Chorley Council

GOVERNANCE COMMITTEE

WEDNESDAY, 25TH JANUARY 2017, 2.30 PM
COMMITTEE ROOM 1, TOWN HALL, CHORLEY

AGENDA

APOLOGIES

1 **DECLARATIONS OF ANY INTERESTS**

Members are reminded of their responsibility to declare any pecuniary interest in respect of matters contained in this agenda.

If you have a pecuniary interest you must withdraw from the meeting. Normally you should leave the room before the business starts to be discussed. You do, however, have the same right to speak as a member of the public and may remain in the room to enable you to exercise that right and then leave immediately. In either case you must not seek to improperly influence a decision on the matter.

2 **MINUTES OF MEETING WEDNESDAY, 14 SEPTEMBER 2016 OF GOVERNANCE COMMITTEE** (Pages 3 - 6)

To confirm the minutes of the Governance Committee meeting held on 14 September 2016 (enclosed)

3 **GOVERNANCE COMMITTEE: PROGRESS AND UPDATE REPORT** (Pages 7 - 22)

Report of the External Auditor (enclosed)

4 **TREASURY MANAGEMENT ACTIVITY TO 31 DECEMBER 2016** (Pages 23 - 42)

Report of the Chief Executive (enclosed)

5 **CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS** (Pages 43 - 54)

Report of the Chief Executive (enclosed)

6 **INTERNAL AUDIT AND INTERIM REPORT AS AT 30 DECEMBER 2016** (Pages 55 - 62)

Report of the Head of Shared assurance services (enclosed)

7 **RIPA INSPECTION** (Pages 63 - 70)

Meeting contact Dianne Scambler on 01257 515034 or email dianneb.scambler@chorley.gov.uk

Report of the Monitoring Officer (enclosed)

8 **ANY URGENT BUSINESS PREVIOUSLY AGREED WITH THE CHAIR**

GARY HALL
CHIEF EXECUTIVE

Electronic agendas sent to Members of the Governance Committee Councillor Paul Leadbetter (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Jean Cronshaw, Alan Cullens, Gordon France, Margaret France, Danny Gee and Debra Platt.

If you need this information in a different format, such as larger print or translation, please get in touch on 515151 or chorley.gov.uk

Chorley Council

MINUTES OF	**GOVERNANCE COMMITTEE**
MEETING DATE	**Wednesday, 14 September 2016**
MEMBERS PRESENT:	Councillor Paul Leadbetter (Chair), Councillor Anthony Gee (Vice-Chair) and Councillor Jean Cronshaw, Gordon France, Margaret France, Danny Gee and Debra Platt
OFFICERS:	Gary Hall (Chief Executive/Statutory Finance Officer), Chris Moister (Head of Legal, Democratic & HR Services/Monitoring Officer), Michael Jackson (Principal Financial Accountant), Dawn Highton (Principal Auditor) and Dianne Scambler (Democratic and Member Services Officer)
APOLOGIES:	Councillor Alan Cullens
EXTERNAL REPRESENTATIVES:	Peter Ripley (Independent Member), Mark Heap (Grant Thornton UK LLP), Gareth Winstanley (Grant Thornton UK LLP) and Richard Watkinson (Grant Thornton UK LLP)

16.G.57 Minutes of meeting Wednesday, 22 June 2016 of Governance Committee

RESOLVED – That subject to Gary Hall's designation amended to Chief Executive/Statutory Finance Officer, the minutes of the Governance Committee meeting held on 22 June 2016 be held as a correct record for signing by the Chair.

16.G.58 Declarations of Any Interests

There were no declarations of any interests.

16.G.59 Audit Findings Report

The Committee received a report of the External Auditor on their audit findings for the authority for the year ending 31 March 2016 that highlighted key matters arising for the Council's financial statements and gave their appreciation of the finance team and associated officers for their assistance during the audit.

The Auditor intended to issue an unqualified opinion on the financial Statements and Value for Money conclusion on 30 September 2016. They also continued to work closely with the Council's Finance team to improve processes that would help with the closedown deadline changes for 2017/18. The close down of accounts had been brought forward to the end of July 2018 and the Committee discussed the importance of working together in partnership to achieve this goal.

The Council's management is responsible for the identification, assessment, management and monitoring of risk, operating and monitoring the system of internal control and the External Auditors were happy to report that there had been no areas of significant weakness of internal control identified. Although a number of disclosures changes had been identified in the audit, they were minor in nature and mainly around the recording of assets.

RESOLVED – That the report be noted.

16.G.60 Statement of Accounts 2015-16

The Committee received a report that sought approval of the audited Statement of Accounts for its publication by 30 September under the requirement of the Accounts and Audit Regulations 2015. Once approved the signed Statement would be published on the Council's website.

Though many changes to the accounts since Governance Committee on 22 June 2016 were minor, additional asset revaluations and reclassifications had required changes to several statements and notes. In addition, investment property income had been disclosed in the wrong line of the Comprehensive Income and Expenditure Statement, requiring a correction to the statement and its supporting note.

The Appointed Auditor intended to issue an unqualified audit opinion of the Statement of Accounts; an unqualified Value for Money Conclusion and had advised on the need to change various supporting disclosures that had been identified during the audit.

Officers continued to explore different ways of improved working that would help the team to achieve the earlier closedown deadline in 2017/18 that included timetabling work to be completed throughout the year instead of leaving everything to the end of the year.

The Chief Executive/Statutory Finance Officer personally thanked Michael Jackson for all his hard work in preparing the Statement of Accounts for 2015/16 and commented that the authority would continue the good practice of presenting the draft Statement to the Committee, even though there was no legal requirement to do so.

RESOLVED

1. **That the report be noted.**
2. **Approval of the Statement of Accounts for 2015/16.**
3. **Approval granted for the authorisation of the Chief Executive to sign off the Letter of Representation.**

16.G.61 Charity and Trust Accounts 2015/16

The Statutory Finance Officer presented a report for approval of the accounts for the year ended 31 March 2016 for charities and trusts for which the Council is the sole trustee. Details of all the accounts were appended to the report.

The Council's Statement of accounts 2015/16 did not need to include the previous Trust Funds disclosure, so as an alternative, the figures were presented in this report, providing an opportunity for more detail to be included about each charity or trust.

Both officer's and Members of the Governance Committee agreed that a mechanism needed to be found of ensuring that the funds were accessible for use by the community.

RESOLVED –

1. **Approval of the accounts presented in Appendix A to E of the report.**

2. **That Executive Cabinet be asked to find a process for allocation of the funding through the next budget process of the Council.**

16.G.62 Internal Audit Interim Report as at 29 July 2016

The Head of Shared Assurance Services presented a report advising members of work undertaken in respect of the Internal Audit Plans for Chorley Council and Shared Service during the period April to July 2016. The report also detailed the outcomes of the audits undertaken and gave an appraisal of the Internal Audit Service's performance to date.

A snapshot of the overall progress made in relation to the 2016/17 Internal Audit Plans was appended to the report and a table highlighted the main pieces of work undertaken, together with any control issues identified.

A review of Safeguarding had been allocated with an Amber (5) rating as improvements were needed around updating the policies with the newly designated safeguarding officers, together with the provision of training and awareness needs in some areas, and an assurance rating of Red (9) had been allocated to the Review on ICT Continuity Service to reflect the need to update current arrangements in the business continuity and recovery plans.

The Committee was also made aware of an amendment to the 2016/17 Audit Plan presented in March 2016 following confirmation that the network contract was not going to be renewed and that instead, alternative arrangements are to be introduced from April 2017. Following a request from the Director (Customer and Digital) and the ICT Manger, this review has since been replaced with an audit of the Council's Information Governance arrangements.

Performance of Internal Audit as at 29 July 2016 continued to be good with the majority of indicators having either been achieved or exceeded. Some reviews have been profiled to commence after quarter one to allow time for the recent management restructure to embed, although meetings had been held will all new post holders to inform them of the planned audit reviews for 2016/17.

RESOLVED – That the report be noted.

16.G.63 RIPA Application Update

The Monitoring Officer reported that there had been no RIPA applications made. However he also reported a change in approach to auditing arrangements proposed by the Office of Surveillance Commissioner. The authority has recently completed a questionnaire regarding the policies and procedures that the authority has in place regarding RIPA and a review of the responses would determine if the Council would undertake a more formal audit inspection. Following receipt of our response, the Council had been requested to provide additional information regarding the protocol at the new CCTV suite, once obtained, it was considered unlikely that Chorley would be formally inspected in the future.

RESOLVED – That the report be noted.

16.G.64 Appointment of the External Auditors

Members were updated on the process currently being undertaken to appoint the external auditor for the Council from April 2018 onwards. One of the options available was to opt into a sector led body that would negotiate contracts and make appointments on behalf of Councils, and the Committee were informed that Public Sector Auditor Appointors (PSAA) have been appointed as this appointing body.

A timetable has been issued and although the deadline for opting in has not yet been finalised, it was anticipated that invitations would be issued before December 2016 with contracts being awarded by June 2017, with the aim of having auditors in place at the end of the year.

A report would be brought to Governance Committee for decision when further details were known.

RESOLVED – That the report be noted.

Chair Date

Governance Committee Progress and Update Report for Chorley Council

January 2017

Mark Heap
Director
T 0161 234 6375
E mark.r.heap@uk.gt.com

Gareth Winstanley
Manager
T 0161 234 6343
E gareth.j.winstanley@uk.gt.com

Richard Watkinson
In Charge Auditor
T 0161 234 6345
E richard.watkinson@uk.gt.com

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

Contents

Introduction

This paper provides the Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

You can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- Your Generation: Making decentralised energy happen http://www.grantthornton.co.uk/en/insights/making-decentralised-energy-happen/
- Culture of Place: A copy of the report and a collection of short videos can be found on our website at: http://www.grantthornton.co.uk/en/insights/culture-of-place/

Members and officers may also be interested in out recent webinars:

Alternative delivery models: Interview with Helen Randall of Trowers and Hamlins, discussing LATCs and JVs in local government.
http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/

Cyber security in the public sector: Our short video outlines questions for public sector organisations to ask in defending against cyber crime
http://www.grantthornton.co.uk/en/insights/cyber-security-in-the-public-sector/

.

Mark Heap
Engagement Lead
T 0161 234 6375
M 0788 045 6204
E mark.r.heap@uk.gt.com

Gareth Winstanley
Engagement Manager
T 0161 234 6343
M 07880 456 211
E gareth.j.winstanley@uk.gt.com

Progress at January 20178

Progress against plan
On track

Opinion and VfM conclusion
On track

Outputs delivered
On track

2016/17 work	Expected Date of Completion	Comments
Fee Letter We issued the 'Planned fee letter for 2016/17' in April 2016.	April 2016	
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements. We also inform you of any subsequent changes to our audit approach.	March 2017	This is to be presented to the Governance Committee in March 2017.
Interim accounts audit Our interim fieldwork visit includes: • Updating our review of the Council's control environment • Updating our understanding of financial systems • Review of Internal Audit reports on core financial systems • Early work on emerging accounting issues • Early substantive testing	March 2017	We will undertake our interim audit work during March 2017 and include our findings in our Audit Plan, to be presented to the Governance Committee in late March 2017.

Progress at January 2017

2016/17 work	Expected Date of Completion	Comments
Final accounts audit Including: • Audit of the 2016-17 financial statements • Proposed opinion on the Council's accounts	Fieldwork June – July 2017	With the early close of accounts coming ever nearer, we will undertake our final accounts audit in June and July this year. We will report our findings within our Audit Findings Report
Value for Money (VfM) conclusion The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body 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 three sub criteria for assessment to be able to give a conclusion overall are: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	February – June 2017	The results of our VfM audit work and the key messages arising were reported in our Audit Findings.

Grant Thornton Sector Issues

Financial sustainability of local authorities: capital expenditure and resourcing

National Audit Office

The full report is available at:

https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/

According to the NAO, Local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.

Since 2010-11, local authorities have faced less pressure on their resources to support capital expenditure as compared to revenue. Although local authorities' revenue spending power fell by over 25 per cent in real terms from 2010-11 to 2015-16, the NAO estimates that capital grants to authorities marginally increased from 2010-11 to 2014-15, (excluding education).

Capital spending by authorities increased by more than five per cent in real terms overall between 2010-11 and 2014-15, but this is uneven across local authorities and service areas. Almost half of authorities reduced their capital spending. Most service areas saw an increase in capital spend with the exception of culture and leisure: capital spending fell by 22 per cent overall in this area.

The NAO's report, published on 15 June, found that authorities face a growing challenge to continue long-term investment in their existing assets. Total spending has remained stable, but increasingly capital activities are focused on 'invest to save' and growth schemes that cover their costs or have potential to deliver a revenue return. Many areas of authorities' asset management programmes do not meet these criteria and are now seen as a lower priority.

The report also notes that local authorities' debt servicing costs have grown as a proportion of revenue spending as revenue resources have fallen. A quarter of single-tier and county councils now spend the equivalent of 10 per cent or more of their revenue expenditure on debt servicing, with metropolitan district councils being particularly exposed.

According to the NAO, DCLG has rightly focused on revenue issues in the 2015 Spending Review but in future reviews will need to focus more on capital. The Department is confident from its engagement with authorities that revenue pressures are their main concern, however the NAO's analysis demonstrates that capital costs exert significant and growing pressure on revenue resources.

The changing face of Corporate Reporting

Integrated Reporting

Further information is available on the IIRC's website

We have established a global network of public sector auditors and advisors to share good practice and to provide informed solutions to the corporate reporting challenges our clients face.

We were fortunate to have the CEO of the IIRC speak at our most recent meeting. Integrated Reporting (IR), is a new approach to corporate reporting and it is building a world-wide following in both the public and private sectors.

In the commercial sector, IR has led to improvements in business decision making, the understanding of risks and opportunities as well as better collaborative thinking by boards about goals and targets.

IR is based on integrated thinking that results in a report by an organisation about sustainable value creation. It requires a more cohesive and efficient approach to organisational reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.

By moving the focus away from only short-term, backward looking, financial reporting, IR encourages organisations to report on a broader range of measures that link their strategic objectives to their performance. The result is an overview of an organisation's activities and performance in a much wider, more holistic, context.

- IR encourages organisations to consider whether there are any gaps in the information that is currently available to them, so that integrated thinking becomes embedded in mainstream practice.
- IR is underpinned by the Internationa lIR Framework published in December 2013. It is principles based, allowing organisations to innovate and develop their reporting in the context of their own regulatory framework, strategy, key drivers, goals and objectives.
- IR is consistent with the Strategic Reports required from UK companies, the Performance Reports that government departments, agencies and NHS bodies produce and the developing Narrative Reporting in local government.

The IIRC has established a Public Sector Pioneer Network to consider why and how the public sector can adopt IR, with the end goal of improving transparency and building trust. There is already a core of UK organisations within this such as the World Bank Group, UNDP, the City of London Corporation, the Wales Audit Office and UK government departments.

Grant Thornton Technical update

Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2016/17. The main changes to the Code include:

- the requirement for local authorities to report in the Comprehensive Income and Expenditure Statement on the same basis as they are organised and report in the year (ie. no longer following SERCOP). This is accompanied by the introduction of a new Expenditure and Funding Analysis which provides a reconciliation between the way local authorities budget and report during the year and the Comprehensive Income and Expenditure Statement.

Flexible use of capital receipts

DCLG has issued a Direction and Statutory Guidance on the flexible use of capital receipts to fund the revenue costs of reform projects. The direction applies from 1 April 2016 to 31 March 2019.

The Direction sets out that expenditure which 'is incurred by the Authorities that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners' can be treated as capital expenditure.

Capital receipts can only be used from the disposals received in the years in which the flexibility is offered rather than those received in previous years.

Authorities must have regard to the Statutory Guidance when applying the Direction.

Grant Thornton Publications and events

Website Relaunch

We have recently launched our new-look website. Our new homepage has been optimised for viewing across mobile devices, reflecting the increasing trend for how people choose to access information online. We wanted to make it easier to learn about us and the services we offer.

You can access the page using the link below – http://www.grantthornton.co.uk/industries/public-sector/

Culture of Place

Our towns, counties and cities have distinct and varied cultures

Our towns, counties and cities have their own compelling and richly varied cultures. There are shared and sometimes contested values, local traditions, behaviours and drivers for change. Culture evokes memory and identity. It affects how we feel about where we live and work and what's possible. It can be a set of stories describing how we do things around here, bringing out the best in us – like our history and heritage – but also preventing us from moving forward.

With local authorities increasingly adopting a place-shaping role we're exploring how culture impacts on the sector's ability to facilitate and support a vibrant economy.

We have hosted two round tables with local authority CEOs, leaders and others, to consider how local authority leadership needs to change if it is to take local culture into account.

From conversations with local authority CEOs, leaders and others, we have collated a selection of stories that invite us all to think about how the sector can disrupt fixed thinking, open up cultures and energise our places. They go beyond what's immediately obvious, voice what is sometimes unsaid and work with the strengths of their place.

Although the term culture of place is heavily subjective our initial conversations suggest there are some common themes occurring.

- The place leader is the story teller – leaders need to be more deliberate in their storytelling, helping communities make sense of a complex world, the past, present ad possible futures
- Being clear about what they want to see – there is a strong need to create an environment that gives people permission to care, to be innovative, to take action themselves, to adapt and experiment
- Socio-economic situations often drive the culture – the uniqueness of socio-economic factors leads to a recognition that one place will never be like another – and, in fact, should not aspire to be so - instead tailoring their approach to the areas specific strengths.
- It's all about context – areas within Britain can be local, national and international all at the same time, learning to live with, and get the best advantage from, what's on our doorstep is key.

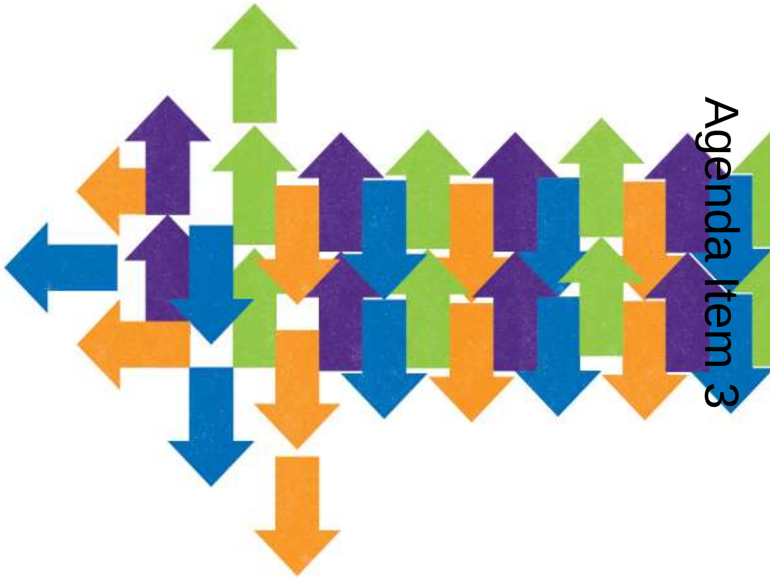
A copy of the report and a collection of short videos can be found on our website at:

http://www.grantthornton.co.uk/en/insights/culture-of-place/

Grant Thornton reports

Challenge question:

Is the Council familiar with this publication?



Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017-18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

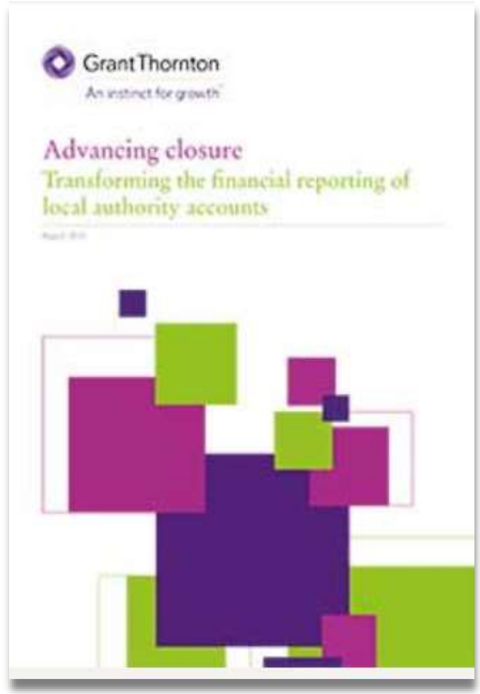
Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
- high quality financial statements as a result of improved quality assurance arrangements;
- greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;
- improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
- allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.

While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further detail, including:

- enabling sustainable change requires committed leadership underpinned by a culture for success
- efficient and effective systems and processes are essential
- auditors and other external parties need to be on board and kept informed throughout

Grant Thornton reports



http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/

Agenda Page 21 Agenda Item 3

Report of	Meeting	Date
Chief Executive	Governance Committee	25 January 2017

TREASURY MANAGEMENT ACTIVITY TO 31 DECEMBER 2016

PURPOSE OF REPORT

1. To report on Treasury Management performance and compliance with Prudential Indicators in financial year 2016/17 to the end of December.

RECOMMENDATION(S)

2. That the report be noted.

EXECUTIVE SUMMARY OF REPORT

3. Average interest earned is 0.30% to the end of December. As in 2015/16, cash balances have been used as a source of internal borrowing to minimise external borrowing at higher rates of interest, thereby achieving revenue budget savings.

4. Updated Capital Expenditure and Capital Financing Requirement Prudential Indicators will be presented in the Treasury Strategy report to Full Council on 28 February 2017. The report will also be presented to the Governance Committee meeting of 22 March 2017.

Confidential report Please bold as appropriate	Yes	**No**

CORPORATE PRIORITIES

5. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	

BACKGROUND

6. Special Council of 1 March 2016 approved the Treasury Management Policy Statement; Treasury Management Practices; Prudential Indicators for 2016/17 to 2018/19; the Treasury Management Strategy and Treasury Indicators for 2016/17; the Annual Investment Strategy 2016/17; and the Annual Minimum Revenue Provision (MRP) Policy for 2016/17.

7. The Treasury Management Annual Report for 2015/16 was presented to Governance Committee of 22 June 2016.

8. The Code of Practice for Treasury Management requires Councils to review their treasury strategies and activities half yearly. This report satisfies that requirement.

PRUDENTIAL INDICATORS

Capital Expenditure and Capital Financing Requirement (CFR) 2016/17

9. The Prudential Indicators reported on 1 March 2016 took account of estimated capital expenditure and sources of financing from 2015/16 to 2018/19. These will be updated in the Treasury Strategy report to be presented to Full Council on 28 February 2017, and will add financial year 2019/20 and will take account of any rephasing of expenditure between financial years, adjustments to financing, and the addition of any projects to the capital programme. The report will also be presented to Governance Committee's meeting of 22 March 2017.

The CFR and Borrowing 2016/17

10. The Prudential Code requires that borrowing net of investments should not exceed the CFR for the preceding year plus any anticipated increase in the current and next two years. This is in order to ensure that Councils borrow only for capital investment purposes. As at 31 March 2016, net borrowing as reported in the Treasury Management Annual Report 2015/16 was £13.478m and therefore was well below the CFR of £34.497m at the same date. Net borrowing will not exceed the CFR in 2016/17, and the actual year-end figure will be confirmed in the Treasury Management Annual Report for the financial year.

11. As there is a large margin between net borrowing and the CFR, the Council could take additional external borrowing should it need to top-up cash balances. However, there would be a "carrying cost" of additional borrowing, because the interest rates payable would exceed the interest rates receivable on the cash balances. As indicated in Table 1 below, the average rate of interest earned this year to December is 0.30%, whereas interest payable on new PWLB loans would be 1.35% (5 years) to 2.45% (50 years) (see Appendix C). Even though there would be a "carrying cost" of taking additional PWLB loans, this may prove necessary to achieve savings in the longer run if significant increases in interest rates on borrowing became imminent.

Operational Boundary for External Debt 2016/17

12. The Operational Boundary for external debt should reflect the most likely, but not worst case, scenario consistent with the Council's approved budgets. Gross borrowing and other long-term liabilities should not exceed the Operational Boundary. The figure approved on 1 March 2015 was £39.200m, being the forecast gross borrowing and other long-term liabilities as at 31 March 2017. Actual borrowing at that date is expected to be lower, because as much as possible of the CFR is matched by internal rather than external borrowing. Use for internal borrowing is the most effective use of the Council's cash balances while available, and so far in 2016/17 no new long-term external borrowing has been taken. The Operational Boundary was set at a value based on the CFR to allow additional external borrowing should cash balances be depleted, without breaching the Prudential Indicator.

Authorised Limit 2016/17

13. The Authorised Limit should allow headroom above the Operational Boundary to accommodate the fluctuations that can occur in cash flows. The figure approved for 2016/17 was £42.200m, and there is no reason to amend this at present.

Ratio of Financing Costs to the Revenue Stream 2014/15

14. The Ratio of Financing Costs to the Revenue Stream shows the percentage of the Council's income from Government grants and council tax that has been used to meet interest costs and debt repayment. The actual figure for 2016/17 will be presented in the Treasury Management Annual Report 2016/17 in June 2017.

Incremental Impact of Capital Investment Decisions 2016/17

15. The Incremental Impact of Capital Investment Decisions measures the cumulative impact of capital expenditure on the revenue budget. It is not possible to make a meaningful comparison against this indicator other than when it is restated in the annual Treasury Strategy, which will be presented to Council in February 2017.

TREASURY ACTIVITY

16. Investment activity up to the end of December 2016 is summarised in the following table.

Table 1 - Investment Activity	**Average Daily Investment £'000**	**Earnings to 31/12/16 £**	**Average Rate %**
Fixed Term Deposits	-	-	-
Call Accounts	2,231	4,545	0.27
Money Market Funds	2,436	6,067	0.33
Total	**4,667**	**10,612**	**0.30**

Compared to 2015/16, the main change has been the lower balance available to invest, which means that it has not been possible to invest for longer periods in order to achieve higher interest rates. Cash balances would have been higher had additional long-term borrowing been taken in order to finance capital expenditure. This would have generated sufficient cash to allow investment in fixed term deposits at higher interest rates. However, in recent months the rates offered for 3 or 6 month deposits have declined, to the extent that 0.60% for a six months deposit would be considered a good rate, depending on the availability of other counterparties. The interest rates on any loans taken would have been considerably higher than this, probably in excess of 3% for 25 to 50-year loans, so there would have been a cost of carry.

A full list of current investments is shown below.

Table 2 - Investments as at 31 December 2016					
Counterparty	**Type**	**Amount £**	**Rate %**	**Invested date**	**Maturity date**
Standard Life	MMF	3,000,000	variable	Various	On call
Federated	MMF	1,500,000	variable	Various	On call
Barclays	Call account	271,551	0.20	Various	On call
Total		**4,771,551**			

There are no changes proposed to the current list of Financial Institutions and Investment Criteria.

17. The average interest earned of 0.30% does not exceed the benchmark of 0.35% (being the average LIBID 7 day rate). The reason is that cash balances have not been available to permit investments in term deposits at higher rates of interest than available for call accounts or money market funds (MMFs). In general a term deposit of 3 or 6 months would offer a higher rate of interest than is available for deposits in call accounts or MMFs. In addition the rate offered by MMFs has continued to reduce, because the rates offered by banks to the MMFs have reduced in recent months, so that cash in the funds has been reinvested at lower rates than were available earlier in the year.

18. The Council's treasury advisors, Capita Asset Services, have provided a detailed commentary on interest rate forecasts, which is presented as Appendix B. Bank rate and PWLB borrowing rate forecasts are given from September quarter 2016 through to March quarter 2020. Appendix C shows the current Capita forecast and the forecast rates included in the Treasury Strategy in March 2016. Compared to the previous interest rates forecast, PWLB rates are currently lower than expected, and are not considered likely to increase by as much by March quarter of 2018 as had previously been suggested.

19. An increase in Bank rate from 0.50% to 0.75% was expected in the March quarter of 2017. Instead the rate reduced to 0.25%, and it is expected to remain at this level until the June quarter of 2019. An increase to 0.75% is currently considered possible in the December quarter of 2019, over two years later than the previous forecast.

TREASURY CONSULTANTS' ADVICE

20. Appendix A presents the advice of Capita Asset Services' economic research consultants Capital Economics in respect of economic matters up to the third quarter of 2016/17. In addition, a detailed commentary on interest rate forecasts is presented as Appendix B.

21. Capita's suggested budgeted investment earning rates for investments up to about three months duration in each financial year for the next seven years are as follows:

Average Earnings in each financial year		
	Revised December 2016	**Original March 2016**
2016/17	0.25%	0.60%
2017/18	0.25%	1.25%
2018/19	0.25%	1.75%
2019/20	0.50%	2.00%
2020/21	0.75%	2.25%
2021/22	1.00%	2.50%
2022/23	1.50%	2.75%
2023/24	1.75%	2.75%
Later years	2.75%	3.00%

22. The most recent estimate is compared to the estimated earnings rate available at the time the Treasury Management Strategy was presented for approval in March 2016. Clearly the suggested earnings rates are lower now than before the start of the financial year. The average rate to 31 December on the council's cash investments has exceeded the Capita suggested target for the financial year, though not by a large margin.

IMPLICATIONS OF REPORT

23. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

24. This report complies with statutory requirements. Statistical content is consistent with the assumptions in the approved capital and revenue budgets for 2016/17, including changes approved during the year.

COMMENTS OF THE MONITORING OFFICER

25. The Monitoring Officer has no comments.

GARY HALL
CHIEF EXECUTIVE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Michael Jackson	5490	16 January 2017	Treasury Management Activity to 31 December 2016.docx

Appendix A

Detailed economic commentary on developments during quarter ended 31 December 2016

This section has been provided by Capital Economics and therefore includes their views and opinions of future trends and events.

- During the quarter ended 31 December 2016:

- The economy maintained its momentum, despite Brexit;

- Households continued to drive overall economic growth;

- The labour market showed some signs of weakening;

- CPI inflation rose above 1% for the first time in two years;

- The Chancellor eased the planned fiscal squeeze, but the MPC kept policy unchanged;

- Monetary policy in the US and the Euro-zone diverged.

- Economic growth appears to have barely lost pace, despite the vote for Brexit. Indeed, quarterly GDP growth in Q3 of 2016 is now estimated to have been 0.6%, up from the initial estimate of 0.5%: Q2's growth rate was also nudged down from 0.7% to 0.6%. Moreover, the average level of the Markit/CIPS all-sector PMI in October and November was 54.8, compared to an average of 51.4 in Q3. On the basis of past form, this is consistent with quarterly GDP growth of about 0.5%. And the sharp rise in the manufacturing PMI in December suggests the sector ended the year solidly.

- Consumer spending continued to be the key driver of growth in Q4. Admittedly, retail sales only rose by a monthly 0.2% in November. But this followed a whopping 1.8% monthly increase in October. As a result, even if sales volumes were flat in December, they would have risen by 2.1% over Q4 as a whole, the largest increase since Q2 2014 and up from Q3's 1.9% rise.

- This does not look sustainable though. Q3's National Accounts revealed a fall in households' real disposable incomes, and as a result the 0.7% rise in overall household spending was funded entirely through a fall in the household saving ratio. With inflation having picked up and employment growth having slowed in Q4, it looks likely that the saving ratio may have fallen further.

- The labour market's recent strength seems to be waning. Employment actually fell in the three months to October, the first fall since Q2 2015. Annual growth in employment remained positive, albeit weak, at 1.1%. Granted, the unemployment rate held steady at its post-crisis low of 4.8%. But note that this was due to people moving into inactivity rather than employment.

- Note that some slowdown in employment growth was inevitable, regardless of the outcome of the referendum, as labour market slack has diminished. Indeed the unemployment rate is now around the level often thought to be its "natural" rate. Looking ahead, we doubt that any job losses will be particularly severe or sustained. Survey measures of firms' employment intentions are consistent with annual growth in private sector employment of about 1% over the coming months.

- Meanwhile, perhaps in response to past tightening in the labour market, there have been some more optimistic signs on the wages front, with annual growth in average weekly earnings (including bonuses) holding broadly stable at 2.5% in the three months to October, following a 2.4% rise in Q3.

- At the current time, this is enough to outpace inflation. CPI inflation picked up from 0.7% in Q3 to average 1.1% in October and November. The 1.2% level reached in November was the highest since October 2014, although this still remains low by historical standards. However, inflation is on a steep upward trajectory. Components of inflation that typically respond quite quickly to exchange rate movements, such as petrol and food prices, have had big upward influences on the headline rate recently, and will continue to do so as the drop in the pound makes its way through the inflation pipeline.

- Price pressures at the beginning of the pipeline are already building rapidly. Producer input price inflation rose from 6.5% in Q3 to an average of 12.6% in October and November. There is typically quite a long lag between producer prices and CPI inflation, but we should start to see this feed through to higher prices on the high street over the course of 2017. Indeed, CPI inflation is still on track to breach the 2% inflation target in spring 2017, and should peak at around 3% by spring 2018.

- For now at least, the MPC doesn't appear to be too fazed by this overshoot of the 2% inflation target: it left interest rates unchanged at 0.25% during Q4. Given the uncertainty about the economic outlook, and especially the impact from the two year window for Brexit negotiations from March 2017, interest rates look set to remain on hold for a long while yet.

- By contrast, the US Fed pressed ahead and raised interest rates by 25bp in December, as expected, taking the Fed funds target range to between 0.50% and 0.75%. At the same time, the ECB announced that it would slow the pace of its asset purchases from April 2017, but committed to extending the purchases by another nine months (to December 2017). This highlights the unusual divergence in western monetary policy set to occur over the next year or so.

- Meanwhile, the latest data suggests that the public finances are broadly on track to meet the recently revised OBR's near-term forecasts. Borrowing on the PSNB ex measure in the first eight months of the fiscal year so far was about 11% lower than last year. This compares to the OBR's expectations of a 10% fall for the fiscal year as a whole.

- But hopes of a complete "reset" of fiscal policy were dashed in November's Autumn Statement. Chancellor Philip Hammond did lessen the fiscal squeeze a bit, but the UK still faces another bout of austerity over the coming years. Of course, the new fiscal rules – which include achieving a cyclically-adjusted budget deficit of below 2% by 2020/21 – do offer the Chancellor a bit of room for manoeuvre if the economy were to turn out much weaker. On the basis of the OBR's new forecasts, the deficit will be about 0.8% on this measure by that point, leaving him about 1.2% of GDP to play with.

- Ongoing deficit reduction in the UK is in contrast to the US, where we expect a major fiscal stimulus on the back of Trump's victory. Indeed, we have revised up our US GDP growth forecast for 2017 from 2% to 2.7%.

- Meanwhile, in financial markets, the FTSE 100 rose by 2.4% between Q3 and Q4 of 2016, taking it to a record high. This partly reflected the 3.5% drop in the trade-weighted value of sterling, (which boosts the sterling value of UK firms' overseas profits), but also the generally positive market reaction to Trump's victory in the US election. That said, Brexit worries are still lingering, with the FTSE UK Local Index, which only includes firms of which more than 70% of their sales are generated in the UK, falling by 5.4%. Meanwhile, reflecting a combination of rising US Treasury yields on the back of Trump's victory, as well as fears about the sterling-driven rise in inflation over the next few years in the UK, 10-year UK government bond yields rose by close to 50bp during Q4.
- Finally, the UK government still plans to trigger Article 50 and begin Brexit negotiations by the end of March, and has promised to lay out its plans before it does so. A soft(ish) form of Brexit still looks in prospect. Granted, controlling immigration and ending the influence of the European Court of Justice appear to be key priorities, but the government has stated it wants to retain a very close trading relationship, and that a transitional deal may be considered in order to smooth the process.

About Capital Economics

Capital Economics is one of the leading independent economic research companies in the world. Our large team of more than 60 experienced economists provides award-winning macroeconomic, financial market and sectoral analysis, forecasts and consultancy, from offices in London, New York, Toronto, Sydney and Singapore.

Founded in 1999, we have gained an enviable reputation for original and insightful analysis, and have built up a diverse and distinguished client base. The majority are in the financial sector, including some of the world's largest investment banks and wealth managers, as well as smaller and more specialist firms. But we also have a growing number of corporate clients from a wide range of sectors and industries, and many relationships with governments and central banks, both in advanced and emerging economies.

Our publications are packaged into a wide range of services from which subscribers can choose according to their needs (and budgets). These include overview services covering the global economy and financial markets, as well as country and regional services producing detailed research for the US, Canada, Latin America, the UK, Western Europe, the Nordic countries and Switzerland, Emerging Europe, the Middle East, Africa, Emerging Asia, China, India, Japan, Australia and New Zealand.

This page is intentionally left blank

Appendix B

Detailed commentary on interest rate forecasts

Our treasury management advisers, Capita Asset Services have provided us with the following update to their interest rate forecasts.

November quarterly inflation report and post US Presidential election review

- We updated our forecasts to take into account the Bank of England quarterly Inflation Report for November 2016, the decision of the MPC meeting of 3 November, and the US Presidential election of 8 November. We also felt that we should allow financial markets to settle down for a few days after the result of that election, which provided a surprise outcome. We therefore undertook a review of our forecasts on 14 November.

- Despite many ominous warnings that there could be significant turbulence in financial markets if Donald Trump won the election, markets have surprised by their lack of such a reaction. In fact, stock markets in America hit a new record high in the first few days after the election and have reached further highs since then. However, Treasury yields have risen sharply in expectation of a significant rise in inflation, as an economy which is already working near to full capacity could be in line for a significant boost to economic growth if Trump's expansion of infrastructure expenditure plans become a reality.

- His plans to cut taxes, at the same time as boosting expenditure, could also lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

- The MPC meeting of 3 November left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unaltered. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer in its forward guidance that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank.

- The November MPC decision included a forward view that Bank Rate could go either up or down depending on how economic data evolve in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in June 2019, (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely, especially given the run of strong economic data since then. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

- The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

- The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 of 2016 i.e. a sharp slowdown in growth from +0.6% in quarter 2, in reaction to the shock of the result of the referendum in June. However, consumers have very much stayed in a ‘business as usual’ mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 before levelling off in November. In addition, the GfK consumer confidence index has recovered moderately to -7 in December after an initial sharp plunge in July to -12 in reaction to the referendum result. GDP growth in quarter 3 of 2016 has therefore come in at a robust +0.6% q/q, +2.2% y/y while business surveys are indicating reasonable continuing strength into quarter 4 and into the start of 2017.

- Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

- Capital Economics’ forecasts for economic growth are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

- The other key factor in forecasts for Bank Rate is inflation where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of 3.2% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, though the December MPC meeting reported a 6% recovery on a trade weighted basis since its 3 November meeting to leave sterling 15%, (was 16%), down against the US dollar and 8%, (was 11%), down against the euro; this will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate. The MPC also commented that the partial recovery in the value of sterling, if maintained, would cause a small reduction in their November forecast rise in CPI inflation above the 2% target rate.

- What is clear is that consumer disposable income will come under pressure if CPI rises to exceed wage inflation. The CPI figure for November of 1.2% was the highest for over two years, but is expected to rise rapidly above 2% in Q1 of 2017. On the other hand, wage inflation excluding bonuses came in at 2.6% in October. However, growth in real disposable income in Q3 was negative so the robust increase in retail sales was only achieved by consumers running down their savings and increasing borrowing; this looks unsustainable in the longer term and makes consumer expenditure increasingly vulnerable to rises in interest rates on borrowing when they do occur.

- Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and finished at the end of December at 1.49% after some peaks higher during that month. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarters 2 and 3 at +0.6% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

- The Chancellor has said he will do 'whatever is needed' i.e. to promote growth; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses and/or increase government expenditure on infrastructure, housing etc. While the Autumn Statement contained only moderate measures, the PSBR deficit elimination timetable did slip further into the future, as expected, so as to place the priority on promoting economic growth, (and ultimately boosting tax revenues / reducing the budget deficit in the longer term).

- Employment had been continuing to grow weakly during 2016 but in the three months to October, there was the first small fall. House prices are also continuing to rise at a modest pace; but any downturn in prices could dampen consumer confidence and expenditure.

- **Rising EU and geopolitical risks e.g.**

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- **Spain** has had two general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of **Italian banks** poses a major risk with state aid firmly ruled out by the EU as a potential way out. The longer that this issue remains unresolved, the greater the likelihood that exposed banks will suffer an outflow of liquidity and so the bigger the cost will become to remedy the situation.
- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this became a confidence vote on Prime Minister Renzi who duly resigned when the 'no' vote won. The rejection of these proposals will be an impediment to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth. They were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two

chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. Paolo Gentiloni has subsequently been appointed as Prime Minister but it is notable how little market reaction there has been to these events – for the time being!

- **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. However, the proportional voting system means that there is a multiplicity of parties so each general election results in an exercise in gathering a viable coalition after the results are in. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- **French presidential election**; first round 23 April; second round 7 May 2017.
- **French National Assembly election** 11 and 18 June 2017.
- **German Federal election August –** 22 October 2017. This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of free movement of people within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.
- Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks. The risks are increasing that voter dissatisfaction with the EU could lead to another country lining up after the UK, to leave the EU, unless the EU positively addresses the major challenges it faces over the next few years.

- **Economic growth in the EU**, (the UK's biggest trading partner), has been lack lustre at +1.7% y/y in 2016 despite the ECB cutting its main rate to -0.4% and embarking on a massive programme of quantitative easing during 2016. The latest economic statistics give some grounds for optimism that as a result of this aggressive quantitative easing programme, growth could at last be accelerating going into 2017. However, growth could be negatively impacted by adverse political developments - which could then also impact on UK exports and growth.

- The **US economy** grew strongly in quarter three of 2016 at 3.5%, (on an annualised basis), after an anaemic 1.4% in quarter 2. The election result is likely to have given the Fed added impetus to go ahead with the rate rise of 0.25%, as expected in December, due to the expansionary plans Trump has been outlining. There could well be three or four further increases in 2017 and 2018 in order to contain inflationary pressures which are expected to increase as a result of Trump's policies.

- In the first week since the US election, there was a **major shift in investor sentiment away from bonds to equities**, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which is likely to be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels by the artificial and temporary power of quantitative easing.

- **Japan** has been struggling to gain consistent significant growth but has achieved an annualised rate in quarter 3 of +2.7%, (Q2 +2.6%). It has also been struggling to put deflation firmly behind it and to get inflation up to reasonable levels, despite huge monetary and fiscal stimulus. It has been making little progress on fundamental reform of the economy

- **Chinese economic growth** has been weakening despite successive rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

CAPITA ASSET SERVICES' FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities.

We have pointed out consistently that the Fed. Rate is likely to go up more quickly and more strongly than Bank Rate in the UK. While there is normally a high degree of correlation between treasury and gilt yields, we would expect to see a growing decoupling between the two i.e. we would expect US yields to go up faster than UK yields. We will need to monitor this area closely and the resulting effect on PWLB rates.

The overall balance of risks to economic recovery in the UK remains to the downside, particularly with the current uncertainty over the final terms, and impact, of Brexit.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are at present. We are experiencing exceptional levels of volatility which are highly correlated to geo-political and sovereign debt crisis developments. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

Appendix B

BANK RATE	now	previously
Q1 2017	0.25%	0.10%
Q1 2018	0.25%	0.10%
Q1 2019	0.25%	0.25%
Q1 2020	0.75%	-

Our target borrowing rates and the current PWLB (certainty) borrowing rates are set out below.

PWLB debt	Current borrowing rate as at 4.1.17	Target borrowing rate now (Q1 2017)	Target borrowing rate previous (Q4 2016)
5 year	1.43%	1.60%	1.00%
10 year	2.16%	2.30%	1.50%
25 year	2.80%	2.90%	2.30%
50 year	2.57%	2.70%	2.10%

Borrowing advice

Although yields have risen from their low points, yields are still at historic lows and borrowing should be considered if appropriate to your strategy. We still see value in the 40yr to 50yr range at present but that view would be negated if Bank Rate does not climb to at least 2.5% over the coming years. Accordingly, clients will need to review and assess their risk appetite in terms of any underlying borrowing requirement they may have, and also project forward their position in respect of cash backed resources.

Any new borrowing should also take into account the continuing cost of carry, the difference between investment earnings and borrowing rates, especially as our forecasts indicate that Bank Rate may not rise from 0.25% until June 2019 and then will only rise slowly.

Proposed new PWLB Local Infrastructure Rate

At the Autumn Statement 2016, the government announced that it would consult on lending local authorities up to £1 billion at a new Local Infrastructure Rate of gilts + 60 basis points to support infrastructure projects that are high value for money. Loans at the new rate would be available for a period of three years, with a maximum term of 50 years.

The government would like further input from stakeholders before proceeding with this policy and so clients may wish to respond to this consultation exercise. Clients may also wish to consider what the potential impact could be on their capital programmes and the financing of the same.

Our suggested budgeted investment earnings rates for investments up to about three months duration in each financial year for the next seven years are as follows:

Average earnings in each year	Now	Previously
2016/17	0.25%	0.25%
2017/18	0.25%	0.10%
2018/19	0.25%	0.25%
2019/20	0.50%	0.50%
2020/21	0.75%	0.75%
2021/22	1.00%	1.00%
2022/23	1.50%	1.25%
2023/24	1.75%	1.50%
Later years	2.75%	2.50%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is expected to remain unchanged. Negative, (or positive), developments could significantly impact safe-haven flows of investor money into UK, US and German bonds and produce shorter term movements away from our central forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps.

Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

Appendix C

	Bank Rate %		PWLB Borrowing Rates % (including certainty rate adjustment)							
			5 year		10 year		25 year		50 year	
	Dec 16	Mar 16	Dec 16	Mar 16	Dec 16	Mar 16	Dec 16	Mar 16	Dec 16	Mar 16
Sep-16	0.25	0.50	1.05	2.00	1.56	2.50	2.31	3.30	2.14	3.10
Dec-16	0.25	0.50	1.35	2.10	2.07	2.60	2.70	3.30	2.45	3.10
Mar-17	0.25	0.75	1.60	2.20	2.30	2.70	2.90	3.50	2.70	3.30
Jun-17	0.25	0.75	1.60	2.30	2.30	2.80	2.90	3.50	2.70	3.30
Sep-17	0.25	1.00	1.60	2.40	2.30	2.90	2.90	3.60	2.70	3.40
Dec-17	0.25	1.00	1.60	2.60	2.30	3.00	3.00	3.60	2.80	3.40
Mar-18	0.25	1.25	1.70	2.70	2.30	3.10	3.00	3.70	2.80	3.50
Jun-18	0.25	1.25	1.70	2.80	2.40	3.30	3.00	3.70	2.80	3.60
Sep-18	0.25	1.50	1.70	2.90	2.40	3.40	3.10	3.70	2.90	3.60
Dec-18	0.25	1.50	1.80	3.00	2.40	3.50	3.10	3.80	2.90	3.70
Mar-19	0.25	1.75	1.80	3.10	2.50	3.60	3.20	3.80	3.00	3.70
Jun-19	0.50		1.90		2.50		3.20		3.00	
Sep-19	0.50		1.90		2.60		3.30		3.10	
Dec-19	0.75		2.00		2.60		3.30		3.10	
Mar-20	0.75		2.00		2.70		3.40		3.20	

This page is intentionally left blank

Chorley Council

Report of	Meeting	Date
Chief Executive	Governance Committee	25th January 2017

CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

PURPOSE OF REPORT

1. To remind members of the various arrangements available to the Council to appoint its external auditor beyond the 2017/18 financial year when the current contract with Grant Thornton comes to an end. These include setting up an independent auditor appointment panel or opting-into a Sector Led Body (SLB) that will negotiate contracts and make the appointment on behalf of councils.

2. To explain the relative advantages and disadvantages of the various options available.

3. To inform members that Public Sector Audit Appointments Ltd. (PSAA) has been chosen as the SLB by the Secretary of State and that the Council has now received an invitation from PSAA to become an opted-in authority, to which replies must be made by the deadline of 9th March 2017.

4. To recommend that the Council becomes an opted-in authority.

RECOMMENDATION

5. That members of the Committee recommend to full Council on 28th February 2017 to approve option 3 in the report thereby accepting the invitation from Public Sector Audit Appointments Ltd. to become an opted-in authority for the purposes of the appointment of its external auditor thus dispensing with the need to set up its own appointment panel.

EXECUTIVE SUMMARY OF REPORT

6. Members have previously been informed that all large local government bodies including Chorley Council remain on current external audit contracts until the completion of the 2017/18 audits but that new appointments will need to be made by 31st December 2017.

7. Therefore in 2017 the Council will need to make a choice between the various options for appointing its external auditor, which in summary are:

   - setting up an independent Auditor Appointment Panel
   - joining with other councils to set up a joint independent Auditor Appointment Panel
   - Using an existing independent panel of the authority (if a suitable panel already exists)
   - opting-in to a SLB that will negotiate contracts and make the appointment on behalf of councils, removing the need to set up an independent Auditor Appointment Panel.

8. Although the Council has until December 2017 to make an appointment, in practical terms this means one of the above options will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.

9. The Local Government Association (LGA) is strongly supportive of the SLB approach as it believes this offers best value to Councils by reducing set-up costs and having the potential to negotiate lowest fees in order to deliver economic and efficient external audit arrangements across all authorities.

10. As the greatest economies of scale would come from the maximum number of councils acting collectively in opting-in to a SLB, in order to maximise their negotiating position the LGA recently contacted Councils to test their opinion as to whether they would be potentially interested in the SLB approach. Whilst keeping all the Council's options open, the CEO has notified the LGA of the Council's potential support for the SLB.

11. PSAA has subsequently been chosen by the Secretary of State as the SLB and on 27th October 2016, Council CEOs received a formal letter from them inviting authorities to opt-in to the sector led approach **(See Appendix).**

12. The length of the compulsory appointing period is the 5 consecutive financial years commencing 1st April 2018.

13. A decision to become an opted-in authority must be taken in accordance with the prevailing regulations; that is by the members of an authority meeting as a whole (in the case of Chorley Borough Council).

14. The closing date to notify PSAA of the authority's acceptance of their invitation is 9th March 2017.

.

Confidential report Please bold as appropriate	Yes	**No**

CORPORATE PRIORITIES

15. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	**X**

BACKGROUND

16. The Local Audit and Accountability Act 2014 brought the Audit Commission to a close and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State for Communities and Local Government determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

17. The Council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by PSAA, the transitional body set up by the LGA with delegated authority form the Secretary of State.

18. Over recent years the Council has benefited from reduction in fees in the order of 50% compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission.

19. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.

20. When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of the auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities.

21. The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.

22. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

The Options for Local Appointment of External Auditors

23. There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act):

Option 1 - To make a stand-alone appointment

In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

Advantages/benefits

- Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

- Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances.
- The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

Option 2 - To set up a joint auditor panel / local joint procurement arrangement

The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

- The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

- The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.
- The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

Option 3 – To opt-in to a sector led body

In response to the consultation on the new arrangement the LGA successfully lobbied for Councils to be able to 'opt-in' to a SLB appointed by the Secretary of State under the Act. An SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

Advantages/benefits

- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation.
- Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.
- The appointment process would not be ceded to locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities. The LGA are setting up such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements.

Disadvantages/risks

- Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need Councils to indicate their intention to opt-in before final contract prices are known.

IMPLICATIONS OF REPORT

24. In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal	✓	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

25. Current external audit fees levels are likely to increase when the current contracts end in 2018.

26. The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above will need to be estimated and included in the Council's budget for 2017/18. This will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.

27. Opting –in to a national SLB provides maximum opportunity to limit the extent of any increases by entering into a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

COMMENTS OF THE MONITORING OFFICER

28. Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.

29. Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

30. Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

GARY HALL
CHIEF EXECUTIVE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Garry Barclay	01772 625272	1/12/16	External Audit Appointment

Public Sector
Audit Appointments

27 October 2016 **Email:** appointingperson@psaa.co.uk

Gary Hall
Chorley Borough Council
Town Hall
Market Street
Chorley Lancashire PR7 1DP

Copied to: Susan Guinness, Head of Finance, Chorley Borough Council
Chris Moister, Head of Governance & Legal services, Chorley Borough Council

Dear Mr Hall

Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the appointing person page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at appointingperson@psaa.co.uk.

Yours sincerely

Jon Hayes, Chief Officer

Appointing an external auditor

Information on the national scheme

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the appointing person page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

High quality audits

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

Procurement strategy

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

Auditor appointments and independence

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

Fee scales

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

Timetable

In summary, we expect the timetable for the new arrangements to be:

• Invitation to opt in issued	27 October 2016
• Closing date for receipt of notices to opt in	9 March 2017
• Contract notice published	20 February 2017
• Award audit contracts	By end of June 2017
• Consult on and make auditor appointments	By end of December 2017
• Consult on and publish scale fees	By end of March 2018

Enquiries

We publish frequently asked questions on our website. We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: appointingperson@psaa.co.uk.

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

This page is intentionally left blank

Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	25th January 2017

INTERNAL AUDIT INTERIM REPORT AS AT 30TH DECEMBER 2016

PURPOSE OF REPORT

1. To advise members of the work undertaken in respect of the Internal Audit Plans for Chorley Council and Shared Services for the period August 2016 to December 2016 and to comment on the outcomes;

2. To give an appraisal of the Internal Audit Service's performance to date.

RECOMMENDATION(S)

3. That the report be noted.

EXECUTIVE SUMMARY OF REPORT

4. The report demonstrates that at this stage the Audit Plans are on target to be achieved and that the majority of performance indicators have either been achieved or exceeded.

Confidential report Please bold as appropriate	Yes	**No**

CORPORATE PRIORITIES

5. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all.		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	**X**

BACKGROUND

6. This is the second progress report for 2016/17 and covers the period between 1st August 2016 and 30th December 2016.

INTERNAL AUDIT PLANS

7. **Appendix 1** provides a ''snapshot'' of the overall progress made in relation to the 2016/17 Internal Audit Plans, indicating which audits have been completed and their control rating, those that are in progress and those that have yet to start. Appendix 1 also shows the time planned and actually spent on individual audits.

8. The table below provides a summary of the audit work completed since the last meeting together with any control issues identified.

Audit Area	Control Rating	Comments
Chorley Council		
National Fraud Initiative	Not applicable	Data from the following systems was submitted in October 2016 for the 2016-17 exercise. • Trade Creditors • Council Tax Reduction Scheme • Market Traders • Taxi & Hackney Carriage Licence • Personal Licence • Residents Parking Permits • Payroll • Insurance (NFI request this data directly from our insurance provider). • Housing Benefit (NFI request this data directly from DWP) The results from the exercise are due to be released on 26th January 2017. The electoral roll and council tax single person discount data is due to be submitted at the end of January with the results immediately released.
Project Management	**Red (7)**	This review focussed on the application of the Project Management Toolkit and the utilisation of the Council's project management software – MyProjects. All the projects included within this review are on track to be delivered and there is comprehensive guidance and extensive project documentation for Senior Responsible Officers and Project Managers use. We found however, that neither the Toolkit nor MyProjects are being consistently used across the authority. As there is limited resource to monitor project management centrally, Senior Responsible Officers and Project Managers must ensure that projects are managed in accordance with the Toolkit and that MyProjects is fully utilised. A range of management actions were agreed to achieve this.

Audit Area	Control Rating	Comments
Information Governance	Red (9)	This review assessed the arrangements and controls being put in place by management to develop the Council's information governance framework to deliver an effective security culture and ensure ongoing compliance with its information security obligations. Although it is recognised that there are a number of positive solutions and processes in place and a commitment to address a number of the key issues identified during the audit, we are only able to provide a Red, (9) rating at this time, principally due to the current stage of development of the Council's overarching information governance arrangements.
Council Tax & NNDR	Amber (6)	The aim of the audit was to provide assurance that the Council's arrangements, procedures and processes in relation to Council Tax and NNDR are robust and effective. No key control issues were identified.
Review of Stores	Amber (4)	The purpose of the review was to determine that sound arrangements are in place for the management and control of stores. Although the value of stores is relatively low, the stores should operate in accordance with the Council's Financial Procedure Rules. A manual system was in place at the time of our last review, however this system is no longer operational and our work confirmed that all stock could not be accounted for due to the lack of records controlling levels of stock, receipts and issues.
Review of Fuel Consumption	Red (7)	The purpose of the review was to determine that sound arrangements are in place for the management and control of fuel consumption. Our work established that since our last review a number of controls, which were in place and working as intended have lapsed. These include: • The Chest not being utilised for all fuel procurement; • There is no individual driver ID to monitor specific users; • Fuel usage is not being monitored or analysed per individual vehicle; • Fuel card expenditure is not being reconciled to the total invoiced.
Disabled Facilities Grants & Integrated Home Improvement Service	Green (3)	The purpose of the review was to assess the effectiveness of the arrangements established by the Council to deliver the various services and grants available. No key control issues were identified.

Limited - the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist. **Adequate** - the Authority can place only partial reliance on the controls. Some control issues need to be resolved. **Substantial** - the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist	**Control Rating**	**Limited**	**4**	**7**	**9**
		Adequate	**2**	**5**	**8**
		Substantial	**1**	**3**	**6**
			Minor	**Major**	**Critical**
			Risk Rating		

Minor, Major or Critical reflects the relative risk of each system and the impact on the Council in financial and/or reputational terms if it was to fail. The risk rating for each audit has been agreed following a detailed risk assessment by Internal Audit and approval by Senior Management.

INTERNAL AUDIT PERFORMANCE

9. **Appendix 2** provides information on Internal Audit performance as at 30th December 2016. At this stage there are three indicators which are slightly lower than target:

- % of planned time used (CBC & SS);
- % of audit plan completed (CBC).

This is due to the extended absence of a member of the Audit Team, who has since returned. We are confident at this stage that this absence will not have any detrimental effect on the completion of the audit plan.

REVISED APPROACH

10. In line with the latest Internal Auditing practices, from 2017/18 we will be developing our approach to audit assignments by asking managers and staff to compile risk registers for each function/system under review.

11. This should encourage a greater ownership of risk management within services and thereby improve the level of internal control operating throughout the Council.

IMPLICATIONS OF REPORT

12. The matters raised in the report are cross cutting and impact upon individual services and the Council as a whole.

GARRY BARCLAY
HEAD OF SHARED ASSURANCE SERVICES

.

Report Authors	Ext	Date	Doc ID
Garry Barclay Dawn Highton	01772 625272 01257 515468	January 2017	Audit Interim report

Background papers include the 2016/17 Internal Audit Plans for Chorley Council and Shared Financial Services

APPENDIX 1

INTERNAL AUDIT PLANS 2016/17

AUDIT AREA	RISK RATING	PLAN (Days)	ACT (Days)	BAL (Days)	ASSURANCE RATING	COMMENTS
CHORLEY						
CORPORATE AREAS						
Annual Governance Statement	N/A	20	22	-2	N/A	Complete
Anti-Fraud & Corruption	N/A	15	8.7	6.3	N/A	On-going
NFI	N/A	20	18.7	1.3	N/A	On-going
Policy and Communications						
Performance Management Information	CRITICAL	15	6.4	8.6		In progress
Project Management	MAJOR	10	11.8	-1.8	Red (7)	Complete
Events Management (Internal)	MAJOR	15	0.6	14.4		To commence Q4
Legal Democratic & HR Services						
Health & Safety	CRITICAL	15	0	15		To commence Q4
Finance						
Payroll project	N/A	10	0	10		To commence Q4
CUSTOMER & DIGITAL						
ICT Services						
Information Governance	CRITICAL	15	11.4	3.6	Red (9)	Complete
Customer Transformation						
Land Charges	MAJOR	10	13.8	-3.8		In progress
Council Tax	CRITICAL	30	20	10	Amber (6)	Complete
Non Domestic Rates	CRITICAL				Amber (6)	Complete
Housing Benefits	CRITICAL					In progress
Debtors	CRITICAL					In progress
Waste & Streetscene Services						
Stores	MINOR	10	9.7	0.3	Amber (4)	Complete
Fuel Consumption	MAJOR	10	10.3	-0.3	Red (7)	Complete
Planning						
Development Control	MAJOR	15	0	15		To commence Q4
EARLY INTERVENTION						
Early Intervention & Support						
Safeguarding – Adults & Children	MAJOR	15	18.2	-3.2	Amber (5)	Complete
Counter Terrorism – "Prevent" duty	MAJOR	10	3.2	11.8		In progress
Housing Options						
Disabled Facilities Grants / Integrated Home Improvement Service	MAJOR	15	14.2	0.8	Green (3)	Complete
Health & Wellbeing						
Indoor Leisure Contract	MAJOR	10	0	10		To commence Q4
REGENERATION & INWARD INVESTMENT						
Section 106	MAJOR	10	0	10		To commence Q4
Community Infrastructure Levy	CRITICAL	10	0	10		To commence Q4
GENERAL AREAS						
Irregularities (Contingency)	N/A	10	0	10	N/A	On-going
Post Audit Reviews	N/A	10	14.1	-4.1	N/A	On-going
Residual Work from 2015/16	N/A	15	18.2	-3.2	N/A	Complete
Unplanned Reviews (Contingency)	N/A	10	10.6	-0.6	N/A	On-going
Governance Committee	N/A	20	12.1	7.9	N/A	On-going
TOTAL		**345**	**224**	**121**		

AUDIT AREA	RISK RATING	PLAN (Days)	ACT (Days)	BAL (Days)	ASSURANCE RATING	COMMENTS
SHARED SERVICES						
SHARED FINANCIAL SERVICES						
Main Accounting System	CRITICAL	95	4.1	90.9		To commence Q4
Creditors	CRITICAL					To commence Q4
Payroll	CRITICAL					To commence Q4
Treasury Management	CRITICAL					In progress
Cash & Bank / Cheque Control	CRITICAL					In progress
GENERAL AREAS						
Post Audit Reviews	N/A	10	4.2	5.8	N/A	On-going
Contingency	N/A	20	3.8	16.2	N/A	On-going
Residual Work from 2015/16	N/A	20	25.9	-5.9	N/A	Complete
TOTAL		**145**	**38**	**107**		

APPENDIX 2

INTERNAL AUDIT PERFORMANCE INDICATORS AS AT 30th December 2016

	Indicator	Audit Plan	Target 2016/17	Target to Date	Actual to Date	Comments
1	% of planned time used	SS	90%	35%	26%	Below target
		CBC	90%	67.5%	65%	Slightly below target
2	% audit plan completed	SS	100%	0%	0%	Not applicable
		CBC	100%	59%	52%	Below target – 1 review not yet finalised
3	% management actions agreed	SS	98%	0%	0%	Not applicable
		CBC	98%	98%	100%	Target exceeded
4	% overall customer satisfaction rating (assignment level)	SS	90%	90%	100%	Target exceeded
		CBC	90%	90%	97%	Target exceeded

SS = Shared Services
CBC = Chorley

This page is intentionally left blank

Report of	Meeting	Date
Director of Governance and Policy	Governance Committee	25 January 2017

RIPA - INSPECTION

PURPOSE OF REPORT

1. To update members on the recent RIPA inspection.

RECOMMENDATION(S)

2. To note the content of the Inspectors report and recommendations.

EXECUTIVE SUMMARY OF REPORT

3. Chorley Council is inspected every 3 years by the Office of the Surveillance Commissioner to assess compliance with our obligations under the Regulation of Investigatory Powers Act.
4. In 2016 the OSC introduced a new lighter touch regime to reflect the reduced use of RIPA by local authorities. This enabled the inspection to be undertaken remotely by the review of the Council's policies and procedures that support our RIPA regime.
5. An inspection was undertaken in September of last year and a report was sent to the Council in October.

Confidential report Please bold as appropriate	Yes	**No**

CORPORATE PRIORITIES

6. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	X

BACKGROUND

7. The Regulation of Investigatory Powers Act provides a framework within which Chorley Council must comply when undertaking certain investigatory powers in relation to the use of covert surveillance.
8. In compliance with our obligations the Council have a RIPA policy and a number of procedures and guidance notes to assist staff. These are available to all staff on the loop.
9. The Council however do not make use of the powers under the act, preferring to use prevention and overt surveillance to meet Council aims.
10. Previously, the Office for the Surveillance Commissioner would undertake onsite inspections every three years. These would involve an inspector usually spending half a day to a day on site, considering the Council's RIPA policy, procedure documents, training records and interviewing staff. In recognition of a wider decision taken by many council's

across the country not to use the RIPA powers a lighter touch inspection regime has been implemented. Instead of an onsite visit the OSC request a suite of documents and will review their fitness for purpose. In addition they will satisfy themselves the Council have trained relevant staff sufficiently.

THE REPORT – SEPTEMBER 2016

11. Members are invited to review the report which is appended to this. Chorley Council have not granted a RIPA authorisation of any sort for many years and none since the last inspection. The report therefore confines itself to addressing how the Council complied with the recommendations of the last report and a review of the current systems.
12. Members are particularly directed to 3 items. Firstly, there is a recommendation in the body of the report to review and update the RIPA Policy to reflect factual changes. There is nothing to suggest that the policy itself is not fit for purpose. These have been accepted and are being completed.
13. Secondly, the OSC recommends that guidance on the use of social media should be expanded with more action taken to draw it to officers attention. This recommendation has been accepted and the guidance note will be reviewed. It should be noted though that this is substantially similar to the guidance issued by the OSC.
14. Finally, it was recommended that the policy on the use of CCTV be reviewed and updated. This is a piece of work that is being undertaken jointly with the police to reflect that the CCTV suite is primarily used by them, and indeed is situated within the police station.
15. The recommendations have been accepted in full and have been, or are in the process of being actioned.

IMPLICATIONS OF REPORT

16. This report has implications in the following areas and the relevant Directors' comments are included:

Finance		Customer Services	
Human Resources		Equality and Diversity	
Legal	X	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

17. No comments

COMMENTS OF THE MONITORING OFFICER

18. Comments contained in the body of the report.

CHRIS SINNOTT
DIRECTOR OF GOVERNANCE AND POLICY

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
Letter and Inspection Report	September 2016		Appended hereto

Report Author	Ext	Date	Doc ID
Chris Moister	5160-	17 January 2017	

The Rt Hon Lord Judge

OSC
Office of Surveillance Commissioners

Chief
Surveillance
Commissioner

Official -Sensitive

11 October 2016

OSC Inspection

Dear Chief Executive,

I enclose a copy of the report made by Mr Graham Wright, one of my inspectors, following his examination of the material provided to him to enable him to analyse the arrangements made by the Council to ensure compliance with the statutory requirements which govern the use of covert surveillance. As you appreciate, Mr Wright did not visit the Council personally. Having considered the material provided to him, he does not believe that a visit is necessary. However if after reading the report dated 15 September 2016, which I now enclose, or indeed this letter, you think that a personal visit would be helpful or appropriate, the necessary arrangements will be made.

I have studied the report and endorse it.

It is clear that the Council no longer uses the relevant statutory powers, and that it has no intention of doing so in the future. That, of course, is a matter for the Council. What it does not mean, however, is that the Council can simply ignore the statutory provisions. As Mr Wright explains, one of the problems with this legislation is that it is possible to be in breach of it, entirely innocently and while acting in good faith.

That is why two recommendations are made this year, the first relating to the main policy and guidance document itself which needs to be updated along the lines suggested inn paragraphs 10 and 11, and the second specifically directed at the use of social media and Internet sites, and the CCTV system. After these steps have been taken, and in the context of CCTV, after the new protocol has been agreed with Lancashire Constabulary, a training requirement will arise. Appropriate members of the staff need to be informed about the new guidance, so that they can be alerted to the risks of innocent but unlawfully contravention of the statute.

I am pleased that training arrangements have been in place since the last inspection in 2014, and trust that they will continue. That is the only way in which to avoid the problem summarised in a few words by Mr Wright, which will arise if your staff "don't know what they don't know".

Gary Hall Esq
Chief Executive
Chorley Borough Council
Union Street
Chorley
Lancs PR7 1AL

Yours sincerely,

Igor Judge

PO Box 29105 London SW1V 1ZU Tel 020 7035 8127 Fax 020 7035 3114
Web: https://osc.independent.gov.uk/email:oscmailbox@osc.gsi.gov.uk

Office of Surveillance Commissioners

OFFICE OF SURVEILLANCE COMMISSIONERS

INSPECTION REPORT

Chorley Borough Council

September 2016

Surveillance Inspector:
Mr Graham Wright.

DISCLAIMER

This report contains the observations and recommendations identified by an individual surveillance inspector, or team of surveillance inspectors, during an inspection of the specified public authority conducted on behalf of the Chief Surveillance Commissioner.

The inspection was limited by time and could only sample a small proportion of covert activity in order to make a subjective assessment of compliance. Failure to raise issues in this report should not automatically be construed as endorsement of the unreported practices.

The advice and guidance provided by the inspector(s) during the inspection could only reflect the inspectors' subjective opinion and does not constitute an endorsed judicial interpretation of the legislation. Fundamental changes to practices or procedures should not be implemented unless and until the recommendations in this report are endorsed by the Chief Surveillance Commissioner.

The report is sent only to the recipient of the Chief Surveillance Commissioner's letter (normally the Chief Officer of the authority inspected). Copies of the report, or extracts of it, may be distributed at the recipient's discretion but the version received under the covering letter should remain intact as the master version.

The Office of Surveillance Commissioners is not a public body listed under the Freedom of Information Act 2000, however, requests for the disclosure of the report, or any part of it, or any distribution of the report beyond the recipients own authority is permissible at the discretion of the Chief Officer of the relevant public authority without the permission of the Chief Surveillance Commissioner. Any references to the report, or extracts from it, must be placed in the correct context.

Office of Surveillance Commissioners

OSC/INSP/075

The Rt. Hon. Lord Igor Judge
Chief Surveillance Commissioner
Office of Surveillance Commissioners
PO Box 29105
London
SW1V 1ZU

15th September 2016

OSC INSPECTION – CHORLEY BOROUGH COUNCIL

Inspector

Graham Wright

Introduction

1. Chorley Borough Council covers the town of Chorley and surrounding urban and rural areas. It serves a population of approximately 110,000 and covers an area of over 78 square miles.

2. The previous OSC inspection was conducted in February 2014 by Mr Kevin Davis.

3. The Chief Executive of Chorley Borough Council is Mr Gary Hall, whose address for correspondence is Civic Offices, Union Street, Chorley, Lancashire PR7 1AL. Mr Hall was in post at the time of the last OSC inspection in 2014.

4. The *RIPA Senior Responsible Officer (SRO) is* the Chief Executive, which is an unusual arrangement but compliant with the requirement of the Codes of Practice.

5. Since the last inspection there have been no RIPA authorisations of directed surveillance or covert human intelligence sources (CHIS) granted.

6. I am preparing this report without visiting the Council. Having considered this material in detail, I have concluded that I can properly report to you without a physical inspection. This is in accordance with your recent direction that not every second-tier district or borough council needs to be visited every three years as a matter of course.

Progress against recommendations/Action Plan

7. The 2014 inspection made only one recommendation which the council accepted.

8. *That the Council ensures that the Neighbourhood Intervention and Prevention Officers receive CHIS awareness training.*

   Completed: Training for these officers was carried out in 2014 following the inspection and further training has been conducted (for more details see the section *Training* below).

RIPA Structure and Policy

9. The Chief Executive is the appointed 'senior responsible officer', the Director of Early Intervention and Support is the main authorising officer and the Head of Legal and Democratic Services is the RIPA Monitoring Officer with responsibility for maintaining the policy and Central Record of authorisations, he also arranges training for enforcement staff and authorising officers. I was not provided with a copy of the Central Record and therefore cannot comment on the information that it would contain - it was seen by Mr Davis in 2014 and was considered acceptable – but Mr Moister should ensure that it would contain all the information required by paragraph 8.1 of the 2014 Covert Surveillance Code of Practice.

PO Box 29105 London SW1V 1ZU Tel 020 7035 8127 Fax 020 7035 3114
Web: https://osc.independent.gov.uk email:oscmailbox@osc.gsi.gov.uk

10. The main policy and guidance document is the *Corporate Policy for the Use of Covert Surveillance and Covert Human Intelligence Sources* (January 2014) and is in many ways a good document. It contains practical advice for applicants and authorising officers but there are some minor amendments that are needed, and given the date that the document was published it would benefit from a review and update. Specifically:

    i. The document states that it is based on the 2010 Codes of Practice, which have been revised and updated in 2014;
    ii. The main authorising officer is shown as being the Director of Places and People and not the officer who is currently carrying out this role;
    iii. Paragraph 6.1 states that an authorisation for directed surveillance lasts for three months commencing on the date granted by the authorising officer. The commencement date is that on which approval by a magistrate is given;
    iv. Other guidance notes (e.g. Social Media) might usefully be incorporated in the main policy document;
    v. The document would benefit from some explanation regarding the use of CCTV and the circumstances which might meet the requirement for a directed surveillance authorisation.

11. There is also a *Guidance Note – Use of RIPA and Social Media*. This short note contains basic advice regarding this complex issue. It does recognise that use of social media may meet the criteria for authorisation as directed surveillance and any interaction may need authorisation as a CHIS. My only concern, given our findings in this regard among councils, is that there is an emphasis on social media and a view that 'open source' material or social media that is publically available would not normally need an authorisation. I would draw attention to Note 289.1 of the OSC Procedures and Guidance (July 2016) and advise that the guidance that has been published is broadcast to all staff. I would also draw attention to my comments below at paragraphs 16 and 17.

Reports to Members

12. Elected members on the Governance Committee receive verbal updates on RIPA usage (of which there has been none in the past three years) and an annual report for approval of the Council's policy.

Liaison with magistrates' court under The Protection of Freedoms Act 2012

13. No authorisations have been granted since the introduction of the Protection of Freedoms Act 2012 and it is deemed unlikely that any will be granted in the future. A Guidance Note and section of the main policy document gives clear instructions as to how judicial approval would be acquired. The Monitoring Officer would provide advice and accompany an applicant to the hearing if required.

Training

14. In 2014, following the previous inspection, Neighbourhood Team staff received awareness training in relation to CHIS in particular.

15. In February 2016 an external trainer conducted a one day event for 27 investigation and enforcement staff. The authorising officers, Monitoring Officer and an enforcement manager have also completed on-line RIPA training modules in 2016.

Social media investigations

16. I mention at paragraph 11 above the need for more comprehensive guidance to a wide audience of council staff. Because of our findings in inspections we are tending to encourage a more proactive response; namely, carrying out an audit of usage among even those departments that are not the traditional investigative or enforcement units. The vulnerability for the council is that '*they don't know what they don't know*' and this activity is so easy to carry out by anyone with access to electronic data equipment.

17. It is to the credit of the Council that they have at least drawn up guidance in relation to use of social media, there is just a need to ensure that current usage does not leave them vulnerable to criticism.

CCTV

18. The CCTV system comprises 63 cameras sited in public places and all accompanied by appropriate signage. The Control Room for the CCTV is situated in Chorley Police Station but this is staffed by Council appointed operators.

19. The *CCTV System – Operating Policy 2013/14* is the current main document regarding usage and management of the system. It is currently being reviewed and updated. What it lacks in its current format is any guidance for operators as to what circumstances might warrant an authorisation for directed surveillance and the process to be adopted to ensure that the details of that authorisation are viewed by staff in the CCTV Control Room.

20. There is also a lack of an agreed protocol with Lancashire Constabulary regarding usage under a police RIPA authorisation but I was informed that this is also to be reviewed and will be in place by December 2016 (I have seen a protocol that this force has with another council in their force-area and this was a compliant and good quality document).

Conclusions

21. Chorley Borough Council has made no use of the powers vested under Part II of the Regulation of Investigatory Powers Act 2000 and in response to the request for information stated that the culture of the organisation is to use overt methods only.

22. This does not negate the need for a clear and accurate policy and guidance regime; indeed the need for such guidance is at least equal to that needed in an authority that makes regular use of RIPA. This is particularly true in relation to use of the internet and social networking sites which is an area of concern for the OSC. This concern is due to several factors: because of the ease by which such covert activity can be conducted; a lack of thorough understanding among staff as to when a subject's privacy might be interfered with; and the fact that usage of these media is far wider than those staff traditionally associated with conducting covert activity.

23. The recommendations that I make are in relation to the policy and guidance regime that exists and are easily achievable. What is more problematic to achieve is the assurance that unauthorised surveillance is not taking place via use of the internet and social media and a pro-active audit may be required to achieve this assurance.

Recommendations

24. The main policy and guidance document should be reviewed and updated in accordance with the points made herein – paragraphs 10 and 11.

25. The CCTV policy or other protocol should include guidance regarding the necessity for an authorisation for directed surveillance to be viewed and the process by which this would happen – paragraph 19 and 20.

Surveillance Inspector