessment, management and monitoring of risks. Management team undertake reviews aligned to Audit committee cycles to ensure that risks are in line with corporate goals and objectives.

Aligned to the Audit Committee cycle, Risk Monitoring Reports are produced for inspection by the Audit Committee. The Risk Registers are updated regularly with feedback from Directors, Heads of Service and Other Senior Managers, and changes reported to each meeting of the Audit Committee.

Internal audit is responsible for monitoring the quality and effectiveness of the system of governance and internal control. A risk based Internal Audit Plan is produced each financial year. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service. The report includes recommendations for improvements that are included with a Management Action Plan and require agreement or rejection by service managers. The process includes follow up reviews of agreed recommendations to ensure they are acted upon.

Insurable risks are regularly reviewed by officers and the Council's insurer to confirm the appropriate level of cover and value for money.

The Council maintains an effective Audit Committee which is independent of the Executive. It has scrutiny functions and appropriate arrangements for the discharge of its functions, through its terms of reference which are modelled on the Cipfa Code of Practice.

In order to continue its development and raise its profile the Committee's membership was increased to six.

Internal audit which is an independent appraisal function reports to the Committee. It reviews all the Council's activities, both financial and non-financial. It provides a service to the whole Council in order to assure on risk management arrangements, internal control and corporate governance; it also provides advice on best practice.

There are robust budget monitoring arrangements for both capital and revenue with budget reporting to Management Team and Members.

**Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

All Council decisions are published on its website together with supporting information to explain why a particular decision has been taken.

The Statement of Accounts is published on-line together with the external auditor's opinion. The statement is prepared following Cipfa's Code of Practice on Local Authority Accounting which means it includes all necessary information and is in a format which allows comparison with other authorities.

The Annual Governance Statement, this document, is also published on the web site. The Statement follows the principles set out by SOLACE/CIPFA in their document *Delivering Good Governance* and includes a review of the effectiveness of the governance arrangements.

The Internal Audit function at Hyndburn Borough Council works to an annual plan, progress against which, and any associated control issues are reported to the Audit Committee, and provides an independent opinion on the internal control framework that was in place in 2017/18.

Our External Auditors, Grant Thornton will review the arrangements that the Council has in place to secure Value for Money. This will also provide an opinion on the accuracy and completeness of the statement of accounts.

### **Review of Effectiveness**

Hyndburn Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Audit's Annual Report as well as comments, findings and reports made by the external auditors and other review agencies and inspectorates.

Each year the responsible officers review the areas they are responsible for under the internal control framework. They confirm existing arrangements and list any changes or improvement made. Then they sign a statement to endorse the current position which is kept on file centrally.

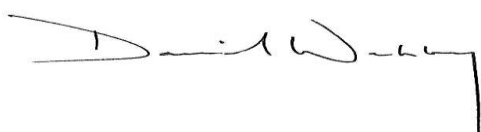
We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the corporate management team and that the arrangements continue to be regarded as fit for purpose.

The Council is ultimately responsible for maintaining an up to date governance framework which is chiefly contained in its Constitution and consists of its standing orders, financial regulations and scheme of delegation together with associated policies and procedures.

During the year the Council's Internal Auditors concluded that Hyndburn BC has effective arrangements in place for internal control and did not raise any significant issues of concern

### **Certification**

The Council has governance procedures that contain comprehensive systems, cultures and values by which it is controlled, and through which it engages with the community in a timely, inclusive, open, honest and accountable manner.



**David Welsby**  
**Chief Executive**

**Date 25-07-2018**



**Miles Parkinson**  
**Leader of the Council**

**Date 25-07-2018**



## AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HYNDBURN BOROUGH COUNCIL

*(This page will be updated following the completion of the audit)*

## STATEMENT OF RESPONSIBILITIES

The following responsibilities are placed upon the Authority and the Chief Financial Officer in relation to the Authority's financial affairs.

### **The Authority's Responsibilities**

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority that officer is the Chief Finance Officer;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- to approve the final Statement of Accounts.

### **The Chief Financial Officer's Responsibilities**

As Chief Financial Officer, I am responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the Statement of Accounts, I have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

I have also:

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

The statement of accounts presents a true and fair view of the financial position of the authority as at 31st March 2018 and its income and expenditure for the financial year 2017/18.

30<sup>th</sup> July 2018

30<sup>th</sup> July 2018

Councillor N Aziz  
Chair of Audit Committee

J. V. McIntyre CPFA  
Deputy Chief Executive / Section 151 Officer

# **Hyndburn Borough Council**

## **Financial Statements**

## Comprehensive Income and Expenditure Statement

The statement shows the accounting cost in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost.

The taxation position is shown in both the Expenditure and Funding Analysis and Movement in Reserves Statement.

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2016/17				2017/18			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
601	(175)	426	Environmental Health		479	(161)	318
3,328	(1,316)	2,012	Waste Services		3,618	(1,351)	2,267
1,803	(975)	828	Parks & Cemeteries		2,017	(1,131)	886
1,304	(175)	1,129	Culture & Leisure		1,191	(321)	870
1,027	(643)	384	Planning & Transportation		1,098	(619)	479
3,684	(1,414)	2,270	Regeneration & Property		4,348	(2,087)	2,261
35,208	(29,160)	6,048	Policy and Corporate Governance		34,134	(28,166)	5,968
46,955	(33,858)	13,097	Cost of Services		46,885	(33,836)	13,049
		292	<b>Other Operating Expenditure</b>	10			(770)
		1,212	<b>Financing and Investment Income and Expenditure</b>	11			1,492
		(13,269)	<b>Taxation and Non-Specific Grant Income</b>	12			(12,653)
		1,332	<b>(Surplus ) Deficit on Provision of Services</b>	2			1,118
		(509)	(Surplus) / Deficit on revaluation of property, plant and equipment	13			(14)
		0	Impairment losses on non-current assets charged to the Revaluation Reserve				0
		(500)	Surplus or deficit on revaluation of available for sale financial assets	20			(516)
		5,191	Remeasurement of the net defined benefit liability / (asset)	38			(6,328)
		4,182	<b>Other Comprehensive Income and Expenditure</b>				(6,858)
		5,514	<b>Total Comprehensive Income and Expenditure</b>				(5,740)

## Movement in Reserves Statement

This statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'.

The statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year.

The Net Increase / Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

## MOVEMENT IN RESERVES STATEMENT

	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	TOTAL USABLE RESERVES £000	UNUSABLE RESERVES £000	TOTAL AUTHORITY RESERVES £000
<b>Balance as at 31 March 2016</b>	12,995	4,010	1,222	18,227	(8,302)	9,925
<b><u>Movement in Reserves during 2016/17</u></b>						
Total Comprehensive Income and Expenditure	(1,332)	0	0	(1,332)	(4,182)	(5,514)
Adjustments between accounting basis & funding basis under regulations (note 8)	1,533	792	(652)	1,673	(1,673)	0
Increase or decrease in 2016/17	201	792	(652)	341	(5,855)	(5,514)
<b>Balance at 31 March 2017 carried forward</b>	13,196	4,802	570	18,568	(14,157)	4,411
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	TOTAL USABLE RESERVES £000	UNUSABLE RESERVES £000	TOTAL AUTHORITY RESERVES £000
<b>Balance as at 31 March 2017</b>	13,196	4,802	570	18,568	(14,157)	4,411
<b><u>Movement in Reserves during 2017/18</u></b>						
Total Comprehensive Income and Expenditure	(1,118)	0	0	(1,118)	6,858	5,740
Adjustments between accounting basis & funding basis under regulations (note 8)	1,858	1,005	169	3,032	(3,032)	0
Increase or decrease in 2017/18	740	1,005	169	1,914	3,826	5,740
<b>Balance at 31 March 2018 carried forward</b>	13,936	5,807	739	20,482	(10,331)	10,151

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

Reserves are reported in two categories:

- Usable reserves which can be used by the Council to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use e.g. Capital Receipts Reserve can only be used to fund capital expenditure or repay debt except where temporary freedoms are placed on their use such as to fund the revenue costs of business transformation.
- Unusable reserves which the Council cannot use to provide services. This category includes reserves that hold unrealised gains or losses e.g. the Revaluation Reserve, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.



## BALANCE SHEET

31 <sup>st</sup> March 2017 £000	Balance Sheet for the Council as at year end 31st March	Note	31 <sup>st</sup> March 2018 £000
24,205	Property, Plant & Equipment	13	22,981
4,500	Heritage Assets	14	4,490
7,131	Investment Property	15	6,918
64	Intangible Assets	16	38
0	Assets Held for Sale	20	1,616
35,900	Total Non-Current Assets		36,043
359	Long Term Investments	17	359
305	Long Term Debtors	17	275
<b>36,564</b>	<b>LONG TERM ASSETS</b>		<b>36,677</b>
42	Inventories	18	51
3,725	Short Term Debtors	19	5,276
21,069	Short Term Investments	17	21,052
3,187	Assets Held for Sale	20	1,948
3,748	Cash & Cash Equivalents	21	2,036
<b>31,771</b>	<b>CURRENT ASSETS</b>		<b>30,363</b>
(44)	Short Term Borrowing	17	(43)
(7,923)	Short Term Creditors	22	(5,974)
0	Bank (overdraft)	21	0
0	Provisions current	23	0
<b>(7,967)</b>	<b>CURRENT LIABILITIES</b>		<b>(6,017)</b>
(9,836)	Long Term Borrowing	17	(9,833)
(1,761)	Provisions – Long Term	23	(1,906)
(151)	Deferred Liabilities: Finance Leases	37	(337)
(44,209)	Net Pensions Liability	38	(38,796)
<b>(55,957)</b>	<b>LONG TERM LIABILITIES</b>		<b>(50,872)</b>
<b>4,411</b>	<b>NET ASSETS</b>		<b>10,151</b>
	<b>CAPITAL ACCOUNTS &amp; RESERVES</b>		
	<i>Usable Reserves</i>		
2,879	General Fund Balance Reserve		2,558
10,317	Earmarked Reserves	9	11,378
4,802	Usable Capital Receipts Reserve		5,807
570	Capital Grants Unapplied		739
(14,157)	Unusable Reserves and Accounts	25	(10,331)
<b>4,411</b>	<b>TOTAL RESERVES AND BALANCES</b>		<b>10,151</b>

## Cash Flow Statement

This statement shows the changes in cash and cash equivalents for the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, financing and investing activities.

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

## CASH FLOW STATEMENT

2016/17 £ 000		2017/18 £000
1,332	Net (surplus) or deficit on the provision of services	1,118
(3,343)	Adjustments to net surplus or deficit on the provision of services for non-cash movements – Note 26 i	497
862	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities - Note 26 ii	1,228
<b>(1,149)</b>	Net cash flows from Operating Activities Note 27	<b>2,843</b>
(2,011)	Investing Activities - Note 28	225
1,012	Financing Activities - Note 29	(1,357)
<b>(2,148)</b>	Net (increase) or decrease in cash and cash equivalents	<b>1,711</b>
<b>1,598</b>	<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>3,746</b>
<b>3,746</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>2,035</b>

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## Expenditure and Funding Analysis

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

## EXPENDITURE AND FUNDING ANALYSIS

		2016/17				2017/18
Net Expenditure chargeable to the General Fund	Adjustments between Funding & Accounting Basis	Net Expenditure in the Comprehensive Income & Expenditure Statement		Net Expenditure chargeable to the General Fund	Adjustments between Funding & Accounting Basis	Net Expenditure in the Comprehensive Income & Expenditure Statement
£000	£000	£000		£000	£000	£000
486	(60)	426	Environmental Health	310	8	318
2,037	(25)	2,012	Waste Services	2,166	102	2,268
771	57	828	Parks & Cemeteries	749	137	886
617	512	1,129	Culture & Leisure	350	519	869
389	(5)	384	Planning & Transportation	435	44	479
1,243	1,027	2,270	Regeneration & Property	2,113	148	2,261
4,718	1,330	6,048	Policy & Corporate Governance	4,961	1,007	5,968
10,261	2,836	13,097	Net Cost of Services	11,084	1,965	13,049
(10,462)	(1,303)	(11,765)	Other Income & Expenditure	(11,824)	(107)	(11,931)
(201)	1,533	1,332	(Surplus) or Deficit	(740)	1,858	1,118
		12,995	Opening General Fund Balance			13,196
		201	Less / Plus Surplus or (Deficit) on General Fund Balance in Year			740
		13,196	Closing General Fund Balance at 31 <sup>st</sup> March			13,936

## 2. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

### Adjustments between Funding and Accounting Basis 2016/17

Adjustments from General Fund to arrive at the CIES amounts	Adjustment for Capital Purposes	Net change for Pension Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Environmental Health		(60)		(60)
Waste Services	34	(63)	4	(25)
Parks & Cemeteries	93	(31)	(5)	57
Culture & Leisure	515	(3)		512
Planning & Transportation	18	(23)		(5)
Regeneration & Property	1,072	(43)	(2)	1,027
Policy & Corporate Governance	1,854	(524)		1,330
<b>Net Cost of Services</b>	<b>3,586</b>	<b>(747)</b>	<b>(3)</b>	<b>2,836</b>
Other income and expenditure from the EFA	(2,026)	1,286	(563)	(1,303)
<b>Difference between General Fund Surplus / Income and Expenditure Statement Surplus / Deficit on the Provision of Services</b>	<b>1,560</b>	<b>539</b>	<b>(566)</b>	<b>1,533</b>

### Adjustments between Funding and Accounting Basis 2017/18

Adjustments from General Fund to arrive at the CIES amounts	Adjustment for Capital Purposes	Net change for Pension Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Environmental Health	0	8	0	8
Waste Services	31	75	(4)	102
Parks & Cemeteries	94	40	3	137
Culture & Leisure	515	4	0	519
Planning & Transportation	18	26	0	44
Regeneration & Property	98	49	1	148
Policy & Corporate Governance	1,383	(383)	7	1,007
<b>Net Cost of Services</b>	<b>2,139</b>	<b>(181)</b>	<b>7</b>	<b>1,965</b>
Other income and expenditure from the EFA	(1,902)	1,096	699	(107)
<b>Difference between General Fund Surplus / Income and Expenditure Statement Surplus / Deficit on the Provision of Services</b>	<b>237</b>	<b>915</b>	<b>706</b>	<b>1,858</b>

### Adjustments for Capital Purposes

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

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

## Net Changes for the Pension Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income.

- For services represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

## Other Differences

Other differences between amounts debited / credited to the Comprehensive Income and Expenditure Statement and amounts payable / receivable to be recognised under statute.

- For financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

## EXPENDITURE AND INCOME ANALYSED BY NATURE

The authority's expenditure and income is analysed as below:

	2016/17	2017/18
Expenditure/ Income	£000	£000
<b>Expenditure</b>		
Employee benefits & expenses	9,814	10,337
Other service expenses	9,268	10,271
Transfer payments	26,754	25,699
Depreciation, amortisation & impairment	2,872	2,594
Interest payments	1,747	1,521
Precepts & levies	12	12
(Gain)/ loss on disposal of assets	280	(782)
<b>Total expenditure</b>	<b>50,747</b>	<b>49,652</b>
<b>Income</b>		
Fees, charges & other service income	(7,571)	(7,717)
Interest & investment income	(720)	(637)
Income from council tax & non-domestic rates	(8,097)	(8,112)
Government grants & contributions	(33,027)	(32,068)
<b>Total income</b>	<b>(49,415)</b>	<b>(48,534)</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>1,332</b>	<b>1,118</b>



**SEGMENTAL INCOME**

Income received on a segmental basis is analysed below:

	<b>2016/17</b>	<b>2017/18</b>
<b>Services</b>	<b>Income from Services</b>	<b>Income from Services</b>
	<b>£000</b>	<b>£000</b>
Environmental Health	(169)	(155)
Waste Services	(1,298)	(1,350)
Parks & Cemeteries	(921)	(905)
Culture & Leisure	(116)	(317)
Planning & Transportation	(459)	(577)
Regeneration & Property	(453)	(474)
Policy and Corporate Governance	(1,581)	(1,640)
<b>Total Income</b>	<b>(4,997)</b>	<b>(5,418)</b>

### 3. ACCOUNTING POLICIES

#### i. General Principles

The Statement of Accounts summarises the Authority's transactions for 2017/18 financial year and its position at the year-end 31st March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations (2015), which those Regulations require to be prepared in accordance with proper accounting practices. These practices under section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), supported by the International Financial Reporting Standards (IFRS).

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

#### ii. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services as provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

#### iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk of change in value.

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

#### **iv. Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

#### **v. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

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

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

#### **vi. Charges to Revenue for Non-Current Assets**

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (the Minimum Revenue Provision) calculated on a prudent basis by the Council in accordance with statutory guidance. This is achieved through an adjusting transaction between the General Fund Balance and the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### **vii. Council Tax and Non-Domestic Rates**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors

and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

### **Accounting for Council Tax and NDR**

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

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

### **viii. Employee Benefits**

#### *Benefits Payable During Employment*

Short term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for the services in the year which employees render service to the Council.

An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken by the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to the revenue in the financial year in which the holiday absence occurs.

#### *Termination Benefits*

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end.

### Post Employment Benefits

Employees of the Council are eligible to join the Local Government Pension Scheme administered by Lancashire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees worked for the Council.

### The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Lancashire County Pension Scheme attributable to Hyndburn Borough Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (2.5% 31<sup>st</sup> March 2017) based on the indicative rate of return on high quality (AA rated) corporate bonds.
- The assets of the Lancashire County Council Pension Fund attributable to Hyndburn Borough Council are included in the Balance Sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Utilised securities – current bid price
  - Property – market value
- The change in the Net Pensions Liability is analysed into the following components:
 

Service cost comprising:

  - Current Service Cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employee worked.
  - Past Service Cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - Net Interest on The Net Defined Benefit Liability (Asset) i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – that is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- The Return on Plan Assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as other Comprehensive Income and Expenditure

- Actuarial Gains and Losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pension Reserve as Other Comprehensive Income and Expenditure

Contributions paid to the Lancashire County Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

#### Discretionary Benefits

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

### **ix. Events After The Reporting Period**

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

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

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

### **x. Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The term 'financial instrument' covers both financial assets and financial liabilities; and includes the most straightforward assets and liabilities e.g. debtors, period end balances and creditor balances and the most complex e.g. derivatives.

### Financial Liabilities

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

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

### Financial Assets

Financial assets are classified in two types:

- Loans and receivables – assets that have fixed and determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and / or do not have fixed or determinable payments.

### Loans and Receivables

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

However, the Council has made loans to an organisation at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisation, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

## **xi. Government Grants and Contributions**

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

## **xii. Heritage Assets**

### **Tangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)**

The Council's heritage assets are held in the Haworth Art Gallery. The Gallery has four collections of heritage assets which are held in support of the primary objective of the museum i.e. maximise the recognition, appreciation and use of Haworth Art Gallery and its unique Tiffany Glass collection as a historic and contemporary art, education, leisure and tourism asset of local, regional and national importance.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However some of the measurement rules are relaxed in relation to heritage assets as detailed below.



### The Tiffany Glass Collection

The Tiffany Glass collection includes handmade blown glass vases, glass tiles, jewels and mosaics; as well as pottery, metalwork and enamel items.

The items are reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuations are updated periodically.

### The Art Collection

The art collection includes paintings (both oil and watercolour) as well as etchings, book illustrations and chromolithographs. It is reported in the Balance Sheet at market value.

### Numismatics Collection

The collection comprises coins, medals and tokens. The medals show portraits of famous people through history, while the trade tokens have a strong local connection.

The items are reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuations are updated periodically.

### Community Collection

The items are reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuations are updated periodically.

The date of the latest valuation of Heritage Assets undertaken by Eric Knowles Antiquarian Services is August 2016.

Assets within all four collections are deemed to have indeterminate lives and, in the case of the glass and art collections, a high residual value; hence the Council does not consider it appropriate to charge depreciation.

All four collections are relatively static and acquisitions and donations are rare. The Gallery is accredited by the Arts Council of Great Britain which means it has a statement of purpose, an acquisition and disposals policy, a guide to the documentation relating to the collections and a plan for the collections' care and conservation.

### Civic Regalia

The Council also has a collection of civic regalia which is held at the Town Hall. It was last valued for insurance purposes by Precious Metals in August 2016.

### **xiii. Intangible Assets**

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

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods and services.

Intangible assets are initially measured at cost. Amounts are only revalued where the fair value of an asset can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost.

The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement.

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

#### **xiv. Interests in Companies and Other Entities**

The Council has material interests in other entities that have the nature of associates; Hyndburn BC therefore prepares group accounts. In the authority's own single entity accounts, the interests in the entities are recorded as financial assets at cost, less any provision for losses.

#### **xv. Inventories**

Inventories are held in the Balance Sheet at purchase price. The cost of inventories is assigned using the First In First Out costing formula.

#### **xvi. Investment Property**

Investment properties are those that are used solely to earn rentals and / or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

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

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

#### **xvii. Leases**

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

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

### The Council as Lessee

#### Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception. The asset recognised is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases are accounted for using the policies applied generally to such assets.

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

#### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from the use of the leased property, plant or equipment.

### The Council as Lessor

#### Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

#### Operating Leases

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

#### **xviii. Overheads and Support Services**

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

#### **xix. Property, Plant and Equipment**

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

##### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on accruals basis, provided it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged to the Comprehensive Income and Expenditure Statement as it is incurred.

### Measurement

Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management.

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

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

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

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

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

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

### Fair Value

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

Inputs to the valuation techniques in respect of the Council's fair value measurement are categorised within the fair value hierarchy as follows:

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

The Council uses the DVS Valuation Office Agency, Manchester to provide a valuation of its property assets and liabilities in line with the highest and best use definition within the accounting standard; and Link Asset Services to value its investments and borrowings. The highest and best use of the asset being valued is considered from the perspective of a market participant.

The Council's surplus assets are judged to be Level 2.

### Impairment

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

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

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

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

### Depreciation

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

The Council operates a straight line method for depreciation over the useful economic life of the asset as follows:

Asset	Period (Years)
Operational Buildings	30*
Non-Operational Buildings	30*
Community Assets	5 - 50
Infrastructure	10
Vehicles & Plant	2-14
Surplus Assets –Housing Market Renewal Properties	15

*\*As part of the Council's five year rolling revaluation programme, a revised estimated useful life of the asset (if applicable) may be applied, up to a maximum of 60 years.*

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

#### Component Accounting

Componentisation applies where an asset comprises two or more major components with substantially different useful economic lives. For the purpose of depreciation, each component is accounted for separately and depreciated over the course of its respective life.

The policy applied at Hyndburn Borough Council has a de minimus level of £500,000 asset value for the building element and a maximum number of components of five.

#### Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

Assets Held for Sale are assets where the:

- Asset is immediately available for sale
- Sale is highly probable
- Asset is actively marketed
- Sale is expected to be completed within twelve months

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at that date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

#### Disposals

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of

receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's capital financing requirement. Receipts are appropriated to the Capital Receipts Reserve in the Movement in Reserves Statement.

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

## **xx. Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

Provisions are made when an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimation can be made of the amount of the obligation.

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

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

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

### **Contingent Liabilities**

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

### **Contingent Asset**

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

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



#### **xxi. Reserves**

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits. These do not represent usable resources for the Council, and include the capital adjustment account, revaluation reserve and the pensions reserve.

#### **xxii. Revenue Expenditure Funded From Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

#### **xxiii. VAT**

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

### **4. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED**

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard which has been issued but not yet adopted by the Code.

- **IFRS 9 financial Instruments**, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and available for sale to amortised costs and fair value through other comprehensive income respectively based on the contractual cash flows and business model for holding the assets. There are not expected to be any changes in the measurement of financial assets. Assessment of the Council's financial assets does not anticipate any impairment.
- **IFRS 15 Revenue from Contracts with Customers** presents new requirements for the recognition of revenue, based on control-based revenue recognition model. The Council does not have any material revenue streams within the scope of this new standard.

- **IAS 7 Statement of Cash Flows (Disclosure Initiative)** will potentially require some additional analysis of Cash Flows from Financing Activities (disclosed at Note 29). If the standard had applied in 2017/18 there would be no additional disclosures because the Council does not have activities which would require additional disclosure.
- **IAS 12 Income Taxes (Recognition of Deferred tax Assets for Unrealised Losses)** applies to deferred tax assets related to debt instruments measured at fair value. None of the Council's associate companies in the Group Accounts has such debt instruments.
- **IFRS 16 Leases** will require local authorities that are lessee to recognise most leases on their balance sheets as right-of-use assets with corresponding liabilities (there is recognition for low-value and short-term leases).

## **5. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies set out in note 3, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgement made in the Statement of Accounts is:

- There is a high degree of uncertainty about future levels of funding for local government. However this uncertainty is not yet sufficient to provide an indication of what assets might be impaired as a result of the need to close facilities and reduce levels of service provision.

## **6. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION AND UNCERTAINTY**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31<sup>st</sup> March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follow

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
Property, Plant & Equipment	Assets are depreciated over useful lives that rely on assumptions about the level of repair and maintenance. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful life assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying value of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £12k for every year that useful lives had to be reduced.
Pensions liability	Estimation of the net liability to pay pension depends on a number of complex judgements.	The effects on the net pension liability of changes in individual assumptions can be measured. However the assumptions interact in complex ways. Note 38 provides details on actuarial gains and losses in recent years.
Arrears	Note 18 gives detail of debtors and their associated impairment provisions for doubtful debts. However in the current economic climate it is not certain that these provisions will be sufficient.	If collection rates were to deteriorate, a 5% reduction would increase the level of the impairment provision to £4,340k.
Provisions	The Council has estimated its business rates appeals provision based on the number and value of past successful claims.	If the number of appeals which were successful increased to 10%, then the level of provision would have to be increased to £1,744k.
Fair Value Measurement	When the fair value of financial assets and financial liabilities cannot be measured based on quoted prices in active markets i.e. level 1 inputs, their fair value is measured using valuation techniques e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model. Where possible, the inputs to these valuation techniques are based on observable data but where this is not possible judgement is required in establishing fair values. These judgements typically include such considerations as uncertainty and risk, however, changes in the assumptions used could affect the fair value of the authority's assets and liabilities.	Within the fair value hierarchy valuations are made using a combination of independent valuation reports and cost / carrying value.  The independent valuations are based on observable inputs and assume no early realisation of the asset or liability. The fair valuation should be should be reliable at the valuation date.

## **7. EVENTS AFTER THE BALANCE SHEET DATE**

The Statement of Accounts was authorised for issue by the s151 officer on 31st May 2018. Events taking place after this date have not been reflected in the financial statement or notes. Where events taking place before this date provide information about conditions existing at 31st March 2018, the figures in the financial statements and notes have been adjusted in all material aspects to reflect the impact of this information.

## **8. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS**

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

The following sets out a description of the reserves that the adjustments are made against.

### **General Fund Balance**

The General Fund is the statutory fund into which all the receipts of the authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources the Council is required to recover) at the end of the financial year.

### **Capital Receipts Reserve**

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources which have yet to be applied for these purposes at year end.

### **Capital Grants Unapplied**

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and / or the financial year in which this can occur.

<b>Usable Reserves – 2016/17</b>	<b>General Fund Balance £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Capital Grants Unapplied £000</b>
<b><i>Adjustments to the Revenue Resources</i></b>			
<b>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements</b>			
Pension costs (transferred to / from the Pensions Reserve)	540		
Financial instruments (transferred to the Financial Instruments Adjustment Account)	(10)		
Council tax and NDR (transfers to or from the Collection Fund Account)	(550)		
Holiday Pay (transferred to the Accumulated Absences Reserve)	(6)		
Reversal of entries included in the surplus or deficit on the Provision of Services in relation to capital expenditure (these items are charges to the Capital Adjustment Account)	4,391		279
<b>Total Adjustments to Revenue Resources</b>	<b>4,365</b>		<b>279</b>
<b><i>Adjustments between Revenue and Capital Resources</i></b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(862)	862	
Administrative costs of non-current asset disposals (funded by a transfer from the Capital )Receipts Reserve)			
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(542)		
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(1,428)		
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(2,832)</b>	<b>862</b>	
<b><i>Adjustments to Capital Resources</i></b>			
Use of the Capital Receipts Reserve to finance capital expenditure		(70)	
Application of capital grants to finance capital expenditure			(931)
<b>Total Adjustments to Capital Resources</b>		<b>(70)</b>	<b>(931)</b>
<b>TOTAL ADJUSTMENTS</b>	<b>1,533</b>	<b>792</b>	<b>(652)</b>

<b>Usable Reserves – 2017/18</b>	<b>General Fund Balance £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Capital Grants Unapplied £000</b>
<b><i>Adjustments to the Revenue Resources</i></b>			
<b>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements</b>			
Pension costs (transferred to / from the Pensions Reserve)	915		
Financial instruments (transferred to the Financial Instruments Adjustment Account)	(8)		
Council tax and NDR (transfers to or from the Collection Fund Account)	711		
Holiday Pay (transferred to the Accumulated Absences Reserve)	3		
Reversal of entries included in the surplus or deficit on the Provision of Services in relation to capital expenditure (these items are charges to the Capital Adjustment Account)	3,765		194
<b>Total Adjustments to Revenue Resources</b>	<b>5,386</b>		
<b><i>Adjustments between Revenue and Capital Resources</i></b>			194
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,228)	1,228	
Administrative costs of non-current asset disposals (funded by a transfer from the Capital Receipts Reserve)			
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(532)		
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(1,768)		
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(3,528)</b>	<b>1,228</b>	
<b><i>Adjustments to Capital Resources</i></b>			
Use of the Capital Receipts Reserve to finance capital expenditure		(223)	
Application of capital grants to finance capital expenditure			(25)
<b>Total Adjustments to Capital Resources</b>		<b>(223)</b>	<b>(25)</b>
<b>TOTAL ADJUSTMENTS</b>	<b>1,858</b>	<b>1,005</b>	<b>169</b>

## 9. TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

	Balance at 01.04.16 £000	Transfers Out 16/17 £000	Transfers In 16/17 £000	Balance at 31.03.17 £000	Transfers Out 17/18 £000	Transfers In 17/18 £000	Balance at 31.03.18 £000
Planning s106 Fund	1,672	(133)	74	1,613	(752)	5	866
Housing and Planning Fund	73	(12)		61	(15)		46
Area Based Grant Reserve	41	(1)		40			40
Performance Reward Reserve	40			40	(4)		36
Environmental Warranties	2,516		250	2,766		250	3,016
Transitional Grant	1,432	(26)		1,406	(319)		1,087
Efficiency Support Grant	391	(83)		308			308
Balance set aside for invest to save initiatives	1,225	(411)	917	1,731	(570)	759	1,920
New Homes Bonus	228	(228)		0		120	120
Communities For Health Funding	105	(14)		91	(13)		78
Dilapidations Reserve	1,316			1,316			1,316
Huncoat Housing Zone				0		223	223
Waste Services				0		186	186
Revenue Funding for Capital Schemes				0		1,127	1,127
Balances set aside from previous years to fund specific future expenditure	919	(100)	126	945	(121)	185	1,009
<b>Total</b>	<b>9,958</b>	<b>(1,008)</b>	<b>1,367</b>	<b>10,317</b>	<b>(1,794)</b>	<b>2,855</b>	<b>11,378</b>

### Description of Reserves

**Planning s106 Fund** – Amounts received for planning obligations to be spent on capital / revenue projects in line with respective agreements.

**Housing & Planning Fund** – Capital reserve which is the balance of the original amount awarded in 2008 for improved delivery of housing and other planning outcomes.

**Area Based Grant Reserve** – Allocated by central government to support the delivery of local, regional and national priorities in Hyndburn. The reserve is the unspent balance of the final allocation made in 2010/11.

**Performance Reward Reserve** – The grant was originally paid by central government for the achievement of Local Area Agreement schemes; the reserve is the unspent balance.

**Environmental Warranties** – To fund any potential liabilities arising from the large scale voluntary transfer of the housing stock to Hyndburn Homes Ltd on March 30<sup>th</sup> 2006.

**Transitional Grant** – Government grant received which has no specific conditions attached but has not been allocated for specific service use.

**Efficiency Support Grant** - Government grant awarded to local authorities that otherwise would have seen a reduction of more than 8.8% of their revenue spending power and used to support changes to services that reduce our long term costs.

**Balance set aside for invest to save initiatives** – Balance of revenue underspend held separately to fund future service delivery.

**New Homes Bonus** – Government grant received which has no specific conditions attached.

**Communities For Health Funding** – Amount identified to support leisure related expenditure.

**Dilapidations Reserve** – Amount identified for asset remedial work.

**Huncoat Housing Zone Reserve** – Amount set aside in 2017/18 to assist with the costs of Master Planning for a potential development in Huncoat.

**Waste Services Reserve** – Amount set aside in 2017/18 to offset the loss in 2018/19 of approximately £800k from the Lancashire County Council cost sharing agreement and funding towards the cost of wheeled bins to be purchased in 2018/19.

**Revenue Funding of Capital Schemes Reserve** – Surplus revenue income set aside in 2017/18 to fund future capital projects.

**Balances set aside from previous years to fund specific expenditure** – Underspends from previous years which have been set aside to fund future expenditure.



**10. OTHER OPERATING EXPENDITURE**

	2016/17 £000	2017/18 £000
Parish Council Precepts	12	12
(Gains) / losses on the disposal of non - current assets	438	(541)
Unattached capital receipts	(158)	(241)
<b>Total</b>	292	(770)

**11. FINANCING AND INVESTMENT INCOME AND EXPENDITURE**

	2016/17 £000	2017/18 £000
Interest payable and other similar charges	444	446
Net interest cost on the net pension liability	1,303	1,075
Interest receivable and similar income	(164)	(125)
Income and expenditure in relation to investment properties and changes in their fair value	(552)	(324)
(Gain) / loss on trading accounts	181	420
<b>Total</b>	1,212	1,492

**12. TAXATION AND NON-SPECIFIC GRANT INCOME AND EXPENDITURE**

	2016/17 £000	2017/18 £000
Council tax income	(4,779)	(4,958)
Non-domestic rates income and expenditure	(3,318)	(3,154)
Non-ringfenced government grants	(4,394)	(3,901)
Capital grants and contributions	(778)	(640)
<b>Total</b>	(13,269)	(12,653)

### 13. PROPERTY PLANT AND EQUIPMENT

<b>2017/18</b>	<b>Other land and buildings £000</b>	<b>Vehicles, Plant, Furniture &amp; Equipment £000</b>	<b>Infrastructure £000</b>	<b>Community Assets £000</b>	<b>Surplus Assets £000</b>	<b>Total £000</b>
<b>Cost or Valuation</b>						
At 1 <sup>st</sup> April 2017	<b>20,101</b>	<b>4,751</b>	<b>1,101</b>	<b>1,753</b>	<b>2,648</b>	<b>30,354</b>
Additions	309	374	16	571	15	1,285
Revaluation increases / (decreases) recognised in the Revaluation Reserve					24	24
Non-enhancing expenditure recognised in the Surplus / Deficit in the Provision of Services	(291)	(9)	(16)	(571)	(15)	(902)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services					(20)	(20)
Derecognition - disposals		(23)			(291)	(314)
Assets reclassified (to) / from Held for Sale	14				(240)	(226)
Other movements in cost or valuation						
<b>Cost at 31<sup>st</sup> March 2018</b>	<b>20,133</b>	<b>5,093</b>	<b>1,101</b>	<b>1,753</b>	<b>2,121</b>	<b>30,201</b>
<b>Accumulated Depreciation and Impairment</b>						
At 1 <sup>st</sup> April 2017	<b>1,353</b>	<b>3,475</b>	<b>1,094</b>	<b>75</b>	<b>151</b>	<b>6,148</b>
Depreciation charge	593	431	3	69	60	1,156
Depreciation written out to the Revaluation Reserve						
Depreciation written out to the Surplus / Deficit on the Provision of Services					(14)	(14)
Derecognition - disposals		(17)			(53)	(70)
Depreciation on Impairments						
<b>Depreciation at 31<sup>st</sup> March 2018</b>	<b>1,946</b>	<b>3,889</b>	<b>1,097</b>	<b>144</b>	<b>144</b>	<b>7,220</b>
<b>Net book value at March 31<sup>st</sup> 2018</b>	<b>18,187</b>	<b>1,204</b>	<b>4</b>	<b>1,609</b>	<b>1,977</b>	<b>22,981</b>
Net book value at March 31 <sup>st</sup> 2017	<b>18,748</b>	<b>1,276</b>	<b>7</b>	<b>1,678</b>	<b>2,497</b>	<b>24,206</b>

<b>2016/17</b>	<b>Other land and buildings £000</b>	<b>Vehicles, Plant, Furniture &amp; Equipment £000</b>	<b>Infrastructure £000</b>	<b>Community Assets £000</b>	<b>Surplus Assets £000</b>	<b>Total £000</b>
<b>Cost or Valuation</b>						
At 1 <sup>st</sup> April 2016	<b>19,805</b>	<b>4,978</b>	<b>1,101</b>	<b>1,669</b>	<b>3,026</b>	<b>30,579</b>
Additions	503	201		927	94	1,725
Revaluation increases / (decreases) recognised in the Revaluation Reserve	18			124	490	632
Non-enhancing expenditure recognised in the Surplus / Deficit in the Provision of Services	(225)	(95)		(927)	(94)	(1,341)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services				(40)	(342)	(382)
Derecognition - disposals		(333)			(636)	(969)
Assets reclassified (to) / from Held for Sale						
Other movements in cost or valuation					110	110
<b>Cost at 31<sup>st</sup> March 2017</b>	<b>20,101</b>	<b>4,751</b>	<b>1,101</b>	<b>1,753</b>	<b>2,648</b>	<b>30,354</b>
<b>Accumulated Depreciation and Impairment</b>						
At 1 <sup>st</sup> April 2016	<b>765</b>	<b>3,324</b>	<b>1,091</b>	<b>82</b>	<b>219</b>	<b>5,481</b>
Depreciation charge	597	442	3	62	103	1,207
Depreciation written out to the Revaluation Reserve	(9)			(69)	(20)	(98)
Depreciation written out to the Surplus / Deficit on the Provision of Services					(35)	(35)
Derecognition - disposals		(291)			(116)	(407)
Depreciation on Impairments						
<b>Depreciation at 31<sup>st</sup> March 2017</b>	<b>1,353</b>	<b>3,475</b>	<b>1,094</b>	<b>75</b>	<b>151</b>	<b>6,148</b>
<b>Net book value at March 31<sup>st</sup> 2017</b>	<b>18,748</b>	<b>1,276</b>	<b>7</b>	<b>1,678</b>	<b>2,497</b>	<b>24,206</b>
Net book value at March 31 <sup>st</sup> 2016	<b>19,040</b>	<b>1,654</b>	<b>10</b>	<b>1,587</b>	<b>2,807</b>	<b>25,098</b>

### Capital Commitments

At 31<sup>st</sup> March 2018 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in future years budgeted at £7.389m. Similar commitments as at 31<sup>st</sup> March 2017 were £4.272m.

The major commitments are:

£1.627m Accrington Townscape Heritage Initiative and Infrastructure

£1.250m Wheeled Recycling Bins

£660k Refuse Vehicles

£470k Disabled Facility Grants

£467k Rhyddings Park

£450k Cremator Replacement

£425k Rishton Regeneration

£404k Lower Woodnook Housing Renewal Scheme

£369k Clearance Pendle Street

£250k LCC Junction 7 Contribution

### Effects of Changes in Estimates

In 2017/18 the Council made no material changes to its accounting estimates for Property, Plant and Equipment.

### Revaluations

The Council carries out a rolling programme of valuations that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are carried out as recommended by Cipfa and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors. Valuations in 2017/18 were carried out and certified by a team from DVS Valuation Office Agency, Manchester, led by Mr R Yardley MRICS, Principal Surveyor.

The significant assumptions applied in estimating fair value are:

- Operational land and properties are valued on the basis of current value in existing use, unless they are of a specialist nature in which case they are valued on a Depreciated Replacement Cost basis, or Market Value as applicable.
- Vehicles, plant and equipment values are based on historical cost less depreciation.
- Infrastructure and Community assets are included at historical cost, less any applicable depreciation, other than where Community Assets are at current value.
- Non-operational properties in full commercial use are valued by reference to their Market Value on the basis of net realisable value. Investment properties are valued on the basis of market value.

	Land & Buildings £000	Community Assets £000	Surplus Assets £000	Total £000
Valued at Current Value				
31 <sup>st</sup> March 2018	0	0	148	148
31 <sup>st</sup> March 2017	200	1,523	1,643	3,366
31 <sup>st</sup> March 2016	2,329	861	81	3,271
31 <sup>st</sup> March 2015	18,959	1,378	478	20,815
31 <sup>st</sup> March 2014	14,637	84	318	15,039

## 14. HERITAGE ASSETS

### Reconciliation of the Carrying Value of Heritage Assets Held by the Council

	Art & Numismatics Collection £000	Numismatics Collection £000	Local & Community Collection £000	Glass Collection £000	Civic Regalia £000	Total £000
<b>Cost or Valuation</b>						
<b>As at 31<sup>st</sup> March 2017</b>	2,319	70	97	1,682	332	4,500
<b>As at 31<sup>st</sup> March 2018</b>	2,309	70	97	1,682	332	4,490

There have been no disposals or impairment losses in the last five years to 31st March 2018. The civic regalia and works of art were revalued during 2016-17 and their revalued amounts are included above. The revaluation had been miscalculated by the Valuer and the correct valuation has been shown in the accounts for 2017-18, and is £10k less than previously disclosed.

## 15. INVESTMENT PROPERTIES

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure section in the Comprehensive Income and Expenditure Statement.

	2016/17 £000	2017/18 £000
Rental income from investment property	(556)	(512)
Direct operating expenses arising from investment property	142	81
<b>Subtotal net (gain) / loss</b>	<b>(414)</b>	<b>(431)</b>
Net (gains) / losses from fair value adjustments	(138)	107
<b>Total income &amp; expenditure in relation to investment properties &amp; change in fair value</b>	<b>(552)</b>	<b>(324)</b>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The movement in the fair value of investment properties is shown below:

	2016/17 £000	2017/18 £000
Balance at start of year	<b>7,696</b>	<b>7,131</b>
Additions	0	0
Disposals	(587)	(105)
Net gains / (losses) from fair value adjustments	137	(108)
Other changes	(115)	0
Balance at end of year	<b>7,131</b>	<b>6,918</b>

*Valuation Techniques Used to Determine Fair Values for Investment Property*

The fair value hierarchy is explained in the Accounting Policies Note 1 xix. Level 2 has been used for investment property which uses a market approach taking into account similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields and the covenant strength for existing tenants. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to properties being categorised as level 2 on the fair value hierarchy.

## **16. INTANGIBLE ASSETS**

The Council accounts for purchased software licences as intangible assets. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use. The carrying amount of intangible assets is amortised on a straight line basis.

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

	2016/17 £000	2017/18 £000
Balance at start of year:		
Gross carrying amount	517	517
Accumulated amortisation	(418)	(454)
<b>Net carrying amount at start of year</b>	<b>99</b>	<b>63</b>
Purchases	36	18
Non-enhancing expenditure written out	(36)	(18)
Amortisation for the period	(36)	(25)
<b>Net carrying amount at year end</b>	<b>63</b>	<b>38</b>

Comprising:

	2016/17 £000	2017/18 £000
Balance at end of year:		
Gross carrying amount	517	517
Accumulated amortisation	(454)	(479)
<b>Net carrying amount at year end</b>	<b>63</b>	<b>38</b>

## 17. FINANCIAL INSTRUMENTS

Financial liabilities are classified as liabilities at amortised cost. Financial assets are classified as loans and receivables. Details of the carrying value of these instruments are provided in the balance sheet and these notes. The fair value hierarchy is described in the accounting policies note 3 para. xix. The individual methods used are described below.

The fair value of the debtors and creditors (as shown in notes 19 and 22) are taken to be the invoiced or billed amount.

The fair value of investments maturing in the next twelve months is assumed to approximate to its carrying value.

The fair value of borrowing is determined by calculating the net present value of future cash flows. The discount rate is equal to the current rate available in relation to the same instrument from a comparable lender.

### Categories of Financial Instruments

The fair value of each class of financial assets and liabilities which are carried in the balance sheet at amortised cost are disclosed below.

	Long - Term				Current	
	31 March 2017		31 March 2018		31 March 2017	31 March 2018
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Carrying Amount £000
<b>Cash</b>					<b>3,748</b>	<b>2,036</b>
<b>Investments</b>						
Loans and receivables	359	359	359	359	21,069	21,052
<b>Total</b>	<b>359</b>	<b>359</b>	<b>359</b>	<b>359</b>	<b>21,069</b>	<b>21,052</b>
<b>Debtors</b>						
Loans and receivables	305	305	275	275		
Financial assets carried at contract amount					1,736	2,088
<b>Total</b>	<b>305</b>	<b>305</b>	<b>275</b>	<b>275</b>	<b>1,736</b>	<b>2,088</b>
<b>Borrowings</b>						
Financial liabilities at amortised amount	9,836	14,556	9,833	14,200	44	43
<b>Total</b>	<b>9,836</b>	<b>14,556</b>	<b>9,833</b>	<b>14,200</b>	<b>44</b>	<b>43</b>
<b>Creditors</b>						
Financial liabilities carried at contract amount					1,671	1,269
<b>Total</b>					<b>1,671</b>	<b>1,269</b>

### Long Term Debtors

	31 March 2017 £000	31 March 2018 £000
Mortgages on right to buy sales	2	2
Other housing advances	0	0
Leisure in Hyndburn Ltd	87	66
Car loans to employees	52	37
Employee scheme to purchase home technology equipment	3	7
Placefirst Ltd	161	163
<b>Total</b>	<b>305</b>	<b>275</b>

### Material Soft Loans Made By the Council

Loan to the trust Leisure in Hyndburn (LiH)

The two loans to LiH are deemed to be material soft loans. They are interest free loans of £74k (loan 1 £44k; loan 2 £30k) repayable by monthly instalments ending in December 2020.

	2016/17 £000	2017/18 £000
Opening balance 1 <sup>st</sup> April	<b>107</b>	<b>87</b>
Nominal value of new loans granted in year	0	0
Loans repaid	(27)	(27)
Other changes	7	6
Closing balance at end of year	<b>87</b>	<b>66</b>
Nominal value at 31 <sup>st</sup> March	<b>100</b>	<b>74</b>

The interest rate at which the fair value of this soft loan has been made is arrived at by taking the authority's prevailing cost of borrowing (4.4% for loan 1 and 4.6% for loan 2) and adding an allowance for the risk that the loan might not be repaid by LiH in this case 2%.

### Employees Car Loans

The Council makes loans for car purchase to 12 employees in the authority who are in posts that require them to drive regularly on the authority's business.

Interest is charged at different rates depending upon the emissions of the vehicle: < 1400cc 8.5%, 1400-1600cc 9% and > 1600cc 9.5%.

	2016/17 £000	2017/18 £000
Opening balance 1 <sup>st</sup> April	105	79
Nominal value of new loans granted in year	21	19
Loans repaid	(54)	(46)
Other changes – Interest Charged	7	6
Closing balance at end of year 31 <sup>st</sup> March	<b>79</b>	<b>58</b>



The interest rate at which fair values of these soft loans have been recognised is arrived at by taking the authority's prevailing cost of borrowing for a comparable loan at the date of the advance and adding an allowance for the risk that the loan might not be repaid.

*Equity Share Loans (ESL) and Purchase Assistance Loans (PAL)*

Hyndburn BC has made both ESL and PAL loans. Neither type of loan has a definite repayment or maturity date and is not included in the Balance Sheet. Details are in the table below.

Equity Share Loans	Year	31 <sup>st</sup> March 2017		31 <sup>st</sup> March 2018	
		No. of Loans	Value of Loans (£)	No. of Loans	Value of Loans (£)
	06/07	16	508,628	16	507,308
	07/08	13	402,900	12	365,330
	08/09	9	279,700	9	275,460
<b>Total</b>		<b>38</b>	<b>1,191,228</b>	<b>37</b>	<b>1,148,098</b>
Purchase Assistance Loans	Year	31 <sup>st</sup> March 2017		31 <sup>st</sup> March 2018	
		No. of Loans	Value of Loans (£)	No. of Loans	Value of Loans (£)
	09/10	3	37,220	3	37,220
	10/11	3	65,450	3	65,450
	11/12	1	30,000	1	30,000
<b>Total</b>		<b>7</b>	<b>132,670</b>	<b>7</b>	<b>132,670</b>

*Borrowing*

The Council's treasury management advisers, Link, have assisted in preparing this disclosure: they have assumed the following:

- Interest rates at 31<sup>st</sup> March 2018 based on comparable new borrowing / deposit rate for the same financial instrument from a comparable lender. A consistent approach has been taken to assets and liabilities.
- No early repayment or impairment is recognised
- Where an instrument will mature in the next twelve months, the carrying amount is assumed to approximate to fair value

In the fair value hierarchy level 2 (inputs other than quoted prices that are observable for the asset or liability) has been used. There has been no change in valuation techniques used or transfers between the hierarchy levels.

The fair value of the liabilities shown below is greater than the carrying value as the Council's portfolio includes some fixed rate loans on which the rate of interest payable is higher than the rate available for similar loans in the market place at the balance sheet date.

Summary as at 31 <sup>st</sup> March 2017	Principal Outstanding £000	Accrued Interest to 31 Mar £000	Adjustment: Effective Int. Rate Smoothing £000	Carrying Value TOTAL £000	Fair Value Total £000
<u>Long Term Borrowing</u>					
Money Market	9,520	34	207	9,761	14,481
Individuals	75			75	75
<b>Total</b>	<b>9,595</b>	<b>34</b>	<b>207</b>	<b>9,836</b>	<b>14,556</b>
<u>Short Term Borrowing</u>					
Money Market					
Money Market (L/T Loan)		44		44	45
<b>Total</b>		<b>44</b>		<b>44</b>	<b>45</b>
<u>Total Borrowing</u>					
Money Market	9,520	78	207	9,805	14,526
Individuals	75			75	75
<b>Total</b>	<b>9,595</b>	<b>78</b>	<b>207</b>	<b>9,880</b>	<b>14,601</b>

Summary as at 31 <sup>st</sup> March 2018	Principal Outstanding £000	Accrued Interest to 31 Mar £000	Adjustment: Effective Int. Rate Smoothing £000	Carrying Value TOTAL £000	Fair Value Total £000
<u>Long Term Borrowing</u>					
Money Market	9,520	35	203	9,758	14,125
Individuals	75			75	75
<b>Total</b>	<b>9,595</b>	<b>35</b>	<b>203</b>	<b>9,833</b>	<b>14,200</b>
<u>Short Term Borrowing</u>					
Money Market					
Money Market (L/T Loan)		43		43	45
<b>Total</b>		<b>43</b>		<b>43</b>	<b>45</b>
<u>Total Borrowing</u>					
Money Market	9,520	78	203	9,801	14,170
Individuals	75			75	75
<b>Total</b>	<b>9,595</b>	<b>78</b>	<b>203</b>	<b>9,876</b>	<b>14,245</b>

## 18. INVENTORIES

	31 <sup>st</sup> March 2017 £000	31 <sup>st</sup> March 2018 £000
General fund - stock	42	51
Work in progress	0	0
<b>Total</b>	<b>42</b>	<b>51</b>

**19. DEBTORS**

	31 <sup>st</sup> March 2017 £000	31 <sup>st</sup> March 2018 £000
Central government bodies	776	1,518
Other local authorities	185	167
Other entities and individuals	7,139	7,676
Prepayments	57	65
Sub total	<b>8,157</b>	<b>9,426</b>
Less impairment allowance for doubtful debts	(4,432)	(4,150)
<b>Total</b>	<b>3,725</b>	<b>5,276</b>

**20. ASSETS HELD FOR SALE**

	31 <sup>st</sup> March 2017 £000	31 <sup>st</sup> March 2018 £000
Balance outstanding at start of year	2,682	<b>3,187</b>
Assets newly classified as held for sale: Property Plant and Equipment	5	440
Assets declassified as held for sale: Property Plant and Equipment	0	(214)
Capital Expenditure	0	109
Write out non enhancing expenditure to I&E	0	(377)
Revaluation gains	500	1,426
Revaluation losses	0	(909)
Assets sold	0	(98)
<b>Total</b>	<b>3,187</b>	<b>3,564</b>

The total balance includes £1,616k classified as non-current assets. This represents land at Lyndon Playing Fields, Great Harwood which has a sale contract in place that will be invoked once individual housing plots are sold on the first section of land that was sold to the developer. This is not expected to happen in the next twelve months.

**21. CASH AND CASH EQUIVALENTS**

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

	31 <sup>st</sup> March 2017 £000	31 <sup>st</sup> March 2018 £000
Cash in hand	3	3
Short term deposits	3,693	1,737
Bank balance / (overdraft)	52	296
<b>Total Cash and Cash Equivalents</b>	<b>3,748</b>	<b>2,036</b>

**22. CREDITORS**

	31 <sup>st</sup> March 2017 £000	31 <sup>st</sup> March 2018 £000
Central government bodies	(2,616)	(2,608)
Other local authorities	(3,217)	(1,615)
Other entities and individuals	(2,090)	(1,751)
<b>Total</b>	<b>(7,923)</b>	<b>(5,974)</b>

## 23. PROVISIONS

Provisions Summary	Balance at 1 <sup>st</sup> April 2017	Additional provisions made in 2017/18	Amounts used in 2017/18	Unused amounts reversed in 2017/18	Balance 31 <sup>st</sup> March 2018
	£000	£000	£000	£000	£000
Industrial units bonds deposits for leases	(11)	0	0	0	(11)
Insurance 'excess provision' for potential claims	(148)	(152)	148	0	(152)
ERDF potential claw back maintained until time barred	(99)	0	0	0	(99)
Provision for potential claims not able to be paid by Municipal Mutual Insurance Ltd following their financial difficulties	(31)	0	0	0	(31)
Provision for repayment of taxi licence fees incorrectly charged	(14)	0	7	7	0
Provision for appeals of non-domestic rates	(1,435)	(276)	229	0	(1,482)
Other	(23)	0	0	0	(23)
Future Costs of Cessation of Service Provision	0	(108)	0	0	(108)
<b>Total Provisions</b>	<b>(1,761)</b>	<b>(536)</b>	<b>384</b>	<b>7</b>	<b>(1,906)</b>

## 24. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

## 25. UNUSABLE RESERVES

	31 <sup>st</sup> March 2017 £000	31 <sup>st</sup> March 2018 £000
Revaluation Reserve	15,935	16,063
Capital Adjustment Account	13,455	12,446
Financial Instruments Adjustment Account	(220)	(212)
Deferred Capital Receipts Reserve	2	2
Pensions Reserve	(44,209)	(38,796)
Collection Fund Adjustment Account	998	287
Accumulated Absences Account	(118)	(121)
<b>Total Unusable Reserves</b>	<b>(14,157)</b>	<b>(10,331)</b>

### Revaluation Reserve

This reserve contains the gains made by the Council arising from increases in the value of the Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains realised

This reserve contains only revaluation gains accumulated since 1<sup>st</sup> April 2007, the date the reserve was created. Accumulated gains arising before that date are consolidated into the balance of the Capital Adjustment Account.

	2016/17 £000	2017/18 £000
<b>Balance at 1<sup>st</sup> April</b>	<b>15,370</b>	<b>15,935</b>
<i>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</i>		
Upward revaluation of assets	1,398	1,450
Downward revaluation of assets and impairment losses not charged to the Surplus / Deficit on the Provision of services	(388)	(920)
Sub-total	1,010	530
Amount written out of reserve due to reclassification of surplus assets to investment properties		
<i>Amount written off to the Capital Adjustment Account</i>		
Difference between fair value depreciation and historical cost depreciation	(359)	(361)
Accumulated gains on assets sold or scrapped	(86)	(41)
Sub-total	(445)	(402)
<b>Balance at end of year</b>	<b>15,935</b>	<b>16,063</b>

### Capital Adjustment Account

The account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of these assets under statutory provisions.

The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment properties. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1<sup>st</sup> April 2007, the date the Revaluation Reserve was created to hold such gains. Note 6 provides details of the source of all transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2016/17 £000	2017/18 £000
<b>Balance at 1<sup>st</sup> April</b>	14,710	13,455
<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</i>		
Charges for depreciation and impairment of non-current assets	(1,208)	(1,156)
Revaluation losses on Property, Plant and Equipment	(1,766)	(1,304)
Amortisation of intangible assets	(36)	(25)
Revenue expenditure funded from capital under statute	(1,795)	(2,336)
Non-current assets written off as part of the gain / loss on disposal of assets	(1,143)	(446)
Sub-total	(5,948)	(5,267)
<i>Capital financing applied in the year</i>		
Use of the Capital Receipts Reserve to finance new capital expenditure	70	223
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,140	1,416
Application of grants to capital financing from the Capital grants Unapplied Account	931	25
Accumulated gains on assets sold or scrapped		
Minimum Revenue Provision	542	532
Capital Expenditure Charged Against Revenue Account	1,428	1,768
Sub-total	4,111	3,964
Adjusting amounts written out of the Revaluation Reserve	444	402
Movements in the market value of Investment Properties charged against the Comprehensive Income and Expenditure Statement	138	(108)
<b>Balance at end of year</b>	<b>13,455</b>	<b>12,446</b>

Movements in the market value of Investment Properties have been removed from revaluation losses and reported separately.

#### *Financial Instruments Adjustment Account*

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

	2016/17 £000	2017/18 £000
<b>Balance at 1<sup>st</sup> April</b>	<b>(230)</b>	<b>(220)</b>
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure statement	(4)	(6)
Proportion of premiums incurred in previous financial years to be charged against the General Fund balance in accordance with statutory requirements	14	14
<b>Sub total</b>	<b>10</b>	<b>8</b>
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from the finance costs chargeable in year in accordance with statutory requirements		
<b>Balance at end of year</b>	<b>(220)</b>	<b>(212)</b>

### *Pensions Reserve*

The reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to incorporate inflation, changing assumptions and investment returns on any resources set aside to meet costs.

However statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in benefits earned by past and current employees and the resources set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2016/17 £000	2017/18 £000
<b>Balance at 1<sup>st</sup> April</b>	<b>(38,478)</b>	<b>(44,209)</b>
Actuarial gains or (losses) on pension assets and liabilities	(5,191)	6,328
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(3,002)	(3,345)
Employer's pensions contributions and direct payments to pensioners payable in the year	2,462	2,430
<b>Balance at 31 March</b>	<b>(44,209)</b>	<b>(38,796)</b>

### *Collection Fund Adjustment Account*

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

	2016/17 £000	2017/18 £000
<b>Balance at 1<sup>st</sup> April</b>	<b>448</b>	<b>998</b>
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from the council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	550	(711)
<b>Balance at end of year</b>	<b>998</b>	<b>287</b>

### *Accumulated Absences Account*

The Accumulated Absences Account absorbs differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31<sup>st</sup> March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2016/17 £000	2017/18 £000
<b>Balance at 1<sup>st</sup> April</b>	(124)	(118)
Settlement or cancellation of accrual made at the end of the preceding year	124	118
Amounts accrued at the end of the current year	(118)	(121)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	6	(3)
<b>Balance at end of year</b>	<b>(118)</b>	<b>(121)</b>

## **26. CASHFLOW STATEMENT – ADJUSTMENT FOR NON-CASH MOVEMENTS**

i) Adjustments to net surplus or deficit on the provision of services for non-cash movements

	2016/17 £000	2017/18 £000
Depreciation	(1,208)	(1,156)
Impairment & downward valuations	(1,766)	(1,304)
Amortisation	(36)	(26)
(Increase)/ decrease in impairment provision for bad debts	(140)	(58)
(Increase)/decrease in creditors	850	3,019
Increase/(decrease) in debtors	40	975
Increase/(decrease) in stock	1	9
Pension liability	(540)	(915)
Carrying amount of non-current asset disposals	(1,143)	(446)
Other non-cash items charged to the net surplus or deficit on the provision of services	599	399
	<b>(3,343)</b>	<b>497</b>



ii) Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:

	2016/17 £000	2017/18 £000
Proceeds from the sale of property, plant & equipment, investment property & intangible assets	862	1,228
	<b>862</b>	<b>1,228</b>

## 27. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2016/17 £000	2017/18 £000
Interest received	(149)	(131)
Interest paid	448	450

## 28. CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2016/17 £000	2017/18 £000
Purchase of property, plant and equipment, investment property and intangible assets	1,562	1,394
Purchase of short term and long term investments	18,000	20,000
Other payments for investing activities	173	153
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(863)	(884)
Proceeds from short term and long term investments	(20,000)	(20,000)
Other receipts from investing activities	(883)	(438)
<b>Net cash flows from investing activities</b>	<b>(2,011)</b>	<b>225</b>

## 29. CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2016/17 £000	2017/18 £000
Cash receipts of short - and long – term borrowing	0	0
Other receipts from financing activities	0	(1,491)
Cash payments for the reduction of outstanding liabilities relating to finance leases and on balance sheet PFI contracts	124	134
Repayments of short – and long – term borrowing	0	0
Other payments for financing activities	888	0
<b>Net cash flows from financing activities</b>	<b>1,012</b>	<b>(1,357)</b>

### 30. TRADING OPERATIONS

The Council operates a MOT testing station and associated activities including a transport management organisation as internal trading accounts and markets in Accrington and Great Harwood as external trading accounts.

	2016/17			2017/18		
	Income	Expenditure	(Surplus) / Deficit	Income	Expenditure	(Surplus) / Deficit
	£000	£000	£000	£000	£000	£000
MOT / Stores / Depot	(1,125)	1,320	195	(1,032)	1,365	333
Markets	(443)	429	(14)	(376)	463	87
<b>TOTAL</b>	<b>(1,568)</b>	<b>1,749</b>	<b>181</b>	<b>(1,408)</b>	<b>1,828</b>	<b>420</b>

### 31. MEMBERS ALLOWANCES

The Council paid £287,783 to members of the Council during the year; in 2016/17 it paid £283,440.

### 32. OFFICERS REMUNERATION

The remuneration paid to the Council's senior officers is shown in the table below. This includes the post title and shows the remuneration paid to those officers and includes a small amount of non-taxable expenses that have been reimbursed.

Post Holder Information	Salary, Fees & Allowances	Expense Allowances	Benefits in Kind	Sub - Total	Employer Pension Contributions	Total Remuneration
	£	£	£	£	£	£
<b>Chief Executive</b>						
2016/17	118,222	191	2,839	121,252	14,910	136,162
2017/18	120,015	171	7,916	128,102	18,286	146,388
<b>Deputy Chief Exec</b>						
2016/17	95,726	96	5,836	101,658	12,061	113,719
2017/18	95,899	119	3,838	99,856	14,793	114,649
<b>Exec Director (Legal &amp; Democratic)</b>						
2016/17	74,080	64	9,975	84,119	8,582	92,701
2017/18	78,620	62	9,610	88,292	11,068	99,360
<b>Head of Planning &amp; Transport</b>						
2016/17	57,643	153		57,796	7,229	65,025
2017/18	59,090	212		59,302	8,851	68,153
<b>Head of Housing &amp; Regeneration</b>						
2016/17	57,278	169	4,197	61,644	7,217	68,861
2017/18	57,851	100	4,744	62,695	8,851	71,546
<b>Head of Environmental Services</b>						
2016/17	55,709	76		55,785	6,890	62,675
2017/18	57,753	1,329		59,082	8,650	67,732
<b>Head of Accountancy Services</b>						
2016/17	53,692	212		53,904	6,620	60,524
2017/18	54,217	22		54,239	8,106	62,345
<b>Head of Benefits, Revenues &amp; Customer Contact</b>						
2016/17	52,453	195	4,500	57,148	6,620	63,768
2017/18	52,978	126	5,264	58,368	8,106	66,474
<b>Deputy Head of Environmental Services</b>						
2016/17	51,912	173	3,226	55,311	6,513	61,824
2017/18	52,978	464	3,523	56,965	8,106	65,071

The 2016/17 Employer Pension Contributions and Total Remuneration have been restated to reflect the Primary % contribution rate of 12.6%. The rate previously reported of 28% included the Secondary % contribution rate of 15.4%. This Secondary rate cost is part of the overall pension deficit recovery charge and is not specific to existing employees.

With effect from the 1<sup>st</sup> April 2017, following the latest tri-annual review of the scheme in April 2016, the Councils rates of contribution are 15.3% for existing officers (Primary) and 12.7% for deficit recovery purposes (Secondary). The reduced Secondary rate reflects the overall improvement of the Pensions Funding Position which has increased from 80% in April 2013 to 91% in April 2016.

The second table shows the number of all employees whose remuneration, excluding employer pension contributions, was £50,000 or more in bands of £5,000. It includes the officers in the previous table.

Remuneration	2016/17	2017/18
£50,000 - £54,999	2	3
£55,000 - £59,999	4	4
£60,000 - £64,999	1	1
£65,000 - £69,999		
£70,000 - £74,999		
£75,000 - £79,999		
£80,000 - £84,999	1	
£85,000 - £89,999		1
£90,000 - £94,999		
£95,000 - £99,999		1
£100,000 - £104,999	1	
£105,000 - £109,999		
£110,000 - £114,999		
£115,000 - £119,999		
£120,000 - £124,999	1	
£125,000 - £129,999		1

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

Exit package cost band (incl. special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£)	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
£0 - £20,000			2	7	2	7	18,037	83,598
£20,001 – £40,000			2	1	2	1	59,819	
£40,001 – £60,000			1		1		52,267	43,483
<b>Total</b>			<b>5</b>	<b>8</b>	<b>5</b>	<b>8</b>	<b>130,123</b>	<b>127,081</b>

The cost of exit packages charged to the CIES in 2017/18 is £127k.

### 33. EXTERNAL AUDIT COSTS

The Council has incurred the following fees in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Council's external auditors:

	2016/17 £000	2017/18 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	50	50
Fees payable for the certification of grant claims and returns	6	6
Public Sector Audit Appointments (PSAA) rebate	0	(7)
<b>Total</b>	<b>56</b>	<b>49</b>

The figures above include a refund of £6,970 in 2017/18 from the dissolution of the Audit Commission and £2,900 for the separate audit of the Group Accounts.

### 34. GRANT INCOME

The following grants and contributions were credited to the Comprehensive Income and Expenditure Statement.

	2016/17 £000	2017/18 £000
<b><i>Credited to Taxation and Non Specific Grants</i></b>		
Revenue Support Grant	3,159	2,446
Small Business & Empty Property Rate Relief Grant	588	1,069
New Homes Bonus Grant	639	378
Other	8	8
<b>Sub-Total</b>	<b>4,394</b>	<b>3,901</b>
<b><i>Credited to Services</i></b>		
Housing benefit / Rent allowance subsidy	26,163	25,041
Housing benefit and council tax administration grant	387	352
Other housing benefit grant	405	430
Disabled facilities grant	533	643
Accommodation based domestic abuse grant	0	90
Grants to support homelessness	61	130
Lottery grants	107	316
New Homes Bonus Grant	0	177
Huncoat housing zone grant	0	224
Other grants	69	124
<b>Sub-Total</b>	<b>27,725</b>	<b>27,527</b>
<b>Total</b>	<b>32,119</b>	<b>31,428</b>

### **35. RELATED PARTIES**

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

#### *Central Government*

Central government is responsible for providing the statutory framework within which the Council operates. It provides the majority of the Council's funding in the form of grants, and prescribes the terms of many of the transactions that the Council has with other parties. Details of grant income are shown in note 34.

#### *Other Public Bodies*

Precept payments to Lancashire County Council, Lancashire Fire Authority and Lancashire Police and Crime Commissioner are shown in the Collection Fund, while the total precepts paid to Parish Councils are shown in note 8. Details of payments to the Pension Fund are shown in note 38.

#### *Members & Officers*

Members of the Council have direct control over the Council's financial and operating policies. The total of member allowances paid in 2017-18 is shown in note 31.

Some council members act in a number of capacities for related parties. This may include being employed by other local authorities, acting as a trustee or serving on the management board of companies and voluntary organisations. Members' interests in related parties have been included, where applicable, in the Register of Members Interests which is open to public inspection. There are no related party issues.

Under the Authority's Code of Conduct for Employees officers must declare any interests, financial and non-financial which could conflict with the authority's interests. No material declarations were made during the year.

#### *Entities Influenced by the Council*

Globe Enterprises Ltd is a property and investment company based in Accrington, Lancashire. The Council owns one third of the share capital of the company. The Council has also invested £710,000 of cash and £290,000 of land in the form of loans to Globe Enterprises to provide working capital for the company. The Council received a part repayment of £367,000 of the loans as a contribution to the development of Scaitcliffe House. Further repayments totalling £281,987 have been received to date leaving an outstanding balance of £351k at 31<sup>st</sup> March 2018 (£351k at 31<sup>st</sup> March 2017). No payments were made or received during 17/18 (£0 16/17).

The Council received a payment of £85,000 from them in 2017/18 as part of an overage agreement for a land transaction dating back to 2002.

Barnfield and Hyndburn Development Partnership undertake property development. Stakes in the partnership are split 70% with Barnfield and Hyndburn and 30% with the Council. Their most recent

set of accounts is up to December 2017 when they recorded a loss of £293,291 (Dec 2016 loss of £32,395); they had net liabilities of £166,652 (Dec 2016 net assets £126,640).

Barnfield and Hyndburn Ltd also undertake property development. Stakes in the company are split 70% with Barnfield and Hyndburn and 30% with the Council. Their most recent set of accounts is up to December 2017 when they recorded a profit of £115,781 (Dec 2016 profit of £217,855); they had net assets of £1,679,306 (Dec 2016 net assets £1,563,525).

Leisure in Hyndburn is a trust set up to manage Hyndburn Borough Council's sport and leisure facilities. It also looks after the Council's arts and entertainment facilities and community buildings. During 2017/18 the Council made payments to the Trust totalling £378,146 (£470,551 in 2016/17) of which £285,293 (£338,864 in 2016/17) was a management fee. The Council received payments from the Trust totalling £1,488,009 (£1,397,063 in 2016/17) for services provided by the Council and other recharges. At 31 March 2018 the Council owed the Trust £0 (£0 in 2016/17) and was owed £399,095 (£361,926 in 2016/17). The Council also has two loans with the Trust at 31 March 2018 reported in long-term debtors; details are disclosed in note 17 Financial Instruments. The Trust is deemed to be influenced by the Council through its representation (one member) on the Trust Board.

### **36. CAPITAL EXPENDITURE AND CAPITAL FINANCING**

The total amount of capital expenditure is shown in the table below (including the value of assets acquired under finance leases and long term contracts), together with the resources used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement, which is a measure of the capital expenditure incurred by the Council that has yet to be financed.

	2016/17 £000	2017/18 £000
<b>Opening Capital Financing Requirement</b>	10,702	10,184
<i>Capital Investment</i>		
Property, Plant and Equipment	1,725	1,286
Heritage Assets	42	0
Investment Property	0	0
Intangible Assets	36	18
Assets Held for Sale	0	109
Revenue Expenditure Funded from Capital under Statute	1,795	2,336
<i>Sources of Finance</i>		
Capital Receipts	(70)	(223)
Government grants and other contributions	(2,071)	(1,441)
Direct revenue contributions	(1,428)	(1,768)
Minimum Revenue Provision/Long-term liabilities	(547)	(533)
<b>Closing Capital Financing Requirement</b>	10,184	9,968
<i>Explanation of Movement in Year</i>		
Assets acquired under finance leases	29	317
Minimum Revenue Provision	(541)	(533)
Finance leases asset disposals	(6)	0
<b>Change in Capital Financing Requirement</b>	(518)	(216)

### 37. LEASES

#### *Authority as Lessee: Finance Leases*

The Council has acquired a number of vehicles and items of equipment under finance leases. They have a net value of £151k in 2016/17 and £337k in 2017/18.

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability and the finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	2016/17 £000	2017/18 £000
Finance lease liabilities (NPV of minimum lease payments)		
Current	43	136
Non-Current	108	201
Finance costs payable in future years	18	36
Minimum lease payments	<b>169</b>	<b>373</b>

The minimum lease payments will be payable over the following periods:

	2016/17 £000	2017/18 £000
Not later than one year	48	148
Later than one year and not later than five years	117	225
Later than five years	4	0
Minimum lease payments	<b>169</b>	<b>373</b>

#### *Operating Leases*

The Council has acquired fleet vehicles by entering into operating leases.

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

	2016/17 £000	2017/18 £000
Not later than one year	0	0
Later than one year and not later than five years	6	4
Later than five years	0	0
Minimum lease payments	<b>6</b>	<b>4</b>



### 38. **DEFINED BENEFIT PENSION SCHEMES**

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

The Council participates in the Local Government Pension Scheme (LGPS) which is administered by Lancashire County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with the investment assets, and is governed by statute (principally now the LGPS Regulations 2013).

#### Transactions Relating to Post-employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are actually paid as pensions. However the charge we are required to make against council tax is based on the cash payable in the year so the real cost of post employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement:

	Local Government Pension Scheme	
	2016/17 £000	2017/18 £000
<b>Comprehensive Income and Expenditure Statement</b>		
<b><i>Cost of Services</i></b>		
Current service cost	1,550	2,172
Curtailments	116	66
Administration cost	33	32
<b><i>Financing and Investment Income and Expenditure</i></b>		
Net interest expense	1,303	1,075
<b>Total post employment benefit charged to the Surplus or Deficit on the Provision of Services</b>	<b>3,002</b>	<b>3,345</b>
<i>Other Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</i>		
Return on plan assets (excluding the amount included in the net interest expense)	(14,649)	(1,164)
Other Remeasurement of assets	801	0
Actuarial (Gains) and Losses arising on changes in demographic assumptions	(1,132)	0
Actuarial (Gains) and Losses arising on changes in financial assumptions	26,506	(5,164)
Experience (gain) / loss	(6,335)	0
<b>Total Remeasurements recognised in other comprehensive expenditure</b>	<b>5,191</b>	<b>(6,328)</b>
<b>Total post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>	<b>8,193</b>	<b>(2,983)</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the code	(3,002)	(3,345)
<i>Actual amount charged against the General Fund Balance for pensions in the year</i>		
Employers' contributions payable to scheme	2,462	2,430

## Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension Scheme	
	2016/17 £000	2017/18 £000
Present value of the defined benefit obligation	152,128	148,109
Fair value of plan assets	(107,919)	(109,313)
Sub-total	44,209	38,796
Other movements in the liability (asset)	0	0
<b>Net liability arising from defined benefit obligation</b>	<b>44,209</b>	<b>38,796</b>

## Reconciliation of the Movements in the Fair Value of Plan Assets

	Local Government Pension Scheme	
	2016/17 £000	2017/18 £000
Opening fair value of scheme assets	93,149	107,919
Interest income	3,221	2,668
<i>Remeasurement gain / (loss)</i>		
The return on plan assets, excluding the amount included in the net interest expense	14,649	1,164
Administration costs	(33)	(32)
Other remeasurement of assets	(801)	0
Contributions from employer	2,462	2,430
Contributions from employees paid into the scheme	436	419
Benefits paid	(5,164)	(5,255)
<b>Closing fair value of scheme assets</b>	<b>107,919</b>	<b>109,313</b>

## Reconciliation of Present Value of Plan Liabilities (Defined Benefit Obligation)

	Local Government Pension Scheme	
	2016/17 £000	2017/18 £000
<b>Opening Balance at 1 April</b>	<b>131,627</b>	<b>152,128</b>
Current service cost	1,550	2,172
Interest cost	4,524	3,743
Contributions by scheme participants	436	419
Remeasurement (gains) and losses:		
Actuarial gains and losses arising from changes in demographic assumptions	(1,132)	0
Actuarial gains and losses arising from changes in financial assumptions	26,506	(5,164)
Other	(6,335)	0
Past service costs / gains		
Losses / (gains) on curtailments	116	66
Benefits paid	(5,164)	(5,255)
<b>Closing Balance</b>	<b>152,128</b>	<b>148,109</b>

### Local Government Pension Scheme assets comprised:

	Fair value of scheme assets	
	2016/17	2017/18
	£000	£000
Cash and cash equivalents	<b>1,120</b>	<b>(457)</b>
Bonds		
<i>By sector</i>		
corporate	1,772	1,921
government	2,136	2,714
Sub total bonds	<b>3,908</b>	<b>4,635</b>
Property		
<i>By type</i>		
Retail	4,653	3,006
Commercial	4,856	7,274
Sub total property	<b>9,509</b>	<b>10,280</b>
Private Equity		
UK	1,223	0
Overseas	53,432	56,503
Sub-total private equity	<b>54,655</b>	<b>56,503</b>
Other investment funds		
Infrastructure	13,022	13,853
Credit funds	24,183	20,142
Property	1,522	1,660
Pooled fixed income	0	2,697
Sub-total other investment funds	<b>38,727</b>	<b>38,352</b>
Total Assets	<b>107,919</b>	<b>109,313</b>

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The Local Government Pension Scheme has been estimated by Mercer Limited, an independent firm of actuaries, estimates for the County Council Fund are based on the latest full valuation of the scheme as at 31<sup>st</sup> March 2016.

The significant assumptions used by the actuary have been:

Local Government Pension Scheme		
	2016/17	2017/18
Mortality Assumptions	Years	Years
Longevity at 65 for current pensioners		
men	22.6	22.7
women	25.2	25.4
Longevity at 65 for future pensioners		
men	24.9	25.0
women	27.9	28.0
	%	
Rate of inflation	2.3	2.1
Rate of increase in salaries	3.8	3.6
rate of increase in pensions	2.3	2.2
Rate for discounting scheme liabilities	2.5	2.6

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above.

The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated.

The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

#### Impact on the defined benefit obligation in the scheme

	Decrease in assumption £000	Increase in assumption £000
Longevity (increase or decrease in one year)	(3,046)	3,046
Rate of inflation (increase or decrease by 0.1%)	(2,344)	2,344
Rate of increase in salaries (increase or decrease by 0.1%)	(321)	321
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	2,307	(2,307)

### **Impact on the Council's Cash Flows**

The objectives of the scheme are to keep employers' contributions at as constant rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over 16 years during the April 2016 triennial valuation. Funding levels are monitored on an annual basis.

The authority anticipates paying £1.902m contributions to the scheme in 2018/19.

The weighted average duration of the defined benefit obligation for scheme members is 16 years (16 years in 2016/17).

### **39. CONTINGENT LIABILITIES**

At 31<sup>st</sup> March the Council had the following material contingent liability:

#### *Large Scale Voluntary Transfers Environmental Warranties*

There may be potential liabilities arising to Hyndburn BC from the Large Scale Voluntary Transfer (LSVT) of 30<sup>th</sup> March 2006 and the terms of the housing stock transfer related agreement of the same date, subject to the respective limitations and obligations in the agreement. Initially the agreement was with Hyndburn Homes Ltd of Contour Housing Group, subsequently Contour Housing amalgamated with Vicinity Housing Group to form Onward Housing Group (previously Symphony Housing Group).

To mitigate the potential costs of the agreement the Council has:

- Taken out Environmental Site Liability Insurance up to £20m, via a single premium, from the period 25<sup>th</sup> July 2007, which has been renewed in 2017/18 to the 24<sup>th</sup> July 2027
- Established a reserve for LSVT related Environmental Warranties which is increased by £250k per annum up to and including 2017/18. The balance in the reserve is £3.016m as at 31<sup>st</sup> March 2018.

#### *Business Rates Appeals*

As part of the legislation concerning the collection of business rates, successful appeals against local rateable values are met by Hyndburn Council. A provision has been established to meet the cost of successful appeals. It is possible though that new appeals may arise during the course of the year. Since they will have arisen after the provision was calculated they will not form part of its total estimate and the provision may not be sufficient. Consequently, if they were upheld, they would constitute a further liability for the Council.

### **40. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

The Council's activities expose it to a variety of financial risks:

- Credit Risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility the Council might not have funds available to meet its commitments to make payments.
- Market Risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out within the Council's finance team under policies approved by the Council in the annual treasury management strategy.

The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and has set treasury management indicators to control key financial instrument risks.

When the Council considers the revenue budget and capital programme in March, it also approves the Treasury Management Strategy for the coming three years. The strategy covers:

- Current treasury position when reporting
- Expected movement in interest rates
- Council's borrowing and debt strategy
- Prudential indicators and limits on activity e.g. upper limits on variable rate exposure, upper limits on fixed rate exposure, gross limits for maturity structure of borrowing, maximum total principal sum invested for over 364 days
- Debt re-scheduling considerations

#### *Credit Risk*

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to Council customers.

The risk is minimised through the annual investment strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria within the Council's treasury management practices. The Council maintains strict credit criteria for investment counterparties and monitors activity against these criteria. As a result of these high credit criteria there has been no experience of defaults.

The Council maintains an approved list of organisations for investment purposes, consisting of major banks, building societies and other local authorities. Maturity limits apply for each counterparty category and maximum investment limits also exist per counterparty and sector.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its' counterparties in relation to deposits.

The following analysis summarises the Council's potential maximum exposure to credit risk based on past experience and current market conditions:

	Amount at 31 <sup>st</sup> March 2018	Historical experience of default	Historical experience adjusted for market conditions	Estimated Maximum Exposure to Default and uncollectability
	£000	%	%	£000
Banks & Building Societies	1,735	0	0	0
Other Local Authorities & Govt Bodies	21,000	0	0	0
Other Customers	1,638	2.7	2.7	44
<b>Total</b>	<b>24,373</b>			<b>44</b>

The Council does not generally allow credit for its sundry debtors. The sundry debtors outstanding which are past their due date for payment at 31<sup>st</sup> March 2018 can be analysed by age as shown in the table below.

Aged Sundry Debt – 31 <sup>st</sup> March 2018 £000	
Less than 30 days	295
30 days to 59 days	85
60 days to 89 days	130
90 days to 119 days	18
120 + days	555
<b>Total</b>	<b>1,083</b>

#### *Liquidity Risk*

The Council has ready access to borrowings from the Public Works Loan Board for long term borrowing and the money markets to cover any day-to-day cash flow need. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above as well as through cash flow management procedures required by the Code of Practice.

The approved prudential indicator limits for the maturity structure of debt and the limits placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategy addresses the main risks and the accountancy section. address the operational risks within the approved parameters. The maturity analysis of financial liabilities is as follows:

Financial Liabilities by Maturity Risk	31 <sup>st</sup> March 2017	31 <sup>st</sup> March 2018
	£000	£000
Less than one year	4,243	4,343
Between 1 and 2 years	82	178
Between 2 and 5 years	35	47
Between 5 and 10 years	4	0
10 years and above	5,400	5,400
<b>Total</b>	<b>9,764</b>	<b>9,968</b>

The risk of LOBO loans (£4.12m) being recalled is appropriately reflected by categorising the loans per the next call date. The final maturity dates of the LOBO loans are:-

£2.6m 31 July 2042

£1.52m 25 November 2054

The maturity date of the long term loan - £5.4m – is 6 August 2054

#### *Market Risk*

##### *Interest rate risk*

The Council has limited exposure to interest rate movements on its borrowings and investments.

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the surplus or deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The aim of the prudential indicators is to contain the activity of the treasury function within certain limits thereby reducing the risk or likelihood of an adverse movement in interest rate or borrowing decisions that could impact negatively on the Council's overall financial position.

The accountancy section monitors market and forecast interest rates within the year to adjust exposure appropriately.

If interest rates had been 1% higher with all other variables held constant, the financial effect would have been as set out below.

<b>Sensitivity to 1% increase in interest Rates</b>		
	(Received)/ Paid in Year	+ 1% Increase
	£000	£000
Increase in interest payable on short term borrowings	0	0
Increase in interest receivable on short term investments	(102)	(331)
<b>Impact on surplus or deficit on the provision of services</b>	<b>(102)</b>	<b>(331)</b>
Increase (decrease) in fair value of fixed rate investments (fixed term deposits)	0	0
<b>Impact on other comprehensive income and expenditure</b>	<b>(102)</b>	<b>(331)</b>
<b>Borrowing Liabilities</b>		
LOBO's (fixed rate)	243	0
LOBO's (variable)	196	41
	<b>439</b>	<b>41</b>

The impact of a 1% fall in interest rates would be as above but with the movements being reversed except for interest receivable which would fall to nil.

#### Price Risk

The Council, excluding the pension fund, does not generally invest in instruments with this type of risk.

#### Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.



## **COLLECTION FUND**

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2016/17			Income & Expenditure Account	2017/18		
Business Rates £00	Council Tax £000	Total £000		Business Rates £000	Council Tax £000	Total £000
	(34,609)	(34,609)	<b>Income</b>		(36,216)	(36,216)
(23,394)		(23,394)	Income from Council Tax	(19,885)		(19,885)
			Business rates			
<b>(23,394)</b>	<b>(34,609)</b>	<b>(58,003)</b>	<b>Gross Income</b>	<b>(19,885)</b>	<b>(36,216)</b>	<b>(56,101)</b>
			<b>Expenditure</b>			
			Apportionment of previous year's (surplus)/ deficit:			
(55)		(55)	Central Government	883		883
(10)	2,312	2,302	Lancashire County Council	159	1,971	2,130
0	325	325	Lancashire Police & Crime Commissioner		272	272
(1)	133	132	Lancashire Combined Fire Authority	18	110	128
(44)	472	428	Hyndburn Borough Council	707	387	1,094
(110)	3,242	3,132	Precepts and Demands:	1,767	2,740	4,507
9,785		9,785	Central Government	8,419		8,419
1,761	22,427	24,188	Lancashire County Council	1,516	24,675	26,191
0	3,097	3,097	Lancashire Police & Crime Commissioner	0	3,342	3,342
196	1,250	1,446	Lancashire Combined Fire Authority	168	1,323	1,491
7,828	4,412	12,240	Hyndburn Borough Council	6,736	4,769	11,505
19,570	31,186	50,756	Charges to the Collection Fund:	16,839	34,109	50,948
130		130	Cost of collection	126		126
(21)		(21)	Transitional Payment Protection	1,826		1,826
879	723	1,602	Write offs	1,145	270	1,415
527	100	627	Increase/(decrease) in bad debt provision	(653)	482	(171)
1,040		1,040	Increase in provision for appeals	691		691
(258)		(258)	Settlement of Appeals	(573)		(573)
2,297	823	3,120		2,562	752	3,314
<b>21,757</b>	<b>35,251</b>	<b>57,008</b>	<b>Gross Expenditure</b>	<b>21,168</b>	<b>37,601</b>	<b>58,769</b>
(1,637)	642	(995)	(Surplus)/deficit for year	1,283	1,385	2,668
172	(3,565)	(3,393)	(Surplus)/deficit as at 1 <sup>st</sup> April b/f	(1,465)	(2,923)	(4,388)
<b>(1,465)</b>	<b>(2,923)</b>	<b>(4,388)</b>	<b>(Surplus)/deficit as at 31<sup>st</sup> March c/f</b>	<b>(182)</b>	<b>(1,538)</b>	<b>(1,720)</b>

### *Non-Domestic Rates (NDR)*

NDR is the business rate and is organised on a national basis. The government specifies an amount for standard businesses (47.9p in 2017/18 and 49.7p in 2016/17) and an amount for qualifying small businesses (46.6p in 2017/18 and 48.4p in 2016/17). These national multipliers are, subject to the effects of transitional arrangements, used to calculate local businesses pay rates by multiplying the amount by their rateable value.

With the introduction of the Business Rates Retention Scheme from 1st April 2013 Councils pass on to Central Government 50% of the collectable amount, retaining 40% themselves and passing 9% and 1% to the County Council and combined Fire and Rescue Authority respectively.

The Council's total non-domestic rateable value at the end of the financial year 2017/18 was £55.55m and £59.61m for 2016/17. This reduction follows a country-wide rating revaluation which took effect from 1<sup>st</sup> April 2017.

### *Council Tax*

Council tax is due from residential properties based on the statutory national valuation band in which the property has been placed. The council tax is calculated by estimating the amount of income required from the collection fund by the Council and the Precepting authorities for the forthcoming year. This is divided by the council tax base i.e. the total number of equivalent Band D properties.

Band	Number of Dwellings	Discount	Factor	Band D Equivalent Whole Numbers
AA	35	3	5/9	18
A	16,977	2,712	6/9	9,510
B	4,944	485	7/9	3,468
C	5,142	375	8/9	4,237
D	2,557	142	9/9	2,415
E	819	47	11/9	943
F	263	16	13/9	357
G	166	17	15/9	248
H	5	1	18/9	8
Total				21,204
% Collection Rate				95.25
Tax Base				20,197

### *Surpluses and Deficits*

The actual surplus or deficit on the council tax collected at the financial year end is apportioned and distributed between the billing and the precepting authorities in proportion to the value of their respective precepts on the collection fund. Any surplus is used to reduce future years' council tax.

The amounts transferred in respect to each year's surplus or deficit are based on an estimate made mid-January and therefore do not relate directly to the balance shown in these accounts. Any difference between the estimate and the outturn is taken into account when estimating the surplus or deficit the following year.

## **LANCASHIRE BUSINESS RATES POOL**

The Council is part of the Lancashire Business Rates Pool which began on 1<sup>st</sup> April 2016. In a Business Rate Pool, tariffs, top-ups, levies and safety nets can be combined. This can result in a significantly lower levy rate or even a zero levy rate meaning that more or all of the business rate growth can be retained within the pool area instead of being payable to the Government.

The Lancashire Business Rates Pool, which includes most but not all of the local authorities in Lancashire, has been designated by the Secretary of State for Housing, Communities and Local Government and the retained levy in Lancashire has been distributed as follows:

- Lancashire County Council is paid 10% of the overall retained levy
- Each district within the pool retains 90% of their levy

With regard to Hyndburn BC, the retained levy would be £432,570, hence under pooling the Council has benefited from extra income of £389,313. Lancashire County Council has received the remaining 10% of retained levy.

As part of the pool arrangements, one authority must be designated as lead authority, which in the case of the Lancashire Business Rates Pool is Ribble Valley Borough Council. As part of this arrangement a fee of £2,000 is payable by each pool member to Ribble Valley BC in their role as lead.

In the Lancashire Business Rates Pool each council bears its own risk and takes its own risk and takes its own reward under the pool agreement i.e. no sharing of a volatility reserve.

Below is a summary of the Lancashire Business Rates Pool members and relevant transactions.

Lancashire Business Rates Pool Members 2017/18	Authority Type	Tariffs and Top-ups 2017/18 £	Retained Levy on Growth 2017/18 £	10% Retained Levy Payable to / receivable by LCC £	Net Retained Levy 2017/18 £
Chorley Borough Council	Tariff	6,073,147	-843,563	84,356	-759,207
Fylde Borough Council	Tariff	7,565,517	-664,723	66,472	-598,251
Hyndburn Borough Council	Tariff	3,706,620	-432,570	43,257	-389,313
Pendle Borough Council	Tariff	3,164,521	-518,196	51,820	-466,376
Ribble Valley Borough Council	Tariff	4,026,300	-661,344	66,134	-595,210
Rossendale Borough Council	Tariff	2,534,068	-518,640	51,864	-466,776
South Ribble Borough Council	Tariff	9,644,242	-1,236,560	123,656	-1,112,904
West Lancashire Borough Council	Tariff	8,123,116	-669,688	66,969	-602,719
Wyre Borough Council	Tariff	6,385,329	-466,171	46,617	-419,554
Lancashire County Council (LCC)	Top-up	-147,643,257	0	-601,145	-601,145
<b>Pool Total</b>		-96,420,397	-6,011,455	0	-6,011,455
Central Government		96,420,397	0	0	0
<b>Total</b>		<b>0</b>	<b>-6,011,455</b>	<b>0</b>	<b>-6,011,455</b>

The Net Retained Levy for the Council is shown within Business Rates Retention income on the Comprehensive Income and Expenditure Statement, along with the Council's own share of growth achieved in the year.

## **Group Accounts 2017/18**

The Group Accounts are prepared in accordance with the relevant legislation and guidance primarily International Financial Reporting Standards (IFRS) and the CIPFA Accounting Code of Practice ("the Code").

Under Accounting Standards the Council is required to include the results of organisations termed as Associates if it has a significant influence over financial and operating policies and the values are material.

The Council has included the results of Globe Enterprises Ltd, Barnfield & Hyndburn Ltd and Barnfield and Hyndburn Development Partnership as Associates using the equity method of consolidation.

The Council's share of the net assets or liabilities of the Associate is incorporated and adjusted each year by the Council's share of the entity's results (recognised in the Group Income and Expenditure statement) and its share of other gains and losses.

The Group Financial Statements to the 31st March 2018 represent the consolidation of the balances and transactions of the Council and its Associates.

### **Barnfield & Hyndburn Partnership**

This is a partnership governed by the Partnership Act 1890 and its business is property development. The two partners are Hyndburn Council and Barnfield Construction (UK) Ltd. with a 30% and 70% stake respectively. The business address is Kenyon Road, Lomeshaye Industrial Estate, Nelson, Lancashire BB9 5SP.

### **Barnfield and Hyndburn Ltd.**

This is a company as defined under the Companies Act 1985 and 2006. Barnfield Construction (UK) Ltd. and Hyndburn Council have 70% and 30% stakes respectively. The purpose of the company is property development and to regulate the operation of the Barnfield & Hyndburn Partnership which, in its present form, exposes the Council to unlimited legal liability around its operation. The business address is Kenyon Road, Lomeshaye Industrial Estate, Nelson, Lancashire BBP 5SP.

### **Globe Enterprise Ltd.**

This is a company as defined under the Companies Act 1985 and 2006. There are three partners Barnfield Construction (UK) Ltd. Hyndburn Council and Mr and Mrs Nevison. Each owns one third of the company. The company was formed to develop Platts Mill at Scaitcliffe Lodge and subsequently to invest in and regenerate parts of Hyndburn. The business address is The Globe, Centre, St James Square, Accrington, Lancashire BB5 0RE.

All three associates have a financial year ending 31<sup>st</sup> December. The Council's year end is 31<sup>st</sup> March. Given that the dates are not more than three months apart, the associates' financial statements are adjusted for the effects of significant transactions and events which occur between the two dates.

## GROUP MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	TOTAL USABLE RESERVES	UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES	Authority's Share of Reserves of associates	TOTAL GROUP RESERVES
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance as at 31<sup>st</sup> March 2016</b>	12,995	4,010	1,222	18,227	(8,302)	9,925	1,518	11,443
<b><u>Movement in Reserves during 2016/17</u></b>								
Total Comprehensive Income and Expenditure	(1,332)	0	0	(1,332)	(4,182)	(5,514)	45	(5,469)
Adjustments between accounting basis and funding basis under regulations.	1,533	792	(652)	1,673	(1,673)	0		
Increase or decrease in 2016/17	201	792	(652)	341	(5,855)	(5,514)	45	(5,469)
<b>Balance at 31 March 2017 carried forward</b>	13,196	4,802	570	18,568	(14,157)	4,411	1,563	5,974
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	TOTAL USABLE RESERVES	UNUSABLE RESERVES	TOTAL AUTHORITY RESERVES	Authority's Share of Reserves of associates	TOTAL GROUP RESERVES
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance as at 31<sup>st</sup> March 2017</b>	13,196	4,802	570	18,568	(14,157)	4,411	1,563	5,974
<b><u>Movement in Reserves during 2017/18</u></b>								
Total Comprehensive Income and Expenditure	(1,118)	0	0	(1,118)	6,858	5,740	(7)	5,733
Adjustments between accounting basis and funding basis under regulations.	1,858	1,005	169	3,032	(3,032)	0	0	0
Increase or decrease in 2017/18	740	1,005	169	1,914	3,826	5,740	(7)	5,733
<b>Balance at 31 March 2018 carried forward</b>	13,936	5,807	739	20,482	(10,331)	10,151	1,556	11,707

## GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2016/17		Note	2017/18	
HBC Net Expenditure £000	Group Net Expenditure £000		HBC Net Expenditure £000	Group Net Expenditure £000
426	426		318	318
2,012	2,012		2,267	2,267
828	828		886	886
1,129	1,129		870	870
384	384		479	479
2,270	2,270		2,261	2,261
6,048	6,048		5,968	5,968
13,097	13,097		13,049	13,049
292	292		(770)	(770)
1,212	1,212		1,492	1,492
(13,269)	(13,269)		(12,653)	(12,653)
	(30)	Share of (Surplus ) Deficit on Provision of Services by Associates		(4)
	(14)	Tax Expenses of Associates		20
1332	1288		1,118	1,134
(509)	(509)		(14)	(14)
0	0		0	0
(500)	(500)		(516)	(516)
5,191	5,191		(6,328)	(6,328)
0	0			
4,182	4,182		(6,858)	(6,858)
5,514	5,470		(5,740)	(5,724)

## GROUP BALANCE SHEET

31 <sup>st</sup> March 2017 £000	31 <sup>st</sup> March 2017 £000		Note	31 <sup>st</sup> March 2018 £000	31 <sup>st</sup> March 2018 £000
HBC	Group			HBC	Group
24,205	24,205	Property, Plant & Equipment		22,981	22,981
4,500	4,500	Heritage Assets		4,490	4,490
7,131	7,131	Investment Property		6,918	6,918
64	64	Intangible Assets		38	38
0	0	Assets Held for Sale		1,616	1,616
35,900	35,900	Total Non-Current Assets		36,043	36,043
359	8	Long Term Investments		359	359
305	305	Long Term Debtors		275	275
	1,914	Investment in Associates	1		1,556
<b>36,564</b>	<b>38,127</b>	<b>LONG TERM ASSETS</b>		<b>36,677</b>	<b>38,233</b>
42	42	Inventories		51	51
3,725	3,725	Short Term Debtors		5,276	5,276
21,069	21,069	Short Term Investments		21,052	21,052
3,187	3,187	Assets Held for Sale		1,948	1,948
3,748	3,748	Cash & Cash Equivalents		2,036	2,036
<b>31,771</b>	<b>31,771</b>	<b>CURRENT ASSETS</b>		<b>30,363</b>	<b>30,363</b>
(44)	(44)	Short Term Borrowing		(43)	(43)
(7,923)	(7,923)	Short Term Creditors		(5,974)	(5,974)
0	0	Bank (overdraft)		0	0
0	0	Provisions current		0	0
<b>(7,967)</b>	<b>(7,967)</b>	<b>CURRENT LIABILITIES</b>		<b>(6,017)</b>	<b>(6,017)</b>
(9,836)	(9,836)	Long Term Borrowing		(9,833)	(9,833)
(1,761)	(1,761)	Provisions – Long Term		(1,906)	(1,906)
(151)	(151)	Deferred Liabilities: Finance Leases		(337)	(337)
(44,209)	(44,209)	Net Pensions Liability		(38,796)	(38,796)
<b>(55,957)</b>	<b>(55,957)</b>	<b>LONG TERM LIABILITIES</b>		<b>(50,872)</b>	<b>(50,872)</b>
<b>4,411</b>	<b>5,974</b>	<b>NET ASSETS</b>		<b>10,151</b>	<b>11,707</b>
		<b>CAPITAL ACCOUNTS &amp; RESERVES</b>			
		<i>Usable Reserves</i>			
2,879	2,879	General Fund Balance Reserve		2,558	2,558
10,317	10,317	Earmarked Reserves		11,378	11,378
4,802	4,802	Usable Capital Receipts Reserve		5,807	5,807
570	570	Capital Grants Unapplied		739	739
	1,401	Retained Earnings	2		1,384
(14,157)	(13,995)	<i>Unusable Reserves and Accounts</i>		(10,331)	(10,159)
<b>4,411</b>	<b>5,974</b>	<b>TOTAL RESERVES AND BALANCES</b>		<b>10,151</b>	<b>11,707</b>



## Notes to the Group Financial Statements

The Group figures for the Group CIES and the Group Balance Sheet are the same as the Authority single entity accounts on pages 22 to 26 except for the following notes.

### 1. Investment in Associates

The value of the Council's equity in the Associate companies

Globe Enterprises Ltd £1,177k (2016/17 £1,481k)

Other £379k (2016/17 £433k)

Total = £1,556k (2016/17 £1,914k)

This is shown in the table below:

	Share in Associate	16/17	17/18
<b>1. Equity In Associates</b>	%	£000's	£000's
Globe Enterprises Ltd	33.33	1,481	1,177
Barnfield & Hyndburn Ltd	30	470	504
Barnfield & Hyndburn Development Partnership	30	(37)	(125)
<b>Total Value of Equity</b>		<b>1,914</b>	<b>1,556</b>

### 2. Retained Earnings

The Council's share of Post -acquisition gains/losses in Associates

Globe Enterprises Ltd £1,119k (2016/17 £1,082k)

Other £265k (2016/17 £319k)

Total = £1,384k (2016/17 £1,401k)

This is shown in the table below:

	Share in Associate	16/17	17/18
<b>2. Share of Retained Earnings</b>	%	£000's	£000's
Globe Enterprises Ltd	33.33	1,082	1,119
Barnfield & Hyndburn Ltd	30	356	390
Barnfield & Hyndburn Development Partnership	30	(37)	(125)
<b>Total Share of Retained Earnings</b>		<b>1,401</b>	<b>1,384</b>

### 3. Group Cash Flow

The Group figures are the same as the single entity cash flow.





**DEPUTY CHIEF EXECUTIVE**

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Grant Thornton UK LLP  
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Your ref:  
Our ref: JM/ED  
Ask for: Joe McIntyre  
Direct Line: 01254 380683  
Date: 30<sup>th</sup> July 2018

Dear Sirs

**Hyndburn Borough Council**

**Financial Statements for the year ended 31 March 2018**

This representation letter is provided in connection with the audit of the financial statements of Hyndburn Borough Council and its subsidiary undertakings, Globe Enterprise Limited, Barnfield and Hyndburn Limited and Barnfield & Hyndburn Partnership for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the group and parent Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

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

**Group Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

- vi Except as disclosed in the group and parent Council financial statements:
    - a there are no unrecorded liabilities, actual or contingent
    - b none of the assets of the group and parent Council has been assigned, pledged or mortgaged
    - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
  - vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
  - viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
  - ix All events subsequent to the date of the group and parent Council financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
  - x We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- The group and parent Council financial statements are free of material misstatements, including omissions.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
  - xii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.
  - xiii We believe that the group and parent Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

## Information Provided

- xiv We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;

- b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xv We have communicated to you all deficiencies in internal control of which management is aware.
- xvi All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.
- xvii We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.
- xviii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the group and parent Council financial statements.
- xix We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.
- xx We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxi We have disclosed to you the identity of the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.
- xxii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

## **Annual Governance Statement**

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

## **Narrative Report**

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

## Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 30 July 2018.

Yours faithfully

Name:

Position: Chair Audit Committee

Date: 30 July 2018

Name:

Position: Deputy Chief Executive

Date 30 July 2018

**Signed on behalf of Hyndburn Borough Council**

**REPORT TO :** Cabinet  
**DATE :** 6<sup>th</sup> June 2018  
**Report of** Cllr Joyce Plummer  
Portfolio Holder : Resources

**PREPARED BY :** Joe McIntyre  
Deputy Chief Executive

## **Capital Report Outturn 2017/18**

### **Purpose of the Report**

The Report informs Cabinet of the financial spend on Capital Projects during 2017/18. The full detail of expenditure is shown at Appendix 1 and the proposed list of changes to the 2018/19 Capital Programme is shown at Appendix 2. These will be funded from the amounts not spent but authorised in 2017/18.

### **Recommendations**

- Cabinet notes the report and asks the Audit Committee to approve the Slippage items at Appendix 2.

### **Summary**

The detail of the Capital Programme for 2017/18 is shown at Appendix 1.

The outturn position for 2017/18 on Capital Expenditure shows a fourteenth year of major capital investment by the Council. The overall investment by the Council in the year was just over £3.4 m against an authorised maximum budget of £11.1m.

The Council has received applications for net slippage of £2.47m comprising £7.39m of expenditure schemes moving from 2017/18 to 2018/19 and £4.92m of income. These will be submitted for approval to the Audit Committee in June 2018. The list of schemes that have applied for slippage is given at Appendix 2. Overspends occurred on a few schemes and were small in value terms and had no impact on the overall financial position of the Council, as savings made elsewhere on the programme provided sufficient additional

funding to meet these extra costs. Overall we spent £10,000 more than anticipated, but generated savings of over £241,000.

We maintained our prudent approach to Treasury Management during the year. The indicators at Table 3 demonstrate small positive movements between last year's position and the outturn for this year.

## Detail

Figures reported are the latest available and may be subject to change in finalising the accounts or after the conclusion of the final accounts audit. If the figures change significantly from those contained in this report an update on the overall position will be made to Cabinet at a later date.

The Capital Programme for 2017/18 was approved by the Council on the 23<sup>rd</sup> February 2017. The programme for 2017/18 outlined continuing major investment in the local community and in the Council's key priorities. The Council has spent just over £3.4m million on a wide variety of projects over the last 12 months. This expenditure builds upon the record levels of investment in previous years made by the Council.

The experience in managing a challenging capital programme over the last decade ensured the programme was managed within the overall resources of the Council. There were no significant overspend within the year. (defined as over £10,000 or over 10% of a Project's Budget). Cost pressures this year were limited to under £10,000 and mostly stemmed from the renewal of the Fire Safety System at the Market Hall. The initial budget of £30,000 was exceeded by £7,723 as the contractor discovered significant deterioration in the system once the work had commenced.

Close monitoring of expenditure within Accountancy Services and regular reporting to the Capital Programme Working Group, Corporate Management Team and Cabinet ensures proper control over expenditure is actively in place and the dangers of overruns in expenditure are largely de-risked with the Council having the ability to either contain any overspends from savings generated elsewhere on capital projects or place a number of projects on hold until the following year, should this prove necessary.



The Table below shows the spend by major categories of expenditure.

<b>Table 1</b>	<b>Spend by Area</b>	<b>£000</b>
	Housing Projects	940
	Community & Leisure Projects	2,308
	Internal Projects	183
	<b>Total</b>	<b>3,431</b>

In line with the Council's overall financial strategy and its commitment to bring down its revenue spend over future years, the Council set its capital programme on the premise of avoiding additional borrowing and thereby continuing to avoid additional interest charges associated with this course of action. This strategy continues from previous years and ensures the capital programme is aligned to the overall financial objectives of the Council.

The Capital Programme was therefore funded for the twelfth consecutive year using only available internal resources or external funding. This approach ensures that additional financial burdens are not placed on local taxpayers into the future. Our approach also seeks to maximise the Council's leverage position and gear as much expenditure as possible from external sources into the Borough.

## Funding Sources

Table 2 below, provides the details of the mix between the different types of funding sources used to finance the Capital Programme in 2017/18. Despite the availability of external funding, it is a key priority of the Council to ensure maximum value for money is achieved when spending these sums and we look to gear the funding whenever possible by cross matching it with partners, and other funding bodies to achieve maximum impact.

Table 2

<b>Capital Expenditure Funding Source 2017/18</b>	
Section 106 Funds	721,271
Disabled Facility Grants	642,928
Lottery Funding	528,171
New Homes Bonus	435,962
Transitional Grant	299,074
Invest to Save & Revenue Reserve	293,661
HMR Ear Marked Funds	210,487
Specified Capital Grants & Contributions	160,844
Other	139,492
<b>Total</b>	<b>3,431,890</b>

The Government in response to the worldwide economic recession has over the last decade severely curtailed money made available to Local Government for capital investment. Future funding of capital expenditure will now have to rely upon existing Capital reserves, the generation of capital receipts, accessing grants from 3<sup>rd</sup> parties and transfers of funding from Revenue.

However our Capital funding strategy of limiting expenditure to only the highest priority projects and seeking to maximise external funding has ensured that our available capital resources remain strong and it is likely that the Council will be able to continue with its current strategy for the foreseeable future without having to call upon a contribution from its Revenue Budget.

The major high spots within the Capital Programme this year were:

- The major investment into the Town Centre, outside our historic Town Hall and Market Hall with over £1.25m of expenditure committed to improving this public space to ensure it can be a catalyst for the regeneration of the retail offer in Accrington around Blackburn Road and it can be a flexible and well used area for events, concerts and other activities that will stimulate the local economy.
- The initial investment into Rhyddings Park of over £450,000 as we restore the major public park in Oswaldtwistle to its former glory and develop its offer and appeal to the public.
- Further investment by the Council in Housing Regeneration with funds going into Rishton, Woodnook and other areas across Hyndburn.

- Continued grants to those that wish to continue to live in their own homes but struggle with illnesses and disabilities to allow them to adapt their homes to their needs.
- The Council invested over £250,000 into Hyndburn Sport Centre to provide a children's soft play activity centre to help ensure the youngest in our community are encouraged to be active from an early age.

In addition a wide range of other projects were undertaken by the Council and necessary building work and investment in infrastructure and vehicles was undertaken. Further details are provided in Appendix 1.

Permission for Slippage for £7.39m of expenditure and £4.92m of funding has been requested and is detailed at Appendix 2. This will be submitted to the Audit Committee for approval in July 2018.

## Receipts

The Council generated almost £1m in capital receipts this year, which exceeded last year's performance by almost £100,000. This indicates two years of substantial capital receipts for the Council after a long period in which capital receipts were very small due to the downturn in the national economy. Receipts are likely to continue to be generated over the next 12 to 24 months but remain dependent on a stable and growing economy.

## Treasury Management

The year-end figures are provided below at Table 3.

Table 3 **Prudential Indicators**

	Actual Outturn 2016/17 £'000	Original Indicator Estimate 2017/18 £'000	Latest Estimate 2017/18 £'000	Actual Outturn 2017/18 £'000
<b>Prudential Indicators - Latest Estimate</b>				
Capital Financing Requirement (CFR)	10,184	9,991	10,033	9,968
Estimated Capital Expenditure General Fund	3,569	10,312	9,676	3,432
Ratio of Financing Costs to Net Revenue Stream	4%	4%	4%	4%
Impact of Capital Investment Decisions on the Council Tax	£0.00	£0.62	£0.00	£0.00

The Capital Financing Requirement was down by £216,000 compared to the previous year and we have now lowered this figure from £12,255,000 to £9,968,000 in six years. We maintained our Ratio of Financing Costs to Net Revenue Stream at 4% of the Net Revenue Stream and due to our approach to Capital Financing this year, the incremental impact of the Capital Investment Decisions on Council Tax was zero again over the last twelve months, indicating that there was no cost to council tax payers from our capital investment decisions this year

## Reasons for Recommendations

Not applicable.

## Alternative Options considered and Reasons for Rejection

Not applicable

## Implications

Issue	Comments
Financial (including mainstreaming)	As outlined in the report
Legal	Not applicable
Assessment of Risk	There are no additional risks stemming from this report.
Equality	There are no Equality issues stemming from this report
Key Decision	No

## Consultations

Not applicable

## Links to Corporate Priorities

Priority	Comments
Corporate Governance and Community Leadership	The report deals with the Councils duty to manage its finances and service delivery priorities.

Community Safety	Elements of the report impact on this area as spending decisions.
Housing and the Environment	Elements of the report impact on this area as spending decisions.
Economy and Employment	Elements of the report impact on this area as spending decisions.
Culture and Leisure	Elements of the report impact on this area as spending decisions.
Other priorities with partners: Health and Social Care Education and Lifelong Learning	Elements of the report impact on this area as spending decisions.

## **Local Government (Access to Information) Act 1985:**

**Council 23<sup>rd</sup> February 2017**

**Capital Programme 2017/18**

### **Freedom of Information**

The report does not contain exempt information under the Local Government Act 1972, Schedule 12a and all information can be disclosed under the Freedom of Information Act 2000.

## Appendix 1

### Capital Programme 2017/18

#### Variance Analysis

Scheme	Approval 2017/18		
	Gross Amount	Total Expenditure 2017/18	Variance (under) / over
HAG Stables & Motor House	5,549	683	(4,867)
Rhyddings Park Project	(43,978)	35,964	79,942
Rhyddings Park Project - Coach House & Kitchen Garden	969,000	421,737	(547,263)
Peel Park Play Area Huncoat	2,620	2,463	(157)
Peel Park Entrance	1,728	1,728	0
Lyndon Playing Fields Development	300,000	140,790	(159,210)
Clayton Forest / Barn St Woods	7,210		(7,210)
Bullough Park Changing Pavilion	25,000		(25,000)
Royds St & Woodnook Improvements LNR	10,417		(10,417)
Peel Park Drainage Imps	9,000		(9,000)
Security to Sports Pavilion Carpark Memorial Park	2,101	2,101	
Baxenden Recreation Ground Fencing	15,000	13,071	(1,929)
West End Gardens Revamp	4,000		(4,000)
Oak Hill Park Bowling Green Protection	28,000		(28,000)
Oak Hill Park Refurbishment	10,000		(10,000)
Harvey St Garden Area	10,000		(10,000)
West End Play Area Gates	2,600	2,319	(281)

HLC Mechanical & Electrical Plant Replacement	92,975	13,476	(79,499)
5 Aside Football Cages - Bank Mill	170,969	(36,085)	(207,054)
HLC Soft Play Conversion	257,025	257,025	
Technology Refresh (annual replacement programme)	20,000	20,204	204
PARIS Upgrade	2,966	2,100	(866)
Wheeled Bins	9,072	9,077	5
Wheeled Bins - Recycling	1,250,000		(1,250,000)
Acc Town Hall Improvements	0	1,089	1,089
Sustainability Appraisal Development Plan Document	12,000	12,321	321
IDOX Public Access Software Upgrade	4,500	2,250	(2,250)
Land Adj Peel Park	26,000	25,135	(865)
Accrington Townscape Heritage Initiative	2,317,456	1,031,059	(1,286,397)
Acc Town Centre Infrastructure Imps	584,573	243,762	(340,811)
Acc Market Hall Fire System Renewal	30,000	37,723	7,723
Cemetery Lee Lane Gt Harwood	23,580	23,580	
Cremators Acc Crematorium	450,000		(450,000)
Acc Crem Sound & Visual System	0	324	324
Planned Asset Improvement Programme	12,518		(12,518)
PAIP HAG CCTV Upgrade	5,000		(5,000)
PAIP Church & Altham Cemetery Stone Wall	15,000	14,710	(290)
PAIP HLC reroof & rainwater gutters	7,615		(7,615)
PAIP AMH reroof, render & gutters	15,000		(15,000)

PAIP HAG External Works	10,000		(10,000)
PAIP HAG Fire Alarm	22,385	22,434	49
PAIP Oakhill Park Rebuild Wall	11,875	11,375	(500)
PAIP Milnshaw Rebuild Wall	14,336		(14,336)
Norden Brook Bridge	30,000	15,860	(14,140)
Verti Drain Machinery	13,000	12,995	(5)
Vehicle Replacement x4 Kerbsiders	660,000		(660,000)
Allotments Regeneration	461	306	(155)
Local Area Management Capital Improvement Schemes	137,552	25,082	(112,470)
Christmas Decorations Replacement	16,375	16,225	(150)
Development of Norden Playing Fields	75,000		(75,000)
LCC Junction 7 Contribution	250,000		(250,000)
Acc Market Hall External Improvements	100,000		(100,000)
Lyndon Playing Fields Gt Hwd - associated costs of sale	109,304	109,304	
Housing Market Renewal Programme	221,549	51,530	(170,019)
Transitional Housing Programme - Additional Costs Compensation	35,000		(35,000)
Affordable Warmth Grant	82,304	63,839	(18,465)
Scaitcliffe Area	0		
Clearance - Pendle St PH1	372,944	4,372	(368,572)
Rishton Regeneration	599,663	175,122	(424,541)
Hudson Street Facelift	76,000	41	(75,959)
Lower Woodnook Housing Renewal Scheme	404,725	323	(404,402)





Disabled Facilities Grant	1,112,869	642,928	(469,941)
Special Disabled Facilities Adaptations	2,721	1,549	(1,172)
16 China St Renovation	30,321		(30,321)
<b>TOTAL EXPENDITURE ALL SCHEMES</b>	<b>11,052,880</b>	<b>3,431,890</b>	<b>(7,620,990)</b>

## Appendix 2

### Application for Roll Forward Of Capital Programme 2017/18 to 2018/19

	Slippage Exp	Slippage Inc	Slippage Net
<b>Approved Expenditure</b>			
Rhyddings Park + Coach House	467,322	-464,938	2,384
Lyndon Playing Fields Devt	159,210		159,210
Clayton Forest / Barn St Wood	7,210	-7,210	0
Bullough Park Changing Pavilion	25,000		25,000
Royds St & Woodnook Imps LNR	10,417	-10,417	0
West End Gardens Revamp	4,000		4,000
Oakhill Park Bowling Green Protection	28,000		28,000
Oakhill Park Refurbishment	10,000		10,000
Harvey St Garden Area	10,000		10,000
West End Play Area Gates	281		281
HLC Mechanical & Electrical Plant Replacement	79,499		79,499
Wheeled Bins Recycling	1,250,000	-400,000	850,000
Accrington Townscape Heritage Initiative	1,286,397	1,286,397	0
Acc Town Centre Infrastructure Imps	340,811	-340,811	0
Cremators	450,000	-450,000	0
Planned Asset Imp Programme	13,259		13,259
PAIP HAG CCTV Upgrade	5,000		5,000
PAIP HLC re-roof & rainwater gutters	7,615		7,615
PAIP AMH re-roof, render & gutters	15,000		15,000
PAIP HAG External Works	10,000		10,000
PAIP Milnshaw Rebuild Wall	14,336		14,336
Vehicle Replacement x4 Kerbsiders	660,000		660,000
Area Councils	112,470		112,470
Development Norden Playing Fields	75,000		75,000
LCC Junction 7 Contribution	250,000		250,000

Acc Market Hall External Improvements	100,000		100,000
Transitional Housing Programme	205,019	-205,019	0
Affordable Warmth Grant	18,465	-18,465	0
Clearance Pendle St PH1	368,572	-368,572	0
Rishton Regeneration	424,541	-424,541	0
Hudson Street Facelift	75,959	-75,959	0
Lower Woodnook Housing Renewal Scheme	404,402	-404,402	0
Disabled Facilities Grant	469,941	-431,586	38,355
Special Disabled Adaptations	1,172	-1,172	0
16 China St Renovation	30,321	-30,321	0
		-	
<b>TOTAL</b>	<b>7,389,219</b>	<b>4,919,810</b>	<b>2,469,409</b>