Chorley Council

GOVERNANCE COMMITTEE

WEDNESDAY, 20TH SEPTEMBER 2017, 2.30 PM
COMMITTEE ROOM 1, TOWN HALL, CHORLEY

AGENDA

APOLOGIES

2 **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.

3 **STATEMENT OF ACCOUNTS 2016/17**

Report of the Chief Finance Officer (to follow)

Report of the Chief Executive (enclosed)

Report of the Director of Policy and Governance (enclosed)

Report of the Head of Shared Assurance Services (enclosed)

7 **EXTERNAL AUDIT FINDINGS REPORT 2016/17**

Report of the External Auditor (to follow)

8 **RIPA APPLICATION UPDATE**

The Monitoring Officer will present a verbal report at the meeting.

Meeting contact Nina Neisser on 01257 515034 or email nina.neisser@chorley.gov.uk

9 **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, Danny Gee, Debra Platt and Kim Snape.

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Chorley Council

MINUTES OF	**GOVERNANCE COMMITTEE**
MEETING DATE	**Wednesday, 21 June 2017**
MEMBERS PRESENT:	Councillor Paul Leadbetter (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Jean Cronshaw, Gordon France, Danny Gee, Debra Platt and Kim Snape
OFFICERS:	Gary Hall (Chief Executive/Statutory Finance Officer), Chris Sinnott (Director (Policy and Governance)), James Thomson (Principal Management Accountant), Chris Moister (Head of Legal, Democratic & HR Services/Monitoring Officer), Kate Howcroft (Performance and Partnerships Officer), Garry Barclay (Head of Shared Assurance Services), Dawn Highton (Principal Auditor) and Nina Neisser (Democratic and Member Services Officer)
APOLOGIES:	Councillor Alan Cullens
OTHER MEMBERS:	Peter Ripley (Independent Member) and Mark Heap (Grant Thornton UK LLP)

17.G.85 Minutes of meeting Wednesday, 22 March 2017 of Governance Committee

RESOLVED – That the minutes of the Governance Committee held on 22 March 2017 be held as a correct record for signing by the Chair.

17.G.86 Declarations of Any Interests

There were no declarations of any interest.

17.G.87 Draft Statement of Accounts 2016/17

The Chief Finance Officer submitted a report to the Governance Committee which presented the draft Statement of Accounts (SOA) for 2016/17 before they would be signed and authorised for issue by the end of June 2017. The report also advised about the process leading up to the formal submission of the SOA for approval by Members following the completion of the external audit and the statutory requirements arising from the Accounts and Audit Regulations 2015.

Before presenting the report the Interim Financial Services Manager informed the Committee that there was an error in the report. The report indicated that the SOA was finalised on 12 June 2017, this was past the target date of 30 May due to issues getting the cash flow to balance. However there was a further delay that meant the SOA was only finalised on 15 June 2017. This delay was caused by new discussions that arose with the HCA regarding the designation of a large Capital Grant towards the Primrose Gardens project.

The closure of accounts in 2016/17 had been a noticeable improvement when compared to previous years. In order to achieve the earlier completion of the accounts in 2016/17 a review and streamlining of the year-end closedown process, including the external audit arrangements, was undertaken. Budget holder training had also been delivered and was well-received. Each member of the finance team had clear roles and workloads that were well understood early on in the closure process. Bottlenecks and shortfalls in skills were identified and dealt with before they posed the potential to delay closure.

Following queries, Members were informed that the deadline for closure of accounts would be the end of May in 2017/18 onwards and this had been brought forward in line with statutory government requirements as a way to provide clarity on the finance position of all the local authorities. Members attached preference to the quality of the SOA and were reassured that the SOA was accurate. Mark Heap (Grant Thornton) advised that there was no ultimate sanction for not meeting the deadline, but rather it was an indication that the authority was underperforming. The group were satisfied that progress had been made this year and it was advised that once audited, a report would be published.

RESOLVED – That the report be noted.

17.G.88 Treasury Management Annual Report 2016/17

The Chief Finance Officer submitted a report the Governance Committee that indicated the Treasury Management performance and compliance with Prudential Treasury Indicators for the financial year ended 31 March 2017. The return on investments for the year was 0.29%, which exceeded the benchmark of 0.24%. The report also detailed the Council’s borrowing and investments as at 31 March 2017.

Revised Prudential and Treasury Indicators for 2016/17 were included in the report “Treasury Strategies and Prudential Indicators 2017/18 to 2019/20”, presented to Special Council on 28 February 2017. Where relevant, comparisons with 2016/17 indicators in the report were to those approved most recently. In order to ensure that local authorities borrow only for capital purposes, the Prudential Code requires that borrowing net of investments should not exceed the Capital Finance Requirement (CFR) for the preceding year plus any anticipated increase in the current and next two years.

The Council’s 2016/17 Capital Programme had been reported to Executive Cabinet and Council at intervals throughout the year and an analysis of capital expenditure for 2016/17 was due to be presented to the Executive Cabinet meeting of 22 June 2017. Members were informed that the capital expenditure for 2016/17 (including Revenue Expenditure Funded from Capital under Statute, and land acquired by exchange) was £11.037m, compared to the estimate of £14.563m when the prudential indicator for the year was revised. The revised Capital Financing Requirement (CFR) estimated for 2016/17 was £39.544m; therefore the actual CFR of £39.287m was £0.257m less than estimated.

Total borrowing at 31 March 2017 was £18.537m (excluding accrued interest), £11.537m of which was from the Public Works Loan Board (PWLB), and £7.000m was temporary borrowing from other local authorities. Cash balances (net of bank overdraft) invested at year-end were £0.955m (excluding accrued interest receivable), which meant that borrowing net of investments was £17.582m. This was lower than the estimated net figure of £24.115m because additional PWLB loans to finance new capital investment or to replace internal borrowing were not taken. The new borrowing figure was £21.705m less than the revised CFR figure; this figure represented the use of the Council's own cash to finance capital expenditure rather than taking additional external loans.

In practice, the likelihood of an immediate increase in rates diminished during 2016/17, and use of internal cash balances rather than new external loans continued. On 31 March 2017 the 25-year PWLB rate was 2.67% and there was no immediate prospect of a sharp increase. Members were advised that due to the Council's capital investment plans, additional long-term borrowing would be required during 2017/18 as reflected in the current Treasury Strategy.

Following discussion, Members were reassured that the required additional long term borrowing was likely to meet the CFR limit but due to the balance of accounts would never exceed this limit. It was reported that significant savings had been made through internal cash balances, which had ultimately reduced external borrowing. The Committee were reassured that these rates would continue to be monitored.

RESOLVED – That the report be noted.

17.G.89 Charity and Trust Accounts 2016/17

The Chief Finance Officer submitted a report presenting the accounts for the year ended 31 March 2017 for charities and trusts for which the Council is the sole trustee. Figures relating to the trusts were not material, and it was suggested that inclusion of the note in the statement would not improve users' understanding of the Council's financial position.

The Council's Statement of Accounts 2016/17 did not include the previous Trust Funds disclosure. As an alternative, figures were presented in the report, which included more detail about each charity or trust therefore provided an opportunity to review and approve the accounts for each of the charities or trusts.

Excluding the note from the statement meant that the external auditors had not been obliged to audit it; however there was no statutory requirement for the accounts to be audited. Furthermore, the note to the accounts had figures rounded to the nearest thousand pounds, which meant that low value transactions were not visible.

It was advised that it would be more beneficial to the Council to address this separately for future use and it was therefore not considered a priority to be included in the Statement of Accounts for 2016/17. In response to concerns, Members were reassured that officers would present and discuss the potential options available to the Council regarding this following the Council meeting scheduled for July.

RESOLVED – That the accounts presented in Appendix A and E of the report be approved.

17.G.90 Annual Governance Statement 2016/17

The Director of Policy and Governance submitted a report presenting the draft Annual Governance Statement (AGS) to the Governance Committee for review and approval. The draft AGS was properly drafted in accordance with the guidance issued by CIPFA and SOLACE to be published alongside the annual financial statements once approved.

The Monitoring Officer notified the Committee that the assessments which informed the preparation of the AGS demonstrated that the Council had strong governance arrangements with few identified areas for improvement. The format of the AGS was substantially the same as previous years however it was noted that in line with the update CIPFA guidance, the new core principles adopted in the Council's Code for Corporate Governance in March 2017 were used to provide the measure against which the Council assessed itself. Coinciding with these guidelines, the document had become more readable and accessible for the public to understand but also ensured continuity remained.

The report highlighted that all governance issues previously agreed for improvement for the year 16/17 had been completed however; information management, risk management and corporate policies had been carried over for continuation in 17/18. Equality and diversity was added to further embed equality and diversity throughout the council. Members were informed that Information Management was moving forward with the Customer and Digital Strategy due to be presented to Executive Cabinet in June 2017.

The proposed areas for improvement as identified in report were issues that had been highlighted as needing improvement; the issues were not in themselves significant. They were areas with suggested partial compliance with requirements or where there was insufficient evidence to demonstrate full compliance. There were no areas of significant none compliance by the Council. Subsequently, the group were satisfied that there were no significant issues and assurances were made that steps would be made in the coming year to address the issues to further enhance the Council's governance arrangements.

RESOLVED – That the draft Annual Governance Statement be approved and referred to the Executive Leader of the Council and the Chief Executive for signature.

17.G.91 Strategic Risk Register 2017

The Director of Policy and Governance submitted a report updating the Committee on the Strategic Risk Register (SRR) which included 15 strategic risks to the Council, including actions in progress as well as new actions planned to further mitigate identified risks.

The Performance and Partnerships Officer informed the Committee that the SRR was the vehicle by which the Council aimed to identify and address and potential risks to the organisation and the delivery of its functions which therefore needed to be managed strategically. The SRR was a live document due to the continually changing political, economic and financial environment which meant it was updated regularly to reflect any new or emerging strategic risks facing the Council.

Members were informed of the introduction of the Council's risk management system; the GRACE system, which meant that all organisational risk registers were centrally stored. The introduction of the system saw an updated risk matrix which scored on a 4x4 matrix rather than the 3x3 matrix as was previously used. This matrix was considered a more comprehensive tool on which to record and evaluate risk. Following the introduction of this system, all of the risks were re-assessed and re-scored on the 4 x 4 matrix based on the likelihood of the risk occurring against the impact for the organisation if it did occur.

The risk register was continually reviewed and currently, the majority of risk categories remained stable with six of these identified as 'high risk', six 'medium risk' and three 'low risk'. Four risk levels had increased this year. Two risk levels were increased to reflect the large levels of investment and change being undertaken in the borough over the coming year and potential resident views regarding this. One risk level was increased to reflect higher risks with regards to implementing new ways of working and alternative business models for the council and one had been rated more highly due to recent changes to UK threat levels and heightened risk of cyber-attacks. No new risks were identified. With regards to these four increased risks, Members were reassured that although it may appear a higher number, the score was at the equivalent level on the new 4x4 matrix.

In response to Members concerns regarding the increased figures due to the implementation of the GRACE system, Members were reassured that a risk of 16 could be mitigated and officers would look further into achieving this. It was agreed that to prevent further concern, the Committee would be updated on the progress and that an estimation figure based on potential mitigation would be included.

RESOLVED – That the strategic risks, actions in progress and actions planned to further mitigate the strategic risks as set out in the report be noted.

17.G.92 Compliance with International Auditing Standards

The Head of Shared Assurances submitted a report to the Governance Committee to provide a range of assurances being sought by the external auditors, Grant Thornton, as part of their audit of the Council's 2016/17 accounts.

Grant Thornton recently wrote to the Chief Executive and the Chair of the Governance Committee requesting information to assist with their audit of the Council's 2016/17 financial statements. Given that the assurances requested were similar to the evidence being collated by Internal Audit to support the Annual Governance Statement (AGS) and in the interests of transparency, it was agreed with Grant Thornton that responses to their letter would be provided following consideration at this meeting.

Similar requests for assurance were made in respect of the 2015/16 financial statements and therefore the information provided in this year's responses was in effect an update of the information which was supplied last year. Having reviewed the specific information being sought, the Chief Executive was satisfied that the systems in place were robust and Internal Audit was satisfied that the Council's arrangements were such, that positive assurances could be given.

RESOLVED – That the report be noted and the Chair of the Governance Committee and the Chief Executive be enabled to sign the assurance letters requested by Grant Thornton.

17.G.93 Internal Audit Annual Report 2016/17

The Head of Shared Assurance Services submitted a report that summarised the work undertaken by the Internal Audit Service during the 2016/17 financial year. The report provided an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control and gave an appraisal of the Internal Audit Service's performance, including a review of the Council's internal control system.

The report indicated that the Council had delivered on all projects planned apart from the Payroll Project and the Health and Safety Review which were not undertaken. The Payroll Project was cancelled due to the continuation of the current arrangements and Health and Safety review was deferred due to a revised risk assessment process which was currently being developed. Therefore this review would be undertaken as part of the 2017/18 Internal Audit Plan.

It was reported that there had been a 42 day shortfall in number of planned days for both Chorley Council and Shared Services which was offset by a period of sickness absence by a member of the Internal Audit Team.

Members were advised that individual audits were awarded on separate controls assurance ratings and were reminded that the GRACE system, which used a 4x4 matrix to measure the control ratings, had been introduced. During 2016/17 a total of 20 systems/areas were reviewed, 11 of which were critical and 8 were major systems and 1 minor system. The vast majority of controls were awarded an amber assurance rating. Of the 11 critical systems reviewed during 2016/17, 10 received a score of 6 (substantial assurance). Furthermore, of the red controls assurance ratings awarded only one audit, Information Governance received a score of 9 (limited assurance). Officers were satisfied that when the individual ratings were aggregated, the Council continued to operate within a strong control environment.

In response to queries, Members were reassured that a rating of 6 was considered the best rating for a critical system. Following discussion regarding the amber rating for safeguarding, Members were reassured that the areas which needed to be developed further (non-front facing departments) were being addressed. However, the key areas where safeguarding was needed most had robust systems in place to protect this. Members were also advised that a review of fuel consumption was under control and there were numerous projects in place to monitor this and progress forward.

It was reported that all of the Key Performance Indicators were on target apart from the Audit of Health and Safety which had been deferred to 2017/18 and the Audit of S106/CIL which remained in progress. Overall, retention of standards demonstrated that Audit continued to seek improved and more efficient working practices to maintain a high quality service.

The committee concluded that the 2016/17 Internal Audit Programme of work had been delivered successfully and Members were assured that the Council's governance and control environment continued to be effective. It was anticipated that the introduction of the Governance, Risk and Control Self-Assessment (GRACE) software, which was in the process of being implemented, would continue to strengthen the current risk management arrangements further.

RESOLVED – That the Internal Audit Annual Report for 2016/17 be noted.

17.G.94 RIPA Application Update

The Monitoring Officer reported that there had been no RIPA applications made.

17.G.95 Any urgent business previously agreed with the Chair

Chair Date

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Report of	Meeting	Date
Chief Executive	Governance Committee	20 September 2017

TREASURY MANAGEMENT ACTIVITY MID-YEAR REVIEW 2017/18

PURPOSE OF REPORT

1. To report on Treasury Management performance and compliance with Prudential Indicators in financial year 2017/18 to the end of July.

RECOMMENDATION(S)

2. That the report be noted.

EXECUTIVE SUMMARY OF REPORT

3. Average interest earned is 0.18% to the end of July, which is more than the target of 0.13%. As in 2016/17, 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 27 February 2018.

5. Implementation of MiFID II from January 2018 is likely to mean that the Council will be unable to place deposits in money market funds, which may have an impact on the average rate of return achieved in future.

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	

BACKGROUND

7. Special Council of 28 February 2017 approved the Treasury Management Policy Statement; Treasury Management Practices; Prudential Indicators for 2017/18 to 2019/20;

the Treasury Management Strategy and Treasury Indicators for 2017/18; the Annual Investment Strategy 2017/18; and the Annual Minimum Revenue Provision (MRP) Policy for 2017/18.

8. The Treasury Management Annual Report for 2016/17 was presented to Governance Committee of 21 June 2017.

9. 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) 2017/18

10. The Prudential Indicators reported on 28 February 2017 took account of estimated capital expenditure and sources of financing from 2016/17 to 2019/20. These will be reviewed during the year, to take account of any significant changes to the capital programme and its financing as reported in budget monitoring. Revised Prudential Indicators will be presented to the budget setting Council meeting of 27 February 2018.

11. The Prudential Indicators approved for 2017/18 onwards were as follows:

Prudential Indicator 1 - Capital Expenditure

Table 1 - Capital Expenditure	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**
Capital expenditure incurred directly by the Council	24,648	8,965	800
Less Capital resources			
Capital receipts	(1,215)	0	0
Grants & contributions	(11,284)	(2,312)	(370)
Revenue and reserves	(2,390)	(332)	(330)
Unfinanced amount (affects the CFR: see Prudential Indicator 2 below)	**9,759**	**6,321**	**100**
Of which:			
General capital expenditure	625	260	100
Primrose Retirement Village	331	4,836	
Market Walk Extension *	6,353		
Digital Office Park*	2,450	1,225	

* Self-financing Prudential Borrowing

Prudential Indicator 2 - Capital Financing Requirement (CFR)

Table 2 - CFR	31/3/18 Estimate £000	31/3/19 Estimate £000	31/3/20 Estimate £000
Estimated CFR at year-end	48,760	53,378	52,579
Reasons for the annual change in the CFR			
Unfinanced capital expenditure (see Table 1)	9,759	6,321	100
Annual revenue charge (MRP)	(543)	(620)	(899)
Voluntary Set Aside (Commuted Sum)		(1,083)	
Of which:			
General capital expenditure	12,650	12,521	12,241
Primrose Retirement Village	1,042	4,795	4,723
Market Walk Shopping Centre *	22,762	22,601	22,433
Market Walk Extension *	9,461	9,391	9,208
Digital Office Park*	2,845	4,070	3,974

* Self-financing Prudential Borrowing

The CFR and Borrowing 2017/18

12. 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 2017, net borrowing as reported in the Treasury Management Annual Report 2016/17 was £17.582m (including £7m temporary borrowing) and therefore was well below the CFR of £39.287m at the same date. Net borrowing will not exceed the CFR in 2017/18, and the actual year-end figure will be confirmed in the Treasury Management Annual Report for the financial year.

13. 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 5 below, the average rate of interest earned this year to July is 0.18%, whereas interest payable on new PWLB loans would be 1.02% (5 years) to 2.58% (50 years) – rates as at 25 August 2017. 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.

14. Appendix C compares this Council’s borrowing as at 30 June 2017 with that of all local authorities in England.

Operational Boundary for External Debt 2017/18

15. 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 28 February 2017 was £39.883m, being the forecast gross borrowing and other long-term liabilities as at 31 March 2018. 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 2017/18 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.

Prudential Indicator 8 The Operational Boundary for External Debt

Table 3 - Operational Boundary	31/3/18 Estimate £000	31/3/19 Estimate £000	31/3/20 Estimate £000
Borrowings	39,868	43,698	43,698
Other long-term liabilities	15	15	15
Operational boundary	**39,883**	**43,713**	**43,713**

Authorised Limit 2017/18

16. The Authorised Limit should allow headroom above the Operational Boundary to accommodate the fluctuations that can occur in cash flows. The figure approved for 2017/18 was £42.883m, and there is no reason to amend this at present.

Prudential Indicator 9 The Authorised Limit

Table 4 - Authorised Limit	31/3/18 Estimate £000	31/3/19 Estimate £000	31/3/20 Estimate £000
Borrowings	42,868	46,698	46,698
Other long-term liabilities	15	15	15
Authorised Limit	**42,883**	**46,713**	**46,713**

Ratio of Financing Costs to the Revenue Stream 2017/18

17. 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 2017/18 will be presented in the Treasury Management Annual Report 2017/18 in June 2018.

Incremental Impact of Capital Investment Decisions 2017/18

18. 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 2018.

TREASURY ACTIVITY

19. Investment activity up to the end of July 2017 is summarised in the following table.

Table 5 - Investment Activity	Average Daily Investment £000	Earnings to 31 July 2017 £	Average Rate %
Fixed Term Deposits	-	-	-
Call Accounts	852	318	0.11
Money Market Funds	3,175	2,085	0.20
Total	**4,027**	**2,403**	**0.18**

Compared to 2016/17, 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.

A full list of investments as at 31 July 2017 is shown below.

Table 6 - Investments as at 31 July 2017				
Counterparty	**Type**	**Amount £**	**Invested date**	**Maturity date**
Standard Life	MMF	3,000,000	Various	On call
Barclays	Call account	1,004,406	Various	On call
Total		**4,004,406**		

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

20. The average interest earned of 0.18% exceeds the target of 0.13% (being the average LIBID 7-day rate plus 15%). However, to date the average interest earned has not exceeded the Capita suggested earnings rate of 0.25% for 2017/18 (see Table 7 below). This is because the Capita rate is based on 3-month term deposits, whereas this council's deposits have been placed only in call accounts and money market funds.

21. Appendix C compares this Council's investments as at 30 June 2017 with the total for all local authorities in England.

TREASURY CONSULTANTS' ADVICE

22. Appendix A presents the advice of Capita Asset Services and their economic research consultants Capital Economics in respect of economic matters in the first quarter of 2017/18. In addition, a detailed commentary on interest rate forecasts is presented as Appendix B. Bank rate and PWLB borrowing rate forecasts are given from September quarter 2017 through to March quarter 2020.

23. An increase in Bank Rate from 0.25% to 0.50% is still expected in the June quarter of 2019. So far the Bank Rate forecast remains unchanged from that included in the Treasury Strategy for 2017/18.

24. 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:

Table 7 - Average Earnings in each financial year		
	Revised August 2017	Original February 2017
2017/18	0.25%	0.25%
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%	1.50%
2023/24	1.75%	1.75%
Later years	2.75%	2.75%

25. The most recent estimate is compared to the estimated earnings rate available at the time the Treasury Management Strategy was presented for approval in February 2017. The suggested earnings rates are unchanged so far this financial year.

26. Compared to the previous interest rates forecast, PWLB borrowing rates are currently a little lower than expected. Gradually increases through to March quarter of 2020 are still forecast. Should rates begin to increase more steeply, it may become advisable to take additional borrowing sooner rather than later to achieve longer term savings.

MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MiFID) II

27. Appendix D presents an update on the implementation of MiFID II in the United Kingdom. In brief, to continue using regulated products such as money market funds Chorley Council would have to opt-up to Professional Client status. The likelihood is that the Council would fail the minimum financial instrument portfolio size test of £10m and therefore would not be able to use MMFs from January 2018.

28. This would increase the likelihood of having to deposit cash in the Debt Management Office’s Debt Management Account Deposit Facility at a low rate of interest (currently 0.10%), but with a high degree of security. Other local authorities might offer a slightly higher rate of interest than the DMO for short-term deposits, but there is no certainty of finding a council which requires cash at the same time that this Council needs to invest funds temporarily.

CIPFA CONSULTATIONS ON THE TREASURY MANAGEMENT CODE AND PRUDENTIAL CODE

29. A summary of the proposed changes to CIPFA’s Treasury Management Code and Prudential Code is presented as Appendix E. Several of the proposed changes are

inevitably of a technical nature, and those incorporated into the Codes will be explained when implemented.

30. It is clear that some of the changes are intended to address concerns expressed in the media in recent months about the extent to which local authorities have been incurring capital expenditure on income-generating properties to meet budget shortfalls following cuts in government funding. The changes to the Prudential Code should not affect this Council's existing capital expenditure plans, though there would be a specific requirement to report on risks associated with the capital strategy.

CIPFA CONSULTATION ON ADOPTION OF IFRS 9 FINANCIAL INSTRUMENTS IN CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING IN THE UNITED KINGDOM 2018/19

31. The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 will adopt the IFRS 9 accounting rules for Financial Instruments. The changes could have an impact on councils which invest in companies, or place deposits in enhanced money market funds.

32. Any investments which would be accounted for as "available for sale" at present would move into the "fair value through profit or loss" category. This would mean that gains or losses from changes in the fair value of financial assets would be reflected in the surpluses or deficits in the Provision of Services in local authorities' accounts, rather than being held in a reserve until realised on sale of the assets. It is not clear whether the DCLG will introduce a statutory override to reverse the impact of the gains or losses.

33. At present the proposed change would not affect this Council, though it may be desirable to delete enhanced MMFs from the investment counterparties list in the Treasury Strategy for 2018/19 onwards.

IMPLICATIONS OF REPORT

34. 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

35. This report complies with statutory requirements. Statistical content is consistent with the assumptions in the approved capital and revenue budgets for 2017/18.

COMMENTS OF THE MONITORING OFFICER

36. 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	29 August 2017	Treasury Management Activity Mid-Year Review 2017-18.docx

Appendix A

Economic Background

The UK GDP annual growth rates in each calendar year 2013 – 2016 of 1.9%, 3.1%, 2.2% and 1.8%, have all been the top rate, or near top rate, of any of the G7 countries in every year. It is particularly notable that the UK performance was repeated in 2016, a year in which the Bank of England had forecast in August 2016 that growth would be near to zero in the second half of the year due to the economic shock it expected from the result of the Brexit referendum in June. However, it has had to change its mind and in its February and May 2017 Inflation Reports, the Bank upgraded its forecasts for growth (May Report - 2017 1.9%, 2018 and 2019 1.9%). However over these years, it also expects inflation to accelerate towards nearly 3% as increases in costs as a result of the fall in the value of sterling since the referendum, gradually feeds through into the economy, though it should fall back to 2.2% in 2019. Provided those cost pressures do not feed through into significantly higher domestically generated inflation within the UK, the MPC is expected to 'look though' this one off blip upwards in inflation. Wage inflation, which is a key driver of domestically generated price pressures, is currently subdued. There is, though, a potential risk that the MPC might muster a majority to reverse the emergency 0.25% rate cut before embarking on a progressive trend of increases in Bank Rate at a later time.

GDP growth in the US has been highly volatile in 2016 but overall mediocre, at an average of 1.6% for the year. Quarter 1 in 2017 has also been mediocre at 1.4% but current indications are that growth could rebound strongly in quarter 2. The disappointment so far has been the lack of decisive action from President Trump to make progress with his promised fiscal stimulus package. The Fed has, therefore, started on the upswing in rates now that the economy is at or around "full employment" and inflationary pressures have been building to exceed its 2% target. It has, therefore, raised rates four times, with the last three following quickly on one another in December 2016 and March and June 2017. One or two more increases are expected in 2017 and possibly four in 2018.

Growth in the EU improved in 2016, to 1.7%, after the ECB cut rates into negative territory and embarked on massive quantitative easing during the year. The ECB is now forecasting growth of 1.9% in 2017, 1.8% in 2018 and 1.7% in 2019. It has committed to continuing major monthly quantitative easing purchases of debt instruments, though in April 2017 it reduced the rate from €80bn per month to €60bn, to continue until the end of 2017, in order to stimulate growth and to get inflation up to its 2% target.

There are major concerns about various stresses within the EU; these could even have the potential to call into question the EU project. The Dutch and French elections passed off without creating any waves for the EU but we still have a national election in Germany on 22 October; this is not currently expected to cause any significant change. What could be more problematic is the general election in Austria on 15 October where a major front runner is the Freedom Party which is strongly anti-immigration and anti EU. There is also a risk of a snap general election in Italy before the final end possible date of 20 May 2018. A continuing major stress point is dealing with the unsustainable level of national debt in Greece in the face of implacable opposition from Germany to any further bail out. High levels of unemployment in some EU countries and the free movement of people within the EU, together with the EU's fraught relationship with Turkey in controlling such people movements, are also major stress issues. On top of which the EU also now has to deal with Brexit negotiations with the UK.

China is expected to continue with reasonably strong growth, (by Chinese standards), of 6.5% in 2017. However, medium term risks are increasing. Japan has only achieved 1% growth in 2016 and is struggling to get inflation to move from around 0%, despite massive fiscal stimulus and monetary policy action by the Bank of Japan.

Detailed economic commentary on developments during quarter ended 30 June 2017

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

- During the quarter ended 30 June 2017:

- The economy showed signs of re-accelerating;

- There was an intensifying squeeze on households' real earnings;

- The MPC took a more hawkish turn, with 3 members voting to raise interest rates;

- A snap General Election delivered a hung Parliament;

- Face-to-face negotiations with the EU began.

- After sluggish growth of 0.2% in Q1, the early indications are that the economy has re-gained some momentum in Q2. Indeed, the quarterly average of the Markit/CIPS all-sector PMI points to GDP growth of about 0.5% or so. Admittedly, the PMI pointed to a similar rate of growth in Q1, which didn't materialise. However, this is partly because the service sector PMI excludes the retail sector, which performed poorly in Q1 – sales volumes fell by a quarterly 1.6%. On the basis of the survey data and hard evidence released so far, retail sales look to have rebounded by over 1% in Q2.

- There is some concern, however, about the sustainability of consumer spending. After all, Q1's National Accounts showed that the 0.4% quarterly rise in spending was entirely funded through households reducing the proportion of their income that they save to just 1.7%, the lowest level since comparable records began. What's more, unsecured consumer borrowing has been rising at an annual rate of over 10%, prompting the Bank of England's Financial Policy Committee to bring forward its stress tests of UK banks' consumer loan books to July. It also increased the counter cyclical capital buffer that banks are required to hold from 0% to 0.5% and intends to increase that further to 1.0% in November. This will have little immediate impact on overall lending as most banks already hold capital in excess of the overall minimum required. However, the FPC also signalled that it is likely to take targeted action specifically on falling consumer credit quality at its next meeting in September after it has the results of its stress tests.

- That said, it could be argued that the drop in saving is an entirely rational response to what households perceive to be a temporary squeeze on their real incomes. Annual growth in the headline measure of average weekly earnings was just 2.1% in the three months to April, down from the 2.3% rate recorded in Q1 and below CPI inflation of 2.4% over the same period. Given that inflation picked up to 2.9% in May, the squeeze on real earnings is likely to have intensified since then.

- The weakness of wage growth still looks hard to square with the performance of the labour market. Employment growth has held up at an annual rate of 1.2% in April and the unemployment rate has continued to drift lower, reaching a new post-crisis low of 4.6%.
- Inflation has risen faster than expected. But this appears to be because the impact of the drop in the pound is feeding through faster than in previous depreciations, rather than by a larger amount. Note that price pressures at the beginning of the production pipeline are already beginning to fade. Producer input price inflation has fallen from a peak of almost 20% in January, to 11.6% in May. And output price inflation – which did not rise as far as its past relationship with input price inflation would have suggested anyway – has stood at 3.6% for three consecutive months now.
- Accordingly, inflation still looks set to peak before the end of this year, at around 3.2% in Q4. Given that it has accelerated more quickly than anticipated, it should fall back quicker as well. We think that inflation should be close to 2% by the end of 2018.
- Given the continued weakness in wage growth, and the fact that inflation's rise is set to be only temporary, it is perhaps surprising that the Monetary Policy Committee appeared to take a more hawkish stance in the second quarter.
- The Committee came its closest to voting for a rate hike since 2007 at its June meeting, with three out of eight members (Kristin Forbes, Michael Saunders and Ian McCafferty) voting to increase Bank Rate by 0.25%. There have been some indications that the rift between MPC members has grown since then, with Bank of England Chief Economist, Andy Haldane, also giving a relatively hawkish speech in which he indicated that he would probably vote to raise interest rates in the second half of 2017. This is particularly symbolic given that he is a Bank "insider" and has typically been quite dovish.
- However, Kristin Forbes term came to an end on 30th June – she will be replaced by Silvana Tenreyro at the next meeting in August. However, we do not know much about Ms Tenreyro's views on UK monetary policy. As a result, the next meeting could see a 5-3 split once again though a 4-4 split with Carney voting for a rise, would put him in the deciding vote hot seat, (until the MPC is restored to its full nine person membership by filling one vacancy).
- However, despite the media reporting that Carney had shifted his view to a more hawkish position between his two speeches in June, it is not at all clear that he is on the cusp of voting to raise interest rates. In particular, his list of specific conditions, including signs that wage growth is firming, and that business investment and net trade pick up the slack from slower consumer spending growth, may not be met.
- One possibility is that the MPC could vote to simply reverse the emergency cut in interest rates that took place following the EU referendum, but then leaves rates on hold for a while thereafter. This appears to be an argument that one or two MPC members are sympathetic to. That said, markets still expect rates to remain on hold until August 2018, around six months earlier than they thought at the end of Q1.
- Meanwhile, the public finances started the fiscal year on a fairly solid footing, with borrowing in April and May in line with last year's outturn. Note, however, that the Office for Budget Responsibility expects borrowing to rise this fiscal year as a whole by £7bn, as a number of

temporary factors – including income shifting related to the rise in the dividend tax rate – unwind.

- What's more, borrowing could increase further if the Government is forced to ease back on austerity at the autumn Budget. The snap general election on June 8th saw the Conservatives fail to gain an overall majority, and instead the party has had to agree a confidence and supply agreement with the Northern Irish Democratic Unionist Party (DUP). The fact that votes on the Queen's Speech were passed without too much difficulty suggests this should be able to function for a while. But the fragile nature of the arrangement could see the Government soften its stance on Brexit and austerity, in order to ensure legislation is passed.

- Face-to-face negotiations with the EU started in June. The Government capitulated on day one to the EU's demand that the withdrawal and future arrangements occur in sequence, rather than in parallel. What's more, the Government appeared to concede some ground to the EU in its initial offer on citizens' rights, including allowing the exporting of EU citizens' child benefits. We have not learnt much in terms of what Brexit will ultimately look like from the initial exchanges, although it still looks likely that the UK will leave the single market and customs union.

- Finally, in financial markets, the FTSE 100 index and FTSE UK Local Index (which only includes firms that make 70% of their sales domestically) have fallen by 0.4% and 0.1% respectively. Most of this decline occurred in June, and probably reflects a combination of election uncertainty as well as the prospect of higher interest rates. Meanwhile, 10-year gilt yields rose by 12bp between end-Q1 and end-Q2. However, there was significant variation within the quarter, with yields falling to as low as 0.9%, before picking up following a more hawkish turn by the MPC.

About Capital Economics

Capital Economics is one of the leading independent economic research companies in the world. Its 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, it has gained an enviable reputation for original and insightful analysis, and has 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 it 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.

Appendix B

Detailed commentary on interest rate forecasts

Capita Asset Services have provided us with the following update to their interest rate forecasts.

May quarterly inflation report review

- Following the latest Bank of England quarterly Inflation Report on 11 May, we have reviewed the forecasts we did on 8 February after the previous quarterly Inflation Report for February 2017. However, we would draw your attention to our newsflash on 3 April where we made an interim adjustment to our forecasts for PWLB rates by reducing our forecasts for quarter 2 2017 by 20 bps to reflect the fact that gilt yields had settled lower since February. Today's forecasts incorporate that interim adjustment and we have lowered following quarters in keeping with the continuing lower gilt yields. We have also made some minor adjustments by lowering a few 25 and 50 year PWLB rate forecasts by 10 bps in later quarters. We have left our forecasts for Bank Rate unchanged.

- The key points from the latest Inflation Report are as follows: -

- Forecast for GDP growth for 2017 shaved from 2.0% to 1.9% to reflect a weak start in quarter 1 of only +0.3%, (but the Bank expects that figure to be revised to +0.4%); 2018 and 2019 upped from 1.8% to 1.9%. (2016 was 1.8%.)

- Little change in inflation forecasts; inflation to fall back to 2.2% in just over 2 years' time and to pick up slightly going into 2020.

- In February, the Bank cut the equilibrium rate of unemployment from 5.0% to 4.5%. This potentially means that the MPC could wait longer before taking action to combat rising inflation.

- Some MPC members were clearly more concerned about the degree to which they could look through increases in inflation caused by the effective devaluation of the pound since the referendum and the consequent feed through into the CPI measure on inflation.

- Our forecasts assume that there is no cancellation of the emergency cut in Bank Rate in August 2016 from 0.50% to 0.25% and a stop to the Quantitative Easing (QE) programme in the shorter-term. There is a potential risk that the MPC could muster a majority to reverse both before reaching a time when there is a progression to a sustained trend of gentle increases in Bank Rate. Our forecasts for both Bank Rate and PWLB rates would then need revision if both were to occur.

- Our overall view is that there is now need for some caution over forecasts for GDP growth as quarter 1 2017 GDP growth was noticeably weaker; this can be explained by the rise in inflation eating into consumers' disposable income and spending power. The Inflation Report stated that the Bank expected a continuation of strong growth near to 2% on the assumption that foreign trade and business investment would counteract a fall back in consumer spending. The Bank also made a major assumption that there would be a smooth adjustment of the UK's relationship with the EU. Again, we feel some caution around both assumptions.

- The Bank also warned that markets were too pessimistic in thinking Bank Rate would not start rising until towards the end of 2019 as the Bank expects wage growth to accelerate due to continuing falls in unemployment and rising vacancy levels. Again, we do feel some caution on this area as wage growth has been remarkably benign despite continuing falls in unemployment; this may reflect hidden levels of unemployment e.g. people wanting to move from part time to full time employment. We do feel that the MPC will focus on inflation risks, ahead of protecting growth, if inflation looks like rising to levels significantly above current forecasts. However, it is very difficult to be at all certain about risks around this, especially when currency movements in the pound, dollar and euro will be very hard to predict and are subject to major unknowns. It is notable that sterling has now recovered from around $1.20 to the pound after the referendum to around $1.30. However, the Fed is expected to embark on quarterly increases in interest rates and this should cause the dollar to strengthen, i.e. the value of sterling against the dollar is likely to fall back again over the next couple of years.

- Capital Economics' forecasts for UK economic growth are as follows: 2017 +2.0%; 2018 +2.3%; 2019 +2.0%. 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. They are forecasting that the first increase in Bank Rate will occur in quarter 2 2018 whereas our first increase is in quarter 2 2019 - after the end of Brexit negotiations.

- One major uncertainty is the degree to which there will be a major financial stimulus programme in the US - depending on the degree of agreement, or otherwise, between President Trump and Congress. If this stimulus programme is substantial, this is likely to have, in turn, a significant impact on the rise in inflation pressures and the speed of increases in the Fed. Rate. There are also concerns as to whether the US will enter into a trade and currency value conflict with other major trading nations. The value of the dollar against other currencies has been subject to major volatility since the Presidential election and this is likely to continue. It is to be noted that after 6 months of Trump's presidency, there has been little substantial progress on a fiscal stimulus so this will weaken world growth expectations in the near future. In addition, it now appears there is a significant weakening in Chinese economic growth. However, the risk of a trade war between America and China appears to have evaporated as China has become a vital partner to the US in curbing North Korea's nuclear ambitions.

- **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. A crunch point is imminent this summer when Greece needs to make major repayments it will not be able to make unless there is a new bail out which is very unlikely ahead of the general election due in Germany before late October. However, in the usual EU approach, another fudge looks probable so as to avoid a crisis ahead of the imminent German general election.

  - 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. Progress has been made in sorting out the dire under capitalisation of a few very small banks but this leaves major issues still to be dealt with.

- Italian general election; the latest possible date for a general election in Italy is 20 May 2018. The constitutional referendum last December, on reforming the Senate and reducing its powers, became a confidence vote on Prime Minister Renzi who duly resigned when he lost the vote. The rejection of these proposals stopped progress 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, 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. This means there is now major uncertainty about the road ahead for Italy and its ability to tackle the needed major reform. Italy has the third biggest government debt mountain in the world.

- German Federal election 22 October 2017. Chancellor Merkel currently looks in a strong position to retain power. However, 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.

- Austria general election 15 October. What could be more problematic is this general election in Austria where a major front runner is the Freedom Party which is strongly anti-immigration and anti EU. If it gains substantial power, or influence in a coalition, this could create waves for the core EU policy, (note, not just the Eurozone currency area), of free movement of people – which is also a key issue for Brexit negotiations and with the Visegrad bloc of former communist states.

- Economic growth in the EU, (the UK's biggest trading partner), has been lacklustre for a long time despite the ECB cutting its main policy rate to -0.4% and embarking on a massive programme of quantitative easing during 2016. However, growth has picked up during 2016 to reach an overall figure of 1.7% for the year for the Eurozone. Current forecasts are for growth to improve to 1.9% in 2017.

- US. GDP growth has been highly volatile in 2016 but overall mediocre, at an average of 1.6% for the year. Quarter 1 in 2017 has also been mediocre at 1.4% but current indications are that growth could rebound strongly in quarter 2. The disappointment so far has been the lack of decisive action from President Trump to make progress with his promised fiscal stimulus package. The Fed has, therefore, started on the upswing in rates now that the economy is at or around "full employment" and inflationary pressures have been building to exceed its 2% target. It has, therefore, raised rates four times, with the last three following quickly on one another in December 2016 and March and June 2017. One or two more increases are expected in 2017 and possibly four in 2018.

- Japan is struggling to stimulate consistent significant growth to get inflation up to its target of 2% despite huge monetary and fiscal stimulus. It is also 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. A world economic recovery will likely 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 and recent events have not changed that view, just that the timing of such increases may well have been deferred somewhat during 2016. While there is normally a high degree of correlation between the two yields, we would expect to see a growing decoupling of yields 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 of Brexit.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are to the upside and are dependent on how quickly inflation pressures rise and how high the peak will be.
- Our forecasts are predicated on an assumption that there is no break-up of the Eurozone or EU, (apart from the departure of the UK), within our forecasting time period despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China, which have a major impact on international trade and world GDP growth.

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 causing an increase in the inflation premium inherent to gilt yields.

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 quarter 2 2019 and then will only rise slowly.

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 B

	Bank Rate %		PWLB Borrowing Rates % (including 0.20% certainty rate adjustment)							
			5 year		10 year		25 year		50 year	
	Aug 17	Feb 17	Aug 17	Feb 17	Aug 17	Feb 17	Aug 17	Feb 17	Aug 17	Feb 17
Sep-17	0.25	0.25	1.40	1.60	2.10	2.30	2.80	2.90	2.80	2.70
Dec-17	0.25	0.25	1.50	1.60	2.20	2.30	2.90	3.00	2.70	2.80
Mar-18	0.25	0.25	1.60	1.70	2.30	2.30	2.90	3.00	2.70	2.80
Jun-18	0.25	0.25	1.70	1.70	2.30	2.40	3.00	3.00	2.80	2.80
Sep-18	0.25	0.25	1.70	1.70	2.40	2.40	3.00	3.10	2.90	2.90
Dec-18	0.25	0.25	1.80	1.80	2.40	2.40	3.10	3.10	2.90	2.90
Mar-19	0.25	0.25	1.80	1.80	2.50	2.50	3.10	3.20	2.90	3.00
Jun-19	0.50	0.50	1.90	1.90	2.50	2.50	3.20	3.20	3.00	3.00
Sep-19	0.50	0.50	1.90	1.90	2.60	2.60	3.30	3.30	3.00	3.10
Dec-19	0.75	0.75	2.00	2.00	2.60	2.60	3.30	3.30	3.10	3.10
Mar-20	0.75	0.75	2.00	2.00	2.70	2.70	3.30	3.40	3.10	3.20

Appendix C

Borrowing and Investing Activity by Local Authorities in England – Quarter 1 2017/18

The Department for Communities and Local Government (DCLG) collects and publishes statistics on borrowing and investing by local authorities each quarter. The statistics for the first quarter on 2017/18 have now been published.

The statistics reveal interesting trends. Investments in the Debt Management Account Deposit Facility (DMADF, also known as DMO) doubled in the first quarter of the year, as returns from other short-term instruments fell. DMO deposits by UK local authorities were £807m as at 30 June, compared to £425m a year earlier. Over the same period, total investment in treasury bills fell from £1,474m to £527m. The yield on treasury bills fell to the extent that the 0.1% earned on DMO term deposits became relatively attractive.

In addition, lending to other local authorities rose again, while there was a large fall in deposits with building societies from £3.1bn to £1.8bn. Building societies do not often seek deposits from local authorities, and the suggested investment duration from Capita Asset Services for three of the larger societies has been reduced to 100 days. By comparison most large UK banks have a suggested duration of six months. Term deposits of six months' duration would tend to achieve a higher rate of return than 100-day deposits.

Money market funds continued to attract funds from local authorities, despite the reduction in return offered. However, MMFs do satisfy the three key pillars of treasury management, being security, liquidity, and yield.

Most local authority borrowing continues to be longer-term, and the Public Works Loan Board is the main source of loans. The movement in Chorley Council's borrowing during 2017/18 is shown in the following table. Temporary borrowing has been repaid, and no new borrowing taken as at 30 June.

Movements in Borrowing Q1 2017/18

	Balance as at 1 April 2017 £000s	Borrowing repaid £000s	New Borrowing £000s	Balance as at 30 June 2017 £000s
PWLB repayable within 12 months	1,417	(596)		821
Temporary loans (local authorities)	7,001	(7,001)		0
	8,418	(7,597)	0	821
PWLB long-term	10,252			10,252
Total borrowing	**18,670**	**(7,597)**	**0**	**11,073**

The following tables show Chorley Council's borrowing and investing activity for the quarter to 30 June 2017 compared to other local authorities in England only.

Appendix C

Borrowing by Local Authorities in England

	England		Chorley Council	
	2017/18 Q1 £000s	2017/18 Q1 %	2017/18 Q1 £000s	2017/18 Q1 %
Short term borrowing				
Banks	55,822	0.07	0	0.00
Building societies	0	0.00	0	0.00
Other financial intermediaries	135,526	0.16	0	0.00
Public corporations	28,554	0.03	0	0.00
Private non-financial corporations	13,382	0.02	0	0.00
Central government	0	0.00	0	0.00
Household sector	18,970	0.02	0	0.00
Other sources	43,309	0.05	0	0.00
Local Authorities	5,620,754	6.80	0	0.00
Total	**5,916,317**	**7.15**	**0**	**0.00**
Longer-term borrowing				
Negotiable bonds & commercial paper	4,383,500	5.30	0	0.00
Other listed securities	1,250,962	1.51	0	0.00
Public Works Loan Board	53,458,563	64.63	11,073	100.00
Banks UK	8,291,646	10.03	0	0.00
Building societies	10,500	0.01	0	0.00
Other financial intermediaries	542,730	0.66	0	0.00
Public corporations	5,735	0.01	0	0.00
Private non-financial corporations	156,147	0.19	0	0.00
Central government	189,455	0.23	0	0.00
Household sector	935	0.00	0	0.00
Other sources	6,444,022	7.79	0	0.00
Local Authorities	2,055,435	2.49	0	0.00
Total	**76,789,630**	**92.85**	**11,073**	**100.00**
Total borrowing	**82,705,947**	**100.00**	**11,073**	**100.00**

To the end of the quarter, Chorley Council had not taken any additional external borrowing, and subsequently has required only temporary borrowing which – at the time of preparing this report – has been repaid.

As a number of large capital projects are currently underway, the likelihood is that further borrowing will be required in the near future, as envisaged in the Treasury Strategy for 2017/18.

Appendix C

Investing by Local Authorities in England

	England		Chorley Council	
	2017/18 Q1 £000s	**2017/18 Q1 %**	**2017/18 Q1 £000s**	**2017/18 Q1 %**
Deposits: banks	11,702,567	31.57	2,434	46.06
Deposits: building societies	1,666,974	4.50	0	0.00
Treasury bills	526,761	1.42	0	0.00
Certificates of deposit: banks	832,764	2.25	0	0.00
Certificates of deposit: building societies	82,232	0.22	0	0.00
British Government (Gilt-edge) securities	435,117	1.17	0	0.00
Other financial intermediaries	47,428	0.13	0	0.00
Public corporations	1,064,676	2.87	0	0.00
Debt Management Account deposit facility (DMO)	735,938	1.99	0	0.00
Money market funds	7,160,639	19.32	2,850	53.94
Other externally managed funds	1,911,858	5.16	0	0.00
Other investments [a]	4,085,235	11.02	0	0.00
Local Authorities	6,811,284	18.38	0	0.00
Total investments	**37,063,473**	**100.00**	**5,284**	**100.00**

(a) Other investments include items authorities report as rest of world banks, other securities and other investments.

The council continues to minimise cash available for investment by using balances as an alternative to external borrowing. This has meant that cash has been invested for only short periods in highly liquid accounts such as Money market Funds and bank call accounts.

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Appendix D

Markets in Financial Instruments Directive (MiFID) II

The Financial Conduct Authority (FCA) explains that the Markets in Financial Instruments Directive is the EU legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.

The Markets in Financial Instruments Directive (MiFID) is the framework of European Union (EU) legislation for:

- investment intermediaries that provide services to clients around shares, bonds, units in collective investment schemes and derivatives (collectively known as 'financial instruments'), and

- the organised trading of financial instruments

MiFID was applied in the UK from November 2007, but is now being revised to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection.

The changes are currently set to take effect from 3 January 2018, with the new legislation being known as MiFID II - this includes a revised MiFID and a new Markets in Financial Instruments Regulation (MiFIR).

The FCA released a new Policy Statement on 3 July 2017. This included a finalised position for the client categorisation of Local Authorities, which will come into effect as part of the full introduction of MiFID II on 3 January 2018.

MiFID II does not cover simple term deposits. It is only focussed on regulated products, which would include direct investments such as Certificates of Deposit, Gilts, Corporate Bonds, and investment funds (including Money Market Funds - MMFs).

Under MiFID II, the FCA is obliged to treat by default all Local Authorities as "retail clients" under EU legislation. However, the regulator does offer the option to "opt up" to being an Elective Professional Client if the authority meets certain criteria.

<u>Opt-Up Process under MiFID II</u>

To be considered as a professional Client, an authority will now need to make that choice in writing and meet requirements set by the FCA.

Qualitative criteria will be set by the counterparties and will be tailored to the specific products. It is unlikely that a client authority could produce one document that it could use to satisfy all potential requirements. Each firm will present their clients with slightly different forms and content as they will be drafted to the specific products being offered. This introduces a new administrative burden to the treasury management function.

The quantitative test includes a minimum financial instrument portfolio size of £10 million. Previously limits of £15m or even £20m had been considered, which would have prevented many local authorities from opting up to Professional Client status. The portfolio size is likely to be measured at the point at which the authority requests to opt up, rather than at the balance sheet date.

If local authorities do not meet the minimum portfolio size requirement, the biggest potential consequence could be that they may no longer be able to use MMFs.

In addition to passing the £10m portfolio size test, a local authority would need to satisfy one of the following criteria to opt-up:

- Ten transactions per quarter in a relevant market in the past four quarters; or
- At least one year experience in a professional position in financial markets which requires knowledge of transactions or services envisaged.

The advice of Capita Asset Services is that because opting-up would be product by product, it would be better to prioritise applications to concentrate on those products used most frequently.

Appendix E

CIPFA Consultations on the Prudential and Treasury Management Codes

The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued consultations on proposed changes to the Code of Practice on Treasury Management and the Prudential Code. Responses to CIPFA are required by 30 September 2017.

The proposed changes would be made either in the Codes or the sector-related guidance. The proposals and questions in the consultation documents are as follows.

Treasury Management Code

Treasury Management Indicators

- Change the principal invested for longer than 364 days indicator to principal invested over 365 days in line with financial reporting definitions,
- Remove the interest rate exposure indictor and require TM Strategy to state how interest rate exposure is managed and monitored, and
- Extend the maturity structure of borrowing indicator to cover variable as well as fixed rate debt.

Do you agree with the proposed indicator changes?

Non Treasury Investments

It is intended to clarify that the Code does cover all investments held primarily for financial returns, which may include some service investments. The annex to the consultation contains an extract of the substantive changes proposed to the code and in respect of non-treasury investments; attention is drawn to the introduction, policy statement and the new TMP 13 along with a requirement to maintain a schedule of non-treasury management investments alongside the treasury management strategy.

Do you agree with the clarification that the Code should cover all investments held primarily for financial returns and the proposed amendments to the Code set out in the Annex?

Reporting

It is proposed to allow some reporting of detailed indicators and monitoring information to a committee or sub-committee whilst making clear that responsibility remains with the board/full council.

Do you agree with the proposal to allow some delegation of reporting to a committee/sub-committee in order to promote more active engagement and with the subsequent changes proposed to the Code?

Other changes

A number of general suggestions were made by respondents to consultation earlier in the year as to areas which are not fully covered by the current principles, including borrowing coverage, MiFID II, Cost of Carry indicator, Liquidity measure, TM Policy being part of TMSS, Diversification Policy, and Housing Association Guidance. These areas will all be picked up in future updates of sector specific guidance, and references have been updated as necessary.

Are there any other comments you wish to make, including on the proposed substantive changes set out in the Annex?

Prudential Code

Objectives of the Prudential Code

Objective iii) is that treasury management decisions are taken in accordance with good professional practice, and a number of respondents to earlier consultation queried whether the Prudential Code was the appropriate place for the “Adoption of the Treasury Management Code” prudential indicator, especially given that local authorities are statutorily required to “have regard” to both Codes.

It is therefore proposed that objective iii) be deleted and the requirement of the Prudential Code to adopt CIPFA's Treasury Management Code is removed.

Do you agree that the requirement of the Prudential Code to adopt CIPFA's Treasury Management Code is removed?

Mayors, Combined Authorities and the Group Entity

It is proposed that the revised code confirm that the underlying principles apply to mayors and combined authorities and the group entity, but that the use of local indicators is encouraged to recognise the differing impact of residual liabilities on the individual local authority.

It is proposed that a requirement to consider the affordability of borrowing in respect of ring-fenced borrowing in addition to overall resources is introduced. This requirement can be met through the use of local indicators. Given that the HRA is effectively such a separate ring-fenced fund, the specific requirements in respect of the HRA have been removed as it is considered that the previous requirements will be met by the new requirement.

Do you agree that the Code confirm that the underlying principles apply to mayors and combined authorities and the group entity?

Do you agree that the impact of such structures is best dealt with through the use of local indicators?

Do you agree with the requirement to consider explicitly separate ring-fenced funding streams and that this requirement removes the need to specify separate requirements for the HRA?

Ensuring Prudence

It is proposed to introduce a requirement to report on the overall capital strategy to full council in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives; and properly takes account of stewardship, value for money, prudence, sustainability, and affordability. The capital strategy should sets out the long term context in which capital expenditure and investment decisions are made; and give due consideration to both risk and reward, and impact on the achievement of priority outcomes.

In developing the capital strategy authorities are encouraged to strike a balance between the amount of detail included and accessibility to the key audience. Links should be made where appropriate to the Treasury Management Strategy.

The capital strategy also allows borrowing for capital investment to be considered alongside more commercial type and third party investment so that the overall impact on affordability and risk on the financial sustainability of the authority can be identified and understood. This is particularly important as with increasing commercialisation it is vital that authorities identify all potential liabilities and risks, and consider the combined impact on the overall financial position of the authority to ensure such activity remains proportionate.

In order to support an effective approach to risk management, and in line with the requirement for the Revenue Budget, it is proposed that the Chief Finance Officer should report explicitly on the deliverability, affordability and risk associated with the capital strategy. It is also proposed that the code recognises explicitly that the Chief Finance Officer may need access to specialised advice to enable them to reach their conclusions.

It is proposed to remove the indicator relating to council tax impact to allow focus on a longer term and more informed view of affordability rather than relying upon a slightly contrived indicator.

Do you agree with the proposal to introduce the requirement for a capital strategy to be formally reported?

Do you agree with a principles based approach and that the key matters to be taken into account are reflected in the proposed wording within the annex?

Do you agree with the proposal to require the chief financial officer to report explicitly on the risks associated with the capital strategy?

Do you agree with the proposal to delete the council tax indicator?

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Report of	Meeting	Date
Director of Policy and Governance	Governance Committee	20 September 2017

ANNUAL GOVERNANCE STATEMENT - AMENDMENT

PURPOSE OF REPORT

1. To inform members of proposed amendments to the Annual Governance Statement which have been suggested after consideration by external audit.

RECOMMENDATION(S)

2. That the amended Annual Governance Statement attached to this report be approved for adoption and signature by the Executive Leader of the Council and the Chief Executive.

EXECUTIVE SUMMARY OF REPORT

3. At the Committee meeting on 21 June Governance Committee approved a draft Annual Governance Statement (AGS) which forms part of the Council's Statement of Accounts.
4. Following approval and as part of the audit process External Audit have reviewed the AGS and suggested some amendments which have now been incorporated into the attached document. The changes do not affect the conclusions of the AGS, that the Council have a robust system of corporate governance, but enhance the document by providing additional supporting evidence.

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. Members are asked to consider the Annual Governance Statement report presented to Committee on 21 June last.
7. At that meeting Members approved the AGS for signature and attaching to the council's Statement of Accounts.
8. Following this meeting the AGS was considered by external audit who suggested some amendments. The amendments are detailed below. They seek to enhance the references to evidence which demonstrates the council's compliance with our governance framework.

9. It is important to note that the AGS as drafted satisfied the requirements of the CIPFA SOLACE Framework, but the amendments would make it clearer how the Council discharges its obligations.

SUGGESTED AMENDMENTS

10. External audit made the following recommendations:-
    a. Greater information should be provided concerning the role of the Section 151 Officer and Head of Shared Assurance Service;
    b. The Council's arrangements for counter fraud and anti-corruption should be given greater prominence;
    c. More information should be provided as to the communications between the Council and external audit;
    d. It should be made clear that the Governance Committee fulfils the functions of an Audit Committee;
    e. Greater reference should be made to partnership working;

    In other areas it was suggested to provide additional examples of compliance to give a fuller picture of the steps the Council take.

IMPLICATIONS OF REPORT

11. 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

12. None

COMMENTS OF THE MONITORING OFFICER

13. None

CHRIS SINNOTT
DIRECTOR OF POLICY AND GOVERNANCE

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
Annual Governance Statement	21 June 2017	***	http://mod/documents/s75856/Annual%20Governance%20Statement.pdf

Report Author	**Ext**	**Date**	**Doc ID**
Chris Moister	5160	8 September 2017	

CHORLEY COUNCIL

ANNUAL GOVERNANCE STATEMENT

1. Scope of responsibility

The residents of the Borough of Chorley expect the Council to conduct our business in a lawful and transparent way. In particular the Council have a duty to safeguard public money and account for it in an economic, efficient and effective way.

We have a continuing duty to review and improve how we discharge our functions focussing on the priorities of economy, efficiency and effectiveness.

To do this, the Council have put in place arrangements for the governance of its affairs. These arrangements assess the effectiveness of the exercise of its functions, and consider how well we manage risk.

We have approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This was updated this year to reflect the updating of the CIPFA/ Solace Framework last year. A copy of the code is on our website. This statement explains how the Council has complied with the code and also meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of an Annual Governance Statement.

2. The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which control and direct the Council. It provides how we account to, engage with and lead the community. It enables us to monitor the achievement of our strategic objectives and to consider whether our objectives have led to the delivery of appropriate, cost effective services for that community.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised. This enables us to manage risk efficiently, effectively and economically.

The governance framework has been in place at Chorley Council for the year ended 31 March 2017 and up to the date of approval of the annual report and statement of accounts.

3. The governance framework

The following paragraphs describe the key elements of the systems and processes that comprise the authority's governance arrangements. These systems and processes are fit for purpose and provide assurance that the Council are discharging their obligations to residents. These are founded on the Core Principles and sub-principles taken from our Code of Corporate Governance.

Core Principle 1 – Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

Behaving with integrity

The Council have established both for Councillors and Staff Codes of Conduct and training is provided on both. Standards of behaviour are also assessed during employees one-to-one meetings and appraisals.

It is essential that not only decisions are taken with integrity but are seen to be so. The Council have established transparent decision making processes through the Contract Procedure Rules, an online declaration of interests process and the use of standing orders. The public can therefore review and take comfort in the integrity of the decision makers.

The Council do however have processes and policies in place to provide avenues to challenge decision making through whistleblowing, complaints and the call in procedure.

Demonstrating strong commitment to ethical values

There is a robust investigation procedure to address complaints made against Councillors conduct which includes the involvement of an Independent Person. Any hearing required would be before a cross party committee.

We have also adopted robust anti-fraud and corruption policies including a whistle-blowing policy and comply with the Code of Practice on Managing the Risk of Fraud and Corruption.

The Council have adopted in our Contract Procedure Rules the requirement for partners and contractors to adopt our, or have equivalent ethical standards of behaviour.

Respecting the Rule of Law

The Council's Constitution, policies and standing orders are all drafted in accordance with legislation. Application of these processes is tested through local assurance testing with the Monitoring Officer ensuring the Constitution is reviewed annually.

Council reports to all constituted committees must include a comment from the Monitoring Officer to ensure that legal aspects are considered.

The Council is fully aware that they must pay attention to the advice of the Council's Monitoring Officer and have good reasons, which must be documented should they depart from it. In the event the Council acts unlawfully, the Monitoring Officer must report this to Full Council. The Monitoring Officer has never had cause to take this step.

Core Principle 2 – Ensuring Openness and Comprehensive Stakeholder Engagement

Openness

The Council have a robust approach to freedom of information and aim as part of our Digital Strategy to make as much information held by the Council accessible through our website as possible.

All key decisions must be taken in writing and are published in accordance with the legislation. As part of the process both the Senior Financial Officer and Monitoring Officer must be consulted and provide comments. Where appropriate, comments are also included in relation to equality and HR.

Engaging Comprehensively with institutional stakeholders

The Council have a robust Communications Strategy which forms the basis for our relationships with our stakeholders. We ensure that we keep accurate records of stakeholder contacts to ensure they are engaged with properly and for the correct purposes.

Engaging Stakeholders Effectively including individual citizens and service users

We use our Communications and Community Engagement Strategy to ensure that residents are properly consulted on matters which affect or interest them. This consultation contributes to the achievement of the Council's intended outcomes. Increasingly we are using web based and social media to engage with our residents but recognise that in order to consult properly we must use a mix of methods.

Core Principle 3 – Defining Outcomes in terms of Sustainable Economic Social and Environmental Benefits

Defining Outcomes

The Council have a clearly defined vision which forms the premise of our Corporate Strategy. The Strategy itself is developed in consultation with residents and stakeholders and its implementation is through the delivery of corporate projects and service level plans. All corporate projects have an initial document which defines the outcomes and projects are monitored through the MyProjects system.

Sustainable Economic Social and Environmental Benefits

The Council have refreshed the Medium Term Financial Strategy to ensure that Capital investment is structured to maximise its life span whilst being adaptable for future use. Specific consideration is made of social and economic wellbeing of residents as evidenced by projects that provide affordable supported accommodation, employment opportunities and social benefits.

Core Principle 4 – Determining the Interventions Necessary to Optimise the Achievement of Intended Outcomes

Determining Interventions

We have a robust approach to setting interventions. Members and Officers work closely together and consult on the preparation of the Corporate Strategy which sets the framework for council delivery. The benefits of interventions are considered not only based on cost but also upon need and impact in order to ensure best value is met.

Feedback from residents in this process is very important to ensure what we deliver is both needed and wanted.

Planning Interventions

The Council have a strong framework for planning the implementation of our interventions. We publish a calendar of meetings, and the Key Decision forward plan to confirm dates for decisions to be taken but in addition ensure all report writers are aware of publication of agenda dates to press for reports to be prepared in good time. We have a clear Communications Strategy to ensure proper consultation and a Risk Register.

We are promoting the use of the Project Management Toolkit which ensures that there is a clear scope, timetable and outcomes for each project and Key Performance Indicators are set to monitor each service.

Each project or intervention has a budget and there are regular meetings between management accountancy both with project managers and service heads for monitoring purposes.

Optimising Achievement of Intended Outcomes

The Council’s Senior Management Team meet quarterly to review the status of projects and update progress across the organisation. These meetings provide an opportunity for different directorates to have input into projects that are not being delivered by them but which they may impact on or be impacted by. This communication contributes to the improvement of the delivery of the projects and optimisation of outcomes.

The Medium Term Financial Strategy is refreshed regularly to ensure it stays current and reflects any changes in council priorities. This ensures proper budgetary planning.

Core Principle 5 – Developing the Entity's Capacity, including the Capability of it's Leadership and the Individuals within it

Developing the Entities Capacity

We have a Transformation Strategy which the Council uses to plan for future changes to the organisation, planning for future capacity needs. Such transformation is achieved through rough cut costing (which is used to identify processes and actions which take the most time), benchmarking and use of the Council's Corporate Strategy.

Developing the Capability of the Entity's Leadership and other Individuals

Roles are clearly defined within the Council through the use of job descriptions and structure charts. The Constitution details the responsibilities of officers and councillors and the identity of the statutory officers.

Relationships are managed through regular and frequent member briefings.

The Council have updated the Organisational Development Plan ensuring that all staff have the opportunity to benefit from personal and professional development, and this is monitored through one to ones and the annual appraisal process.

Officers and Councillors alike are held to account through the Residents Panel, Neighbourhood Meetings with residents, Stakeholder Forums and the Strategic Partnership Forum; as well as through Overview and Scrutiny Committee.

Core Principle 6 – Managing Risks and Performance through Robust Internal Control and Strong Public Financial Management

Managing Risk

There is an established Risk Management Protocol and Risk Management Strategy which ensures that risk is considered in all aspects of decision making. This includes the identification of risks but also ensuring responsibility for them is allocated correctly.

Managing Performance

This is part of the Council's approach to business transformation. Service delivery is monitored through service meetings, performance indicators, benchmarking and budget monitoring. The Executive Members have regular service briefings in relation to their portfolios. Overview and Scrutiny Committee are engaged and Task Groups have responsibility for considering and suggesting improvements in relation to service delivery.

Robust Internal Control

The Council require all directorates to complete assurance statements which identify compliance issues which may exist across the Council.

The Annual Governance Statement reflects on the adequacy and effectiveness of the Council's Governance Framework. This is then independently considered by external audit.

The Governance Committee complies with best practice and tests the Council's controls through the receipt of reports for consideration.

Managing Data

The Council have clearly defined policies and procedures for managing and storing data. Additional work is required however to embed these and update the Council's IT systems.

Strong Public Financial Management

All decisions of the Council require a comment from the SFO, which will address budgeting issues and compliance with Best Value and the Council's contract procedure rules. There are regular meetings between budget holders / project managers and Finance to monitor budgets and any changes can be identified early.

Core Principle 7 – Implementing Good Practices in Transparency Reporting and Audit to Deliver Effective Accountability

Implementing Good Practice in Transparency

We feel it very important for the discharge of our obligations that as much information as possible is made available to the public. This is done through publication on the Council's website.

The Councils ModGov system enables the easy publication of meeting agendas, minutes and decisions and a built in search engine enables the public to easily find the document they are looking for.

I addition the Council have adopted the practice of publishing monthly all expenditure above £50 which is significantly lower than that required by legislation. This is good evidence of the Council's commitment to transparency.

Implementing Good Practices in Reporting

The Council comply with good practice in relation to value for money reporting and the annual Statement of Accounts considers how public finances have been stewarded.

It is the practice of the Authority to ensure that all key decisions are made by councillors in accordance with our approval processes. Compliance with these processes are considered within this Annual Governance Statement. In all instances formats follow best practice.

Assurance and Effective Accountability

We view improvement as a continuing process. Recommendations from Audit are reported to Governance Committee with confirmation as to how they can be implemented and the expected benefits.

Overview and Scrutiny Task Groups report proposed improvements to Executive Cabinet who decide whether to accept the recommendations or not. Where accepted Cabinet will later report as to the progress of the implementation of improvements.

Residents have the right to ask questions at Council meetings in relation to matters on the meeting agenda which ensure immediate accountability to residents.

Partnership Working

Chorley Council have a strong record of working with Partners with examples being the shared services arrangement with South Ribble Borough Council and the exploration of the Integrated Community Wellbeing Service being developed with the Lancashire Care Foundation Trust. We can have confidence that SRBC have robust arrangements as they are subject to the same regime as ourselves. We have established a joint board with LCFT which will ensure we have the ability to influence the development of the shared service to ensure it has strong governance arrangements which reflect our own.

Other contractual partners such as Active Nation and Veolia are obliged contractually to have strong governance arrangements with requirements such as transparent decision making, anti-fraud policies and procedures and procurement processes that are compliant with the Council's.

4. Review of effectiveness

Chorley Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report and also by comments made by the external auditors and other review agencies and inspectorates.

The following paragraphs describe the processes that have been applied in maintaining and reviewing the effectiveness of the Council's governance framework:

Corporate Level Review

- A management group consisting of the following officers has been established to oversee the compilation of the Annual Governance Statement:

    - Chief Executive (S151 Officer)
    - Head of Legal Democratic and HR (Monitoring Officer)
    - Head of Policy & Communications
    - Head of Shared Assurance Services

- The group has conducted a detailed corporate level review of the Council's system of governance in accordance with the guidance provided by CIPFA / SOLACE.

Service Level Review

- The Council has also introduced Service Assurance Statements requiring Heads of Service to review the operation of a range of governance systems and procedures within their service areas and indicate whether there are any significant non-compliance issues. These are analysed to ascertain whether there are any common areas of concern, and if so, whether these constitute significant governance issues and as such need to be included in the Annual Governance Statement.

Head of Paid Service/ Section 151 Officer

- The Council's Chief Executive is both Head of Paid Service and Section 151 Officer. They confirm with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015). In discharging these functions they have ensured the Council have a robust Medium Term Financial Strategy and monitor performance against those targets through regular performance reporting to the Executive Cabinet and Council.

Monitoring Officer

- As the Council's Monitoring Officer, the Head of Governance has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Monitoring Officer will report and recommend to Council any proposed amendment to the Constitution, which falls outside the Monitoring Officers delegated powers, for adoption.

Head of Shared Assurance Services

- The Head of Shared Assurance Services ensures that the Council's assurance arrangements confirm with the requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and the Public Sector Internal Audit Standards.

Scrutiny Committee

- The Council has an Overview and Scrutiny Committee which can challenge a decision which has been made by the Executive Cabinet or a statutory committee but not yet implemented, to enable them to consider whether the decision is appropriate.

Governance Committee

- The Council has appointed a Governance Committee to undertake the Member Audit function whose terms of reference comply with the CIPFA guidelines. These extend to monitoring the Council's governance, risk management and internal control framework and include reviewing the adequacy of the governance framework.

- Members of this committee receive specific training each year to ensure that they are able to discharge their functions. Efforts are taken to ensure that membership of this committee are retained year on year.

Standards Sub-Committee

- The Council has appointed a Standards Sub-Committee of the Governance Committee whose terms of reference comply with the prevailing national guidance on standards and codes of conduct for members.

Internal Audit

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

- The Annual Report in itself is a tool not just for reporting on internal control but improving them.

- The Internal Audit Annual Report contains the opinion of the Head of Shared Assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. Whilst the Council's governance and control environment continues to be effective, the introduction of the Governance, Risk and Control Self-Assessment (GRACE) software will strengthen the current risk management arrangements.

- The Internal Audit Team is subject to on-going inspection by the Council's external auditors, who place reliance on the work carried out by them.

External Audit

- The Council's internal audit and other officers have regular meetings with External Audit throughout the year to discuss general governance issues that may have arisen. In addition

External Audit are sometimes invited to comment on the Council's development or amendment of governance policies.

- The Council receive regular reports on elements of its internal control environment, including performance management, risk management, financial management and governance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and system of internal control by the Authority, the executive, Governance Committee, Overview and Scrutiny Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5. Identified Governance Issues

In the previous year the following themes were identified as requiring action and improvement:

Theme	Agreed Improvement	SMART Actions & Milestones	Status
1. Staff/Member Development	1.1 To develop the current level / programme of financial training packages for Budget Holders (& Members) to include use of systems, process improvement and financial management techniques.	- Identify priority issues for customers and Shared Services - Consult customers - Produce packages - Deliver training - Develop self-service continual training via intranets	**COMPLETED** Extensive user training and compliance education has been provided in 2016/17 Budget holders are provided with 1-2-1 sessions with service accountants. Additional support and training will be on-going to incorporate system and process improvements.
2. Information Management	2.1 To ensure that there are clear document retention guidelines which are complied with by Services.	- Develop program of work to replace SharePoint corporately - Utilise document management system within the new application.	**TO BE CONTINUED** Although system solution has not yet been identified, document retention has been incorporated into the new Customer and Digital Strategy which is to be presented to Executive Cabinet in June 2017.
	2.2 To ensure that the Council is fully compliant with the Data Protection Act and Freedom of Information requirements.	- DPA/FOI policies to be included within programme of briefings in core brief messages (see 6.1)	**TO BE CONTINUED** Although this has been included within the programme of briefings in core brief, further work is to be undertaken to ensure compliance with new requirements in legislation.
3. Risk Management	3.1 To embed the Risk Management Framework at service level	- Oversee revision of service risk registers following the management	**COMPLETED** Acquired new software (GRACE) to enable risk and

		restructure.	control self-assessment by services. Training has been delivered to Key Officers. Corporate risk register and Service risk registers uploaded onto GRACE and risks and controls allocated to specific owners.
	3.2 Revise and re-issue Business Continuity Plans	- Review & update documentation - Arrange awareness training	**COMPLETED** Acquired new software (CONNIE) to enable BCP self-serve by services from 2017/18.
	3.3 Review and update all Health & Safety risk assessments	- Review & update documentation - Arrange awareness training	**TO BE CONTINUED** SMT have agreed 'way forward' regarding the development of risk assessments. A risk assessment process and templates have been progressed and the new approach is currently being piloted.
4. Performance Management	4.1To ensure compliance with the Data Quality Policy	- Review of roles and responsibilities for performance management - Individual briefing for collection and responsible officers - Identify training needs and undertake training	**COMPLETED** New Performance Indicators have been agreed and Data Quality Policy applied.
5. Value for Money / Transparency	5.1 To ensure that services can demonstrate VFM & compliance with the revised Transparency Code	- Review VFM requirements and current arrangements for demonstrating	**COMPLETED** Majority of areas have been reviewed with regard to VFM. VFM linked to the delivery of the Transformation Strategy. Compliance with the Transparency Code is on-going.
6. Corporate Policies	6.1 To ensure that all employees are aware of the requirements of corporate policies.	- Programme of briefings included in core brief messages	**TO BE CONTINUED** This is an on-going area and is to be incorporated into the more structured approach to OD and e-learning training.
7 Fraud & Corruption	7.1 To ensure compliance with the requirements contained within the Fighting Fraud & Corruption	- To review the current arrangements against the FFCL checklist.	**COMPLETED** A review against the FFCL checklist has been undertaken and

	Locally – The local government counter fraud and corruption strategy and companion.	- Implement findings arising from review.	the results presented to Governance Committee in March 2017. 4 areas identified for strengthening which have been incorporated into the Shared Services BIP.

The Council will take the following steps in the forthcoming financial year to build and strengthen our corporate governance arrangements:

Theme	Agreed Improvement	SMART Actions & Milestones	Status
1. Information Management	1.1 To ensure that there are clear document retention guidelines which are complied with by Services.	- Develop program of work to replace SharePoint corporately - Utilise document management system within the new application.	**CONTINUED FROM 2016/17** System solution has not yet been identified, document retention has been incorporated into the new Customer and Digital Strategy which is to be presented to Executive Cabinet in June 2017.
	1.2 To ensure that the Council is fully compliant with the Data Protection Act and Freedom of Information requirements.	- GDPR new requirements in legislation are to be in place by May 2018. Action Plan to be implemented to ensure compliance within the timescales - More effective use of the information champions.	**CONTINUED FROM 2016/17**
2. Risk Management	2.1 Review and update all Health & Safety risk assessments	- Review & update documentation - Arrange awareness training	**CONTINUED FROM 2016/17**
3. Corporate Policies	3.1 To ensure that all employees are aware of the requirements of corporate policies.	- Rolling programme of briefings on corporate policies are to be included in core brief messages	**CONTINUED FROM 2016/17**
4. Equality & Diversity	4.1 To further embed equality and diversity throughout the Council	- Raise awareness of need to complete EIA for any new policies - To refresh approach by ensuring that Equality comments are incorporated into all appropriate reports	**NEW FOR 2017/18**

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Cllr. A. Bradley
Leader of the Council

G Hall
Chief Executive
& Section 151 Officer

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Chorley Council

Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	20th September 2017

INTERNAL AUDIT INTERIM REPORT AS AT 28TH JULY 2017

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 April 2017 to July 2017 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 the majority of the 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 first progress report for 2017/18 and covers the period between 1st April 2017 and 28th July 2017.

INTERNAL AUDIT PLANS

7. **Appendix 1** provides a ''snapshot'' of the overall progress made in relation to the 2017/18 Internal Audit Plans, indicating which audits have been completed and their assurance 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 highlights the main pieces of work undertaken during the period together with any control issues identified, where applicable;

Audit Area	Assurance Rating	Comments
Chorley Council		
Annual Governance Statement	Not applicable	Proactive input was provided in collating information to inform the Annual Governance Statement.
Waste Contract Procurement	Not applicable	Project team support is being provided to ensure that proportionate governance, risk management and control processes are in place for the procurement exercise.
Review of Transport	Pending	Audit in progress. Results to be presented to January Governance Committee.
General Data Protection Regulations (GDPR)	Not applicable	We are supporting the ICT & Programme Manager in preparation for the introduction of GDPR in 2018.
Homelessness	Pending	Audit in progress. Results to be presented to January Governance Committee.
Primrose Garden & Retirement Village	Not applicable	Project team support to ensure that the risks are being appropriately identified, recorded and monitored.
Market Walk	Pending	Audit in progress. Results to be presented to January Governance Committee.
Community Infrastructure Levy	Amber (14)	No key control issues identified
Shared Services		
Internal Audit of the Financial & Assurance Shared Services Annual Accounts 2016/17	Not applicable	We undertook a "light touch" internal inspection to provide the Joint Committee with assurance in respect of the integrity of the partnership's year-end financial statements

CONTROLS ASSURANCE KEY

Control Rating

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.
Full – the Authority can place complete reliance on the controls. No control weaknesses exist.

Control Rating	Minor	Standard	Major	Critical
Limited	4	8	12	16
Adequate	3	7	11	15
Substantial	2	6	10	14
Full	1	5	9	13

Risk Rating

Risk Rating

Minor, Standard, Major or Critical reflects the relative risk of each system and the impact on the Council 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 28th July 2017. We are pleased to report that the majority of indicators have either been achieved or exceeded.

GOVERNANCE RISK AND CONTROL EVALUATION (GRACE)

10. Members will recall that earlier this year, the Council procured a risk management system GRACE, which allows the continuous recording, monitoring and reporting of risks at all levels throughout the Council.

Training

11. Since the implementation of GRACE in April 2017, Internal Audit have delivered training to 72 Chorley Council and Shared Services Officers. In addition we have trained a further 10 external consultants who are assisting with the population of key projects risk registers. We are currently in the process of delivering training to all members of the Senior Management Team (SMT) and developing the reporting arrangements at both corporate and service level.

On-going Support

12. It was agreed with SMT that Internal Audit would provide support with the development / enhancement of key risk registers including:

- Corporate Risk Register
- Corporate Plan Projects and
- Key Partnerships.

Whilst these risk registers are at various stages of development, there are currently over 190 individual risks being continuously reviewed and monitored by the risk owners.

IMPLICATIONS OF REPORT

13. 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

Background papers include the 2017/18 Internal Audit Plans for Chorley Council and Shared Financial Services.

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

APPENDIX 1

INTERNAL AUDIT PLANS 2017/18

WORK AREA	Risk	Qtr	Est	Actual	Balance (+/-)	Assurance Rating	Comments
CHORLEY COUNCIL							
CORPORATE AREAS							
Annual Governance Statement	N/A	1	20	12.3	7.7	N/A	Complete
Anti-Fraud & Corruption	N/A	ALL	10	1.4	8.6	N/A	on-going
NFI	N/A	ALL	20	4.7	15.3	N/A	on-going
POLICY & GOVERNANCE							
Legal, Democratic & HR Services							
Health & Safety - Streetscene	CRITICAL	4	15	0	15		To commence Q4
Time Management System	CRITICAL	3	15	0	15		To commence Q3
Performance & Partnerships				0			
Performance Management Information	CRITICAL	2	15	0	15		To commence Q2
Key Partnership Framework	CRITICAL	4	15	0	15		To commence Q4
CUSTOMER & DIGITAL							
Transformation							
Council Tax	CRITICAL	3	10	1	9		In progress
NNDR	CRITICAL	3	10	1	9		In progress
Housing Benefits	CRITICAL	3	10	1	9		In progress
Sundry Debtors	CRITICAL	3	10	0.8	9.2		In progress
Planning							
Development Control	MAJOR	2	15	0	15		To commence Q2
Waste & Streetscene							
Waste Contract Procurement	N/A	ALL	10	1.7	8.3	N/A	In progress
Transport	MAJOR	2	15	4.8	10.2		In progress
ICT Services							
Data Protection	MAJOR	ALL	15	2.2	12.8		in progress
EARLY INTERVENTION							
Housing Options & Support							
Homelessness (including prevention)	MAJOR	1	15	2.9	12.1		in progress
BUSINESS DEVELOPMENT & GROWTH							
Development & Regeneration							
Primrose Garden Retirement Village -	N/A	ALL	10	5.9	4.1	N/A	In progress
Employment Skills & Business Support							
Digital Office Park	N/A	ALL	10	0.3	9.7	N/A	In progress
Market Walk & Town Centre							
Market Walk	CRITICAL	2	15	4	11		In progress
Property Services							
Commercial Properties / Estates	MAJOR	4	15	0	15		To commence Q4
GENERAL AREAS							
Residual Work 2016/17			20	27.2	-7.2	Amber (14)	Complete
Risk & Control Self-Assessment (GRACE)	N/A		30	19.6	10.4	N/A	On-going
Post Audit Reviews	N/A		10	2.2	7.8	N/A	On-going
Contingency / Irregularities	N/A		15	6.3	8.7	N/A	on-going
Governance Committee	N/A	ALL	15	2.7	12.3	N/A	on-going
CHORLEY TOTAL			**360**	**102**	**258**		
SHARED SERVICES							
SHARED FINANCIAL SERVICES							
Treasury Management	CRITICAL	3	20	0	20		To commence Q3
Payroll	CRITICAL	3	20	0	20		To commence Q3
Creditor	CRITICAL	3	20	0	20		To commence Q3
SHARED ASSURANCE SERVICES							
Risk Management	CRITICAL	4	15	0	15		To commence Q4
GENERAL AREAS							
Residual Work from 2016/17	N/A	1	20	28	-8	N/A	Complete
Risk & Control Self-Assessment (GRACE)	N/A		5	3.2	1.8	N/A	On-going
Post Audit Reviews	N/A		10	0.4	9.6	N/A	On-going
Contingency / Irregularities	N/A		10	2.7	7.3	N/A	On-going
SHARED SERVICES TOTAL			**120**	**34.3**	**85.7**		

APPENDIX 2

INTERNAL AUDIT PERFORMANCE INDICATORS AS AT 28th July 2017

	Indicator	Audit Plan	Target 2017/18	Target to Date	Actual to Date	Comments
1	% of planned time used	SS	90%	25%	28%	Target exceeded
		CBC	90%	30%	30%	Target achieved
2	% audit plan completed	SS	100%	0%	0%	Not applicable
		CBC	100%	13%	13%	Target achieved
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%	0%	Not applicable
		CBC	90%	90%	92%	Target exceeded

SS = Shared Services
CBC = Chorley