Chorley Council

GOVERNANCE COMMITTEE

WEDNESDAY, 21ST NOVEMBER 2018, 2.30 PM
COMMITTEE ROOM 1, TOWN HALL, CHORLEY

AGENDA

APOLOGIES

1 **MINUTES OF MEETING WEDNESDAY, 25 JULY 2018 OF GOVERNANCE COMMITTEE** (Pages 3 - 8)

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 **AUDIT PROGRESS AND UPDATE** (Pages 9 - 22)

To receive and consider a report from the external auditor, Grant Thornton.

4 **CHORLEY BOROUGH COUNCIL ANNUAL AUDIT LETTER 2018** (Pages 23 - 34)

To consider and receive the Chorley Borough Council Annual Audit Letter 2018 from Grant Thornton, the External Auditor.

5 **INTERNAL AUDIT INTERIM REPORT AS AT 28 SEPTEMBER 2018** (Pages 35 - 40)

To receive and consider the report of the Head of Shared Assurance Services.

6 **TREASURY MANAGEMENT ACTIVITY MID-YEAR REVIEW 2018/19** (Pages 41 - 60)

To receive and consider the report of the Chief Finance Officer.

7 **GENERAL DATA PROTECTION REGULATIONS (GDPR) UPDATE** (Pages 61 - 64)

To receive and consider the report of the Monitoring Officer.

Meeting contact Ruth Rimmington on 01257 515118 or email ruth.rimmington@chorley.gov.uk

8	**RIPA APPLICATION UPDATE** The Monitoring Officer will present a verbal report at the meeting.	
9	**WORK PROGRAMME** To receive and consider the draft work programme.	(Pages 65 - 66)
10	**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, Yvonne Hargreaves, Steve Holgate and Kim Snape.

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

Chorley Council

MINUTES OF	**GOVERNANCE COMMITTEE**
MEETING DATE	**Wednesday, 25 July 2018**
MEMBERS PRESENT:	Councillor Paul Leadbetter (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Jean Cronshaw, Alan Cullens, Gordon France, Yvonne Hargreaves, Steve Holgate and Kim Snape
OFFICERS:	Gary Hall (Chief Executive/Statutory Finance Officer), Chris Moister (Head of Legal, Democratic & HR Services/Monitoring Officer), Michael Jackson (Principal Financial Accountant) and Nina Neisser (Democratic and Member Services Officer)
OTHER MEMBERS:	Mark Heap (Grant Thornton UK LLP) and Simon Hardman (Grant Thornton UK LLP)

18.G.30 Minutes of meeting Wednesday, 30 May 2018 of Governance Committee

RESOLVED – That the minutes of the Governance Committee meeting held on 30 May 2018 be confirmed as a correct record for signature by the Chair.

18.G.31 Declarations of Any Interests

No declarations of any interests were declared.

18.G.32 Treasury Management Annual Report 2017/18 and Monitoring 2018/19

The Chief Finance Officer submitted a report on Treasury Management performance and compliance with Prudential Indicators for the financial year ended 31 March 2018. The report advised that the return on investments for the year was 0.26%, which exceeded the benchmark of 0.24%. Details of borrowing and investments at 31 March 2018 were presented.

The Council's 2017/18 Capital Programme had been reported to Executive Cabinet and Council at intervals during the year. In summary, capital expenditure for 2017/18 (including Revenue Expenditure Funded from Capital under Statute) was £11.391m, compared to the estimate of £17.400m when the prudential indicator for the year was revised.

The Minimum Revenue Provision (MRP) charged to the Council's revenue budget each year was based on the Capital Financing Requirement (CFR). The actual CFR for 2017/18 was £1.724m less than estimated; the main variance being that capital receipts were applied to reduce the CFR rather than to finance new capital expenditure. Financing by prudential borrowing was higher as a consequence, but the effect of the change to capital financing was to reduce the MRP for the next few years.

The Council's own cash was used to finance capital expenditure as a form of internal borrowing, rather than taking external loans. Under borrowing was higher than estimated because new loans taken in the year were lower than planned, which produced savings against the budget for interest payable. As a result, cash available to invest remained low and cash was therefore held in highly liquid accounts so that cash could be withdrawn whenever necessary to make payments.

Actual external borrowing for the year was £15.267m (excluding accrued interest, but including other long-term liabilities) which was below the revised Authorised Limit set at £23.268m to allow a margin for temporary borrowing if required for cash management purposes.

It was advised that additional borrowing would be required during 2018/19, as anticipated in the Treasury Strategy for 2018/19 to 2020/21. This was required due to the large capital projects taking place within the borough. Members were reassured that this had been taken into consideration in the budget. It was advised that should there be an upward trend in interest rates that would increase the long-term cost of borrowing, it may be necessary to borrow sooner than anticipated. However this would be constantly monitored before a decision being made by the Chief Finance Officer.

Members requested a training session on identifying what expenditure the council can and can't capitalise. It was advised that guidance could be provided to the committee

RESOLVED – That the report be noted.

18.G.33 Statement of Accounts 2017/18

The Chief Finance Officer submitted a report for committee approval of the audited Statement of Accounts (SOA) 2017/18 for its publication by 31 July 2018 under the requirement of Accounts and Audit Regulations 2015. Once approved, the signed Statement would be published on the Council's website.

The Committee were advised that there had been no changes to the SOA from the draft version published on 30 May 2018 which affected the financial position of the Council. Changes were made to the Comprehensive Income and Expenditure Statement, Expenditure and Income Analysed by Nature note, and the Collection Fund. The changes were also discussed in the Grant Thornton Audit Findings Report.

It was understood that the auditor intended to issue an unqualified audit opinion of the SOA. Members were advised that at the time of preparing the report and the current version of the SOA, the auditors were still undertaking a limited amount of checks. As the audit had not been finalised, it was possible that further changes to the SOA could be required. As a consequence it was recommended that the Chief Finance Officer in consultation with the Chair of the Governance Committee should approve any non-material amendments before recertifying the SOA. In the event that the Chief Finance Officer was of the opinion that the amendments were considered material to the financial position of the authority, the Governance Committee would be reconvened to approve the new SOA.

Grant Thornton reviewed the Annual Governance Statement (AGS) and recommended a number of changes. As these were not considered essential in 2017/18, the recommended changes would be considered for inclusion in the 2018/19 AGS.

The Chief Executive thanked Chorley Council staff and the External Auditors for all their work in achieving completion by the statutory deadline; and recognised that any issues be worked on going forward.

RESOLVED;

1) **To approve the audited Statement of Accounts for 2017/18, subject to any non-material in delegation with the Chief Finance Officer and Chair of Governance Committee. In the event that the Chief Finance Officer was of the opinion that the amendments were considered material to the financial position of the authority, the Governance Committee would be reconvened to approve the new SOA.**
2) **To authorise the Chief Executive and Chair of Governance Committee to sign the Letter of Representation.**
3) **That the improvements to the Annual Governance Statement (AGS) recommended by Grant Thornton be considered for inclusion in the AGS for 2018/19.**

18.G.34 External Audit Findings Report 2017/18

The Committee received a report of the External Auditors on their audit findings for the authority for the year ending 31 May 2018 that highlighted key matters arising for the Council's financial statements.

It was advised that they had not identified any amendments to the financial statements that resulted in an adjustment to the Council's financial position. Members were informed that subject to outstanding queries being resolved, the Auditor intended to issue an unqualified opinion on the Financial Statements and Value for Money conclusion on 31 July 2018.

A significant risk regarding financial challenges over the next few years was identified however, the External Auditors advised that this was an issue for all local authorities and concluded that Chorley Council had appropriate arrangements in place relating to financial planning and management.

Following queries, the External Auditors advised that the significant difficulties faced regarding communication requirements as indicated in the report were due to difficulties in receiving the financial information in the correct format and in a secure way following GDPR. These initial difficulties delayed the start of their detailed testing, resulting in a later completion of testing than originally planned. External audit recognised that this was a learning process and advised that a new cloud system was being tested to ensure this did not reoccur. Members were assured that they would be ahead of schedule for completion before the statutory deadline by 31 July 2018 as well as meeting next year's deadline.

Members also queried whether the extra resources could have been employed at an earlier stage in the process in order to meet the deadline sooner. The External Auditors noted the suggestion.

The group discussed the Market Walk Development. At the Council meeting the previous evening, Councillor Alan Cullens submitted a Notice of Motion requesting the following:

1. That the Council be provided with an up to date valuation of the current Market Walk.
2. That the Council are provided with forecasted projected income levels and property valuation for the existing Market Walk development based on 2020 and 2024.
3. That the Council are given similar projections and a comprehensive viability report before any decision to progress further with the development of phase 2 is considered.

The Deputy Leader, Councillor Peter Wilson, advised that the final accounts were due to be signed off by the external auditor at the Governance Committee the following day. The accounts included the valuation of Market Walk and the income generated to date. It was not possible to forecast projected incomed levels and property valuation beyond the estimated modelling. Councillor Alan Cullens withdrew the Notice of Motion to seek assurance from this Governance Committee.

Grant Thornton advised that they we're unable to provide this information as it was not part of their remit. The Value for Money conclusions were provided from the level of evidence available and reassured the Committee that the authority had done as much as it could. It was agreed that the Valuation Report regarding the Market Walk Development, as undertaken by the Valuation Agency, could be made available to Councillors. Although difficult to forecast, the Council wanted to ensure that any rates would be reflected correctly and therefore the rates would be closely monitored and revalued annually.

The Committee were made aware of the audit fee for the year and were advised that this was due to reduce by an extra 23% next year.

RESOLVED – That the report be noted.

18.G.35 Work Programme

The Committee were presented with a work programme that outlined the reports to be considered at each Governance Committee meeting throughout the Council year. It was agreed that this be included on the agenda for each Governance Committee to update Members as it could be subject to change.

It was agreed that a report on GDPR and anti-fraud be included on the Governance Committee agenda in January 2019.

RESOLVED – That the programme be noted and an updated version be brought to each Governance Committee meeting.

18.G.36 RIPA Application Update

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

18.G.37 Any urgent business previously agreed with the Chair

The Chair reminded Members of the Self-Assessment Survey and requested that this be completed if not already done so.

Chair Date

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Grant Thornton
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Audit Progress Report and Sector Update

Chorley Borough Council

21 November 2018

Contents

Introduction

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

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

Agenda Page 11

Agenda Item 3

Progress at 6 November 2018

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion and certificate of audit closure was issued on the 31 July 2018.

We issued:

- An unqualified opinion on the Council's financial statements; and
- An unqualified value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have issued all our deliverables for 2017/18 and have concluded our work on the 2017/18 financial year. Our Annual Audit Letter, summarising the outcomes of our audit is included as a separate agenda item.

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2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will take place in February and March 2019. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

Meetings

We met with the Finance team in October 2018 as part of our regular liaison meetings. Our meetings consider emerging developments and reviewing the audit process to ensure that deadlines are met. We also met with your Chief Executive in November to discuss the Council's strategic plans and progress in delivering your priorities.

Events and Publications

We provide a range of workshops, along with network events for members and publications to support the Council. Our latest publication, In Good Company, has recently been released. The report explores the current and future trends in the Local Government Trading Company market and we have shared the report with the Council.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	April 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Governance Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Governance Committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

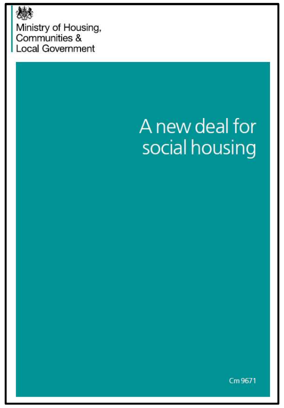
As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:
https://www.gov.uk/government/consultations/a-new-deal-for-social-housing

Social Housing Green Paper Consultation

Challenge question:

What does the Social Housing Green Paper mean for your local authority?



Agenda Page 15

Agenda Item 3

Institute of Fiscal Studies: Impact of 'Fair Funding Review'

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government's 'Fair Funding Review' is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils' differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils' spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG's funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of 'spending needs' and 'needs indicators', and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils' revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent wo which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services, However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report https://www.ifs.org.uk/uploads/publications/comms/R148.pdf.

A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint

This took place in October. Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council), the subsequent discussion brought many perspectives but there was a strong agreement about the need to do things differently that would create and support a caring society. Grant Thornton will now take forward further discussions around three particular themes:

1. Ethics and philosophy: What is meant by care? Should the state love?
2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by 'care'?

This will take place on 4 December. Julia Unwin, Chair of the Civil Societies Futures Project, former CEO of the Joseph Rowntree Association and author on kindness will provider her insight to spark the debate on what we really mean by 'care'

Find out more and get involved

- To read the sprint write-ups and opinion pieces visit: grantthornton.co.uk/acaringsociety
- Join the conversation at #acaringsociety

Challenge question:

How is your authority engaging in the debate about the future of social care?

Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website

The Vibrant Economy Index
a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn’t influence all of the elements that are important to people’s lives – so we shouldn’t use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don’t reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.grantthornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy.**

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We’ve developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy‘

- *Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)*
- *Explore the app and take the quiz*
- *Go to the Vibrant Ideas section to share your picture and story or idea*

In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies).These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by councils are:

Wholly owned

Joint Ventures

Social Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment

  - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could me more mergers and insolvencies.

- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in todays austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.

Download the report here

Agenda Page 20 Agenda Item 3

Links

Grant Thornton website links

https://www.grantthornton.co.uk/

http://www.grantthornton.co.uk/industries/publicsector

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National Audit Office link

https://www.nao.org.uk/report/the-health-and-social-care-interface/

Ministry of Housing, Communities and Local Government links

https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

https://www.ifs.org.uk/uploads/publications/comms/R148.pdf

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Annual Audit Letter

Year ending 31 March 2018

Chorley Borough Council

15 August 2018

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Chorley Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Governance Committee as those charged with governance in our Audit Findings Report on 25 July 2018

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,077,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
Whole of Government Accounts (WGA)	No work was required on the Council's consolidation return.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Governance Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Chorley Borough Council in accordance with the requirements of the Code of Audit Practice.

Executive Summary

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- We delivered an efficient audit with you in July, by the deadline and two months earlier than in previous years
- We held regular meetings with the Finance Team to ensure that the audit was delivered as efficiently as possible and that, where possible, issues were addressed prior to our year-end audit
- During the year we met several times with the Council's senior managers to gain an understanding of the challenges facing Chorley and to share our varied publications and thought leadership reports
- We provided regular updates for the Governance Committee covering best practice, latest sector reports and our own thought leadership reports

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality
In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £1,077,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for the Senior Officer remuneration note and related parties.

We set a lower threshold of £54,000, above which we reported errors to the Governance Committee in our Audit Findings Report.

The scope of our audit
Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, including the narrative report and annual governance statement, to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Chorley Borough Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Chorley Borough Council.	Our audit work did not identify any reason to change our rebuttal of the risk and no issues were identified.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.	As part of our audit we: • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions.	No issues were identified and there was no evidence of management overriding controls.

Agenda Page 28

Agenda Item 4

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of property, plant and equipment The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified land and buildings revaluations and impairments as a risk requiring special audit consideration.	As part of our audit work we; • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • gave consideration to the competence, expertise and objectivity of any management experts used • discussed with the valuer the basis on which the valuation is carried out and challenged key assumptions • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • tested revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.	No issues were identified and the financial statements presented for audit were materially correct.
Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration	We have: • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out • undertaken procedures to confirm the reasonableness of the actuarial assumptions made. • checked the consistency of the pension fund asset and liability position and disclosures in notes to the financial statements with the actuarial report from your actuary.	The only issue we identified was that the note for the Pensions Assets and Liabilities Recognised in the Balance Sheet' were in the wrong columns - the 17/18 figures were shown in the 16/17 column and vice versa.

Agenda Page 29

Agenda Item 4

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in accordance with the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a detailed set of working papers to support them. The finance team responded to all of our queries during the course of the audit enabling us to complete our audit by the specified deadline.

Each year the Chartered Institute of Public Finance and Accountancy (CIPFA) issue a disclosure checklist to help Councils ensure that the Financial Statements produced include all appropriate disclosures. The Council had not fully completed the checklist and we made a recommendation that this is prepared as part of the accounts preparation.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Governance Committee on 25 July 2018.

We did identify a small number of issues that resulted in the statement of accounts being amended but none of these impacted on the financial position of the Council.

Annual Governance Statement (AGS) and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Whilst we have made a small number of suggestions to develop the AGS further in future years, both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have no issues to report.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Chorley Borough in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:
In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in July 2018, we made one recommendation which is:

The Council should continue to closely manage and monitor its financial performance. Potential issues to consider are:
- Ensuring the assumptions in the main budget, MTFP and transformation projects need to be regularly reviewed
- Consideration should be given to presenting the quarterly monitoring report to a scrutiny committee, allowing further member review

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability There remain financial challenges over the next few years which the Council needs to meet. There is a risk that financial planning and management will not be adequate to meet those challenges.	We reviewed the arrangements the Council has in place to manage and plan its finances over the short and medium term. We did this by considering the Council's arrangements in place to develop financial plans and how it reports its financial position. It included reviewing how the Council plans to bridge the budget gap over the next three years.	We found that the Council has appropriate arrangements in place in relation to financial planning and management. Financial challenges remain and the Council has publicly reported that it has a cumulative gross budget deficit of £3.3m by 2020/21. Through a variety of items, such as reviewing fees and charges, productivity savings and council tax increases, the deficit reduces to an 'adjusted forecast cumulative deficit position of £2.2m. Through a mixture of renegotiating contracts and transformation, the Council remains confident that the budget deficit will be met. The Council provided detailed evidence that the key transformation projects are being appropriately planned, managed and monitored. We found that there were financial models in place which consider a variety of outcomes. It is important that the Council continues to monitor these as the outcomes on the assumptions underpinning the transformation projects will determine whether they will generate a surplus or a deficit. Assumptions supporting the budget also appeared appropriate and were supported by explanations in the budget papers presented to Council in February. The assumptions supporting the Council's medium term financial plans (MTFP) will need to be regularly reviewed and discussed with Members to ensure they remain consistent with any policy decisions. Overall, the budget papers presented to the February Budget Council meeting were very thorough and gave a complete picture of the current financial position. The Council has usable revenue reserves of £12.3m, including £4m General Fund balance. Liquidity has also improved with current assets now being higher than current liabilities. However, financial challenges remain and we have noted that Chorley, unlike many other Councils, has no short-term investments. The Council's treasury management strategy is to minimise cash holdings, therefore reducing borrowing and associated costs. It carefully monitors its cash balances and, particularly given the treasury management strategy, should continue to do so to ensure that no liquidity issues arise. The Council manages and monitors its financial position with quarterly monitoring reports considered by the Executive Cabinet and the MTFP being regularly reviewed and updated. The Executive Cabinet also receives the performance report, which allows financial and service performance to be considered at the same meeting. We therefore concluded that the Council has proper arrangements in place to achieve planned and sustainable outcomes for taxpayer and local people.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	March 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	45,255	45,255	45,255
Housing Benefit Grant Certification	6,798	TBC*	6,683
Total fees	**52,053**		**51,938**

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)
* The fee for housing benefit grant certification will not be finalised until we have completed the review in November 2018.

Fees for non-audit services

Service	Fees £
Audit related services - Homes England Compliance Audit	5,000
Non-Audit related services - None	

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

Agenda Page 33 Agenda Item 4

Chorley Council

Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	21st November 2018

INTERNAL AUDIT INTERIM REPORT AS AT 28TH SEPTEMBER 2018

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 2018 to September 2018 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.

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

CORPORATE PRIORITIES

4. 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

5. This is the first progress report for 2018/19 and covers the period between 1st April 2018 and 28th September 2018.

INTERNAL AUDIT PLANS

6. **Appendix 1** provides a ''snapshot'' of the overall progress made in relation to the 2018/19 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.

7. 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		
Residual work from 2017/18	Not applicable	Finalisation of audit work and reports from 2017/18.
Annual Governance Statement	Not applicable	Proactive input provided in collating information to inform the Annual Governance Statement.
Waste Contract Procurement	Not applicable	Project team support provided. Contract awarded June 2018.
General Data Protection Regulations (GDPR)	Not applicable	Project team support provided. Largely implemented. Watching brief of residual actions ongoing.
Service Risk Registers	Not applicable	Work is currently in progress, following a 2-stage plan.
National Fraud Initiative (NFI)	Not applicable	The NFI is a data matching exercise, which matches data within and between organisations to help detect fraud, overpayments and error. Internal Audit is co-ordinating the Council’s input to the 2018/19 main exercise and is making preparations for the Council Tax Single Person Discount / Electoral Register exercise later this year.
NFI Business Rates Pilot	Not applicable	Internal Audit is co-ordinating the Council’s participation in the NFI Business Rates data matching pilot exercise. The Council is part of a group which includes; South Ribble, Fylde, Preston, Lancaster and South Lakeland Councils. The principle behind this pilot exercise is matching Business Rates data together with existing NFI data such as; residential care home data, creditors and premises data, within and between bodies to identify potential Business Rates fraud and error.

Audit Area	Assurance Rating	Comments
Chorley Council (cont’d)		
Primrose Garden & Retirement Village	Not applicable	Project team support ongoing.
Market Walk – Phase 2	Not applicable	Project team support ongoing.

Housing Company	Not applicable	Project team support ongoing.
Astley Hall	Amber (6)	Management controls generally sound. Recommendations made to improve security and proactive maintenance.
Environmental Permitting Regulations	Red (12)	Management controls inadequate. No information on the Council's website. Internal procedures and programme of inspections out of date.

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

8. **Appendix 2** provides information on Internal Audit performance as at 28th September 2018. We are pleased to report that the majority of indicators have either been achieved or exceeded, except for "% Chorley audit plan completed" which is due to there being a number of audits still in progress at the report date.

IMPLICATIONS OF REPORT

9. 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 2018/19 Internal Audit Plans for Chorley Council and Shared Financial Services.

Report Author	Ext	Date	Doc ID
Garry Barclay	01772 625272	October 2018	Audit Interim report

APPENDIX 1 - INTERNAL AUDIT PLANS 2018/19

CHORLEY COUNCIL

WORK AREA	RISK	QTR	EST (Days)	ACT	BAL	ASSURANCE RATING	STATUS
CORPORATE							
Annual Governance Statement	N/A	1&4	20	12.9	7.1	N/A	2017/18 AGS completed
Anti-Fraud & Corruption	N/A	ALL	10	2.1	7.9	N/A	Ongoing
National Fraud Initiative (NFI)	N/A	ALL	15	13.1	1.9	N/A	Ongoing
POLICY & GOVERNANCE							
Legal, Democratic & HR Services							
GDPR Implementation	N/A	1	5	4.4	0.6	N/A	Ongoing
Ethical Culture Review	CRITICAL	3	10	0.0	10.0		Not started
Health & Safety (Early Intervention)	CRITICAL	2&3	10	6.2	3.8		In progress
Performance & Partnerships							
Performance Management Information	CRITICAL	3	15	0.2	14.8		Not started
Service Risk Registers	CRITICAL	2&3	10	1.7	8.3		In progress
Astley Hall	MAJOR	1	15	16.0	-1.0	Amber (6)	Completed
CUSTOMER & DIGITAL							
Transformation							
Council Tax	CRITICAL	2&3	5	0.1	4.9		Not started
Non-Domestic Rates (NDR)	CRITICAL	2&3	5	0.0	5.0		Not started
Housing Benefits	CRITICAL	2&3	5	0.1	4.9		Not started
Sundry Debtors	CRITICAL	2&3	5	0.0	5.0		Not started
Enforcement							
Enforcement Service	MAJOR	2	10	4.3	5.7		In progress
Waste & Street Scene							
Maintenance & Inspection Regime	MAJOR	3	10	0.0	10.0		Not started
Waste Contract Procurement	N/A	1	5	1.2	3.8	N/A	Completed
ICT Services							
ICT Review	CRITICAL	3	15	0.2	14.8		Not started
EARLY INTERVENTION							
Housing Options & Support							
Choice Based Lettings	MAJOR	4	10	0.0	10.0		Not started
Primrose Gardens – Operations	N/A	ALL	10	5.4	4.6	N/A	Ongoing
Regulatory Services							
Environmental Permitting Regulations	MAJOR	1	15	16.2	-1.2	**Red (12)**	Completed
BUSINESS DEVELOPMENT & GROWTH							
Market Walk & Town Centre							
Financial Governance of Large Projects	CRITICAL	2&3	15	2.6	12.4		In progress
Market Walk Extension	N/A	ALL	10	3.1	6.9	N/A	Ongoing
Property Services							
Commercial Properties	MAJOR	4	15	0.0	15.0		Not started
GENERAL AREAS							
Residual Work from 2017/8	N/A	1	20	27.4	-7.4	N/A	Completed
GRACE System Administration	N/A	ALL	15	19.1	-4.1	N/A	Ongoing
Business Continuity	N/A	ALL	15	7.3	7.7	N/A	Ongoing
Post Audit Reviews	N/A	ALL	10	4.5	5.5	N/A	Ongoing
Contingency / Irregularities	N/A	ALL	20	6.0	14.0	N/A	Ongoing
Governance Committee	N/A	ALL	15	7.5	7.5	N/A	Ongoing
TOTALS			**340**	**161.6**	**178.4**		

SHARED FINANCIAL SERVICES

WORK AREA	RISK	QTR	EST (Days)	ACT	BAL	ASSURANCE RATING	COMMENTS
Treasury Management	CRITICAL	3	20	0.1	19.9		Not started
Payroll	CRITICAL	4	20	0.5	19.5		Not started
Creditors	CRITICAL	3	20	0.6	19.4		Not started
Main Accounting	CRITICAL	4	20	0.0	20.0		Not started
Cash & Bank	CRITICAL	4	20	0.2	19.8		Not started
Residual Work from 2017/18	N/A	1	15	18.0	-3.0	N/A	Completed
GRACE System Administration	N/A	ALL	5	2.0	3.0	N/A	Ongoing
Post Audit Reviews	N/A	ALL	10	0.0	10.0	N/A	Ongoing
Contingency / Irregularities	N/A	ALL	10	6.6	3.4	N/A	Ongoing
TOTALS			**140**	**28.0**	**112.0**		

APPENDIX 2 - INTERNAL AUDIT PERFORMANCE INDICATORS AS AT 28th September 2018

	Indicator	Audit Plan	Target 2018/19	Target to Date	Actual to Date	Comments
1	% of planned time used	SS	90%	20%	20%	Target achieved
		CBC	90%	45%	48%	Target exceeded
2	% audit plan completed	SS	90%	0%	0%	Not applicable
		CBC	90%	30%	21%	Below target
3	% management actions agreed	SS	98%	0%	0%	Not applicable
		CBC	98%	100%	100%	Target exceeded
4	% overall customer satisfaction rating (assignment level)	SS	90%	90%	100%	Target exceeded
		CBC	90%	90%	98%	Target exceeded

SS = Shared Services
CBC = Chorley

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Chorley Council

Report of	Meeting	Date
Chief Executive	Governance Committee	21 November 2018

TREASURY MANAGEMENT ACTIVITY MID-YEAR REVIEW 2018/19

PURPOSE OF REPORT

1. To report on Treasury Management performance in financial year 2018/18 to the end of September.

RECOMMENDATION(S)

2. That the report be noted.

3. That Council is recommended to add Low Volatility Net Asset Value (LVNAV) Money Market Funds to the list of approved Investment Counterparties with a limit of £3m per fund.

EXECUTIVE SUMMARY OF REPORT

4. Updated Prudential Indicators will be presented in the Treasury Strategy report to Full Council on 26 February 2019. These will take account of the latest CIPFA guidance.

5. Average interest earned is 0.52% to the end of September, which is more than the target of 0.49%. As in 2017/18, 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.

6. Low Volatility Net Asset Value (LVNAV) Money Market Funds should be added to the list of approved Investment Counterparties. The current CNAV MMFs will convert to LVNAV in early 2019, so their use needs to be approved so that the council can continue placing cash sums in MMFs.

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

CORPORATE PRIORITIES

7. 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

8. Special Council of 27 February 2018 approved the Treasury Management Policy Statement; Treasury Management Practices; Prudential Indicators for 2018/19 to 2020/21; the Treasury Management Strategy and Treasury Indicators for 2018/19; the Annual Investment Strategy 2018/19; and the Annual Minimum Revenue Provision (MRP) Policy for 2018/19.

9. The Treasury Management Annual Report for 2017/18 was presented to Governance Committee of 25 July 2018.

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

NEW CIPFA PRUDENTIAL CODE GUIDANCE

11. In 2017 the Chartered Institute of Public Finance and Accountancy (CIPFA) revised its Prudential Code for Capital Finance in Local Authorities, in particular to take account of the increased commercialisation of local authorities. In September 2018, CIPFA published its Guidance Notes for Practitioners on the Prudential Code.

12. During October 2018, CIPFA issued a statement on Borrowing in Advance of Need and Investment in Commercial Properties. The statement indicated that CIPFA will issue more guidance about the practice of borrowing to invest in commercial property, and reminded local authorities to have regard to the Statutory Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG).

13. CIPFA have indicated that the current guidance in support of the Prudential Code will be augmented and strengthened to ensure that assistance is provided to local authorities.

14. The revised Prudential Indicators for 2018/19 and those for 2019/20 onwards will take account of the latest CIPFA guidance available.

TREASURY ACTIVITY

15. Investment activity up to the end of September 2018 is summarised in the following table.

Table 1 - Investment Activity	Average Daily Investment £000	Earnings to 30 September 2018 £	Average Rate %
Fixed Term Deposits	-	-	-
Call Accounts	1,845	4,617	0.50
Money Market Funds	4,355	11,494	0.53
Total	**6,200**	**16,111**	**0.52**

As in 2017/18, the average balance available to invest has remained relatively low, and no sums have been invested as fixed term deposits. This is because cash balances are generally available only for short periods, and therefore need to be held in highly liquid accounts, which pay lower rates of interest than term deposits.

A full list of investments as at 30 September 2018 is shown below.

Table 2 - Investments as at 30 September 2018				
Counterparty	**Type**	**Amount £**	**Invested date**	**Maturity date**
BlackRock	MMF	2,900,000	Various	On call
Bank of Scotland	Call account	2,000,000	Various	On call
Barclays BPA	Call account	866,006	Various	On call
Total		**5,766,006**		

16. To qualify as a professional investor under MiFID II requirements, the council needs to invest at least £10m, as well as meeting other requirements. The £10m threshold was exceeded on a number of days in August and September in the first half of the year, the maximum sum being £11.685m on 10 September 2018.

17. The average interest earned of 0.52% exceeds the target of 0.49% (being the average LIBID 7-day rate plus 15%). However, to date the average interest earned has not exceeded the Link Asset Services suggested earnings rate of 0.75% for 2018/19 (see Table 3 below). This is because the Link rate is based on 3-month term deposits, whereas this council's deposits have been placed only in call accounts and money market funds. It is unlikely that Link's suggested earnings rate will be achieved during 2018/19.

18. As explained in Appendix A, which presents advice from Link Asset Services, it is necessary to add Low Volatility Net Asset Value (LVNAV) Money Market Funds (MMFs) to the list of approved Investment Counterparties. The Constant NAV MMFs used by the council to date have to convert to LVNAV status as a result of EU requirements. The updated list of Investment Counterparties is presented as Appendix B.

19. No new long-term borrowing has been taken to the date of preparing this report. Financing of the 2018/19 Capital Programme requires long-term borrowing, and the interest payable has been included in the revenue budget for the year. Savings arising from the rephasing of borrowing have been taken into account in revenue budget monitoring.

TREASURY CONSULTANTS' ADVICE

20. Appendix C presents the advice of Link Asset Services in respect of economic matters and interest rates in the first half of 2018/19.

21. In addition, a detailed comparison of interest rate forecasts is presented as Appendix D. Bank rate and PWLB borrowing rate forecasts are given from December quarter 2018 through to March quarter 2022.

22. The next increase in Bank Rate from 0.75% to 1.00% is now expected in the June quarter of 2019. When this year's Treasury Strategy was prepared, it was expected that Base Rate would reach 1.00% in this current quarter.

23. Link's suggested budgeted investment earning rates for investments up to about three months duration in each financial year are as follows:

Table 3 - Average Earnings in each financial year			
	Revised November 2018	Revised August 2018	Original February 2018
2018/19	0.75%	0.75%	0.60%
2019/20	1.00%	1.00%	0.90%
2020/21	1.50%	1.50%	1.25%
2021/22	1.75%	1.75%	1.50%
2022/23	1.75%	1.75%	1.75%
2023/24	2.00%	2.00%	2.00%
Later years	2.50%	2.75%	2.75%

24. 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 2018, and Link's update in August 2018. The suggested earnings rates have increased from 0.60% to 0.75% in this financial year. It is unlikely to be achievable because this council cannot commit cash for term deposit investments and the highly liquid accounts used pay a lower rate of interest than the Link target.

25. Compared to the previous interest rates forecast, PWLB borrowing rates are currently a little lower than expected when the Treasury Strategy for 2018/19 onwards was prepared. 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.

IMPLICATIONS OF REPORT

26. 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

27. This report complies with the statutory requirement to review treasury strategies and activities half yearly.

COMMENTS OF THE MONITORING OFFICER

28. 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	12 November 2018	Treasury Management Activity Mid-Year Review 2018-19.docx

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Appendix A

Money Market Fund Reform

Link Asset Services have provided the following advice in respect of Money Market Fund reform.

Background

In July 2017 the Money Market Fund Regulation was published in the EU Official Journal. This formally began the compliance process for new and existing funds. The Regulation came into force on 21 July 2018, which immediately affected any new funds created. For existing funds, they will have to be compliant, as described in Article 44 of the Regulation, by no later than 21 January 2019.

The Regulation provides investors with an option for investing their short-term cash in two types of Money Market Funds ("MMFs"):

- Short-term MMFs - Funds that maintain the existing conservative investment restrictions currently provided under the European Securities and Market Authorities (ESMA) Short-Term Money Market Fund definition, including a maximum Weighted Average Maturity (WAM) of 60 days (inclusive of Floating Rate Note interest rate reset days) and maximum Weighted Average Life (WAL) of 120 days (inclusive of Floating Rate Note maturity dates);

- Standard MMFs – Funds that reflect the existing ESMA Money Market Fund definition - maximum WAM of 6 months and maximum WAL of one year.

In addition, there are three structural options:

- **Public Debt Constant Net Asset Value ("CNAV") MMFs** - must invest 99.5% of their assets into government debt instruments, reverse repos collateralised with government debt, cash, and are permitted to maintain a constant dealing NAV. This Fund is already in existence and there is no change proposed to the current structure;

- **Low Volatility NAV ("LVNAV") MMFs** - permitted to maintain a constant dealing NAV provided that certain criteria are met, including that the market NAV of the Fund does not deviate from the dealing NAV by more than 20 basis points (bps). This is a more stringent approach, as currently on a CNAV Fund they have a 50bps collar. Funds will have amortised cost accounting for investments out to 75 days. This means that they can value such investments at par, thus these investments should not affect the underlying Fund's NAV;

- **Variable NAV ("VNAV") MMFs** – Funds which price their assets using market pricing and therefore offer a fluctuating dealing NAV. No change to the current approach.

Credit analysis/rating and stress testing:

The Regulation requires that MMF managers perform a rigorous internal credit quality assessment of money market instruments, as well as implementing a prudent stress testing regime. Moreover, such credit analysis is to be undertaken by individuals separate from the team responsible for the day-to-day management of the MMF portfolio. Given our understanding of the market, via detailed discussions with existing fund managers, we do not believe that this change will materially alter current investment approaches.

There was a proposal to abolish MMFs from obtaining an external fund rating. This has not been approved and MMFs may continue to carry external fund ratings which must be disclosed in the prospectus and marketing materials.

Liquidity fees and redemption gates:

Similar to existing rules and practices in Europe, liquidity gates and redemption fees are put in place to protect investors in public debt CNAVs and LVNAVs in times of stress. Under the new rules, the application of a fee/gate would be optional if weekly liquidity falls below 30% and net redemptions from the fund exceed 10% in one day. However, if weekly liquidity falls below 10%, some form of action (either a gate or a fee) would be mandatory. Note that fees and gate mechanisms are already in place for the majority of Money Market Fund structures. These were previously brought in by funds to cater for the move in European money market rates to below 0%. It is important to stress that these changes are there to come into action under “extreme” market circumstances, rather than during more “normal” situations. They are there to help ensure that all investors are treated in the same manner, not to penalise investors.

Portfolio diversification and transparency:

The new rules strengthen requirements for portfolio diversification and transparency for all MMFs, providing for weekly disclosure of portfolio information and formalised reporting to regulators.

Implementation period:

As highlighted above, new funds will have to be compliant from 21 July 2018, while existing funds will have to be compliant no later than 21 January 2019. As a result, the approved changes will not have an immediate impact on MMFs.

Summary:

The Money Market Fund sector is now in the last stages of introducing new regulations. These will see existing non-government Constant Net Asset Value (CNAV) funds convert to Low Volatility Net Asset Value (LVNAV) pricing. Note that government-type funds will remain as “CNAV” funds under the new regulations.

This change is expected to occur in the very early stages of 2019. As such, if you have not done so already, you will need to update your current TMSS to incorporate the use of LVNAV funds. This update needs to be done for the 2018-19 TMSS, due to the timing of the change.

Agenda Item 6

Appendix A

Timetable for conversion

MMF	Shareholder vote?	Date of shareholder vote	Conversion Date
Aviva	No	N/A	3rd September 2018
Insight	Yes	EGM 16th Nov	26th November 2018
BNP	No	N/A	30th November 2018
Northern Trust	No	N/A	30th November 2018
JP Morgan	Yes	Done	3rd December 2018
LGIM	Yes	Done	3rd December 2018
UBS	No	N/A	7th January 2019
Federated	No	N/A	11th January 2019
Aberdeen	No	N/A	11th January 2019
Fidelity	Yes	Q4 2018	11th January 2019
Blackrock	No	N/A	14th January 2019
Deutsche	Yes	In November	14th January 2019
Goldman Sachs	Yes	Done	14th January 2019
Invesco	No	N/A	14th January 2019
Morgan Stanley	yes	Done	14th January 2019
HSBC	Yes	Tuesday 13th November	16th January 2019
SSGA	No	N/A	January – exact date tbc
Amundi	No	N/A	by 21st January 2019
CCLA	No	N/A	Q1 2019

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Investment Counterparties 2018/19

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed entities	DMADF (DMO)	Yellow	6 months	Unlimited
	UK Local Authority	Yellow	1 year 2 years	£3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£3m per group (or institution if independent)
Money Market Funds				
Money Market Funds (CNAV and **LVNAV**) **	MMFs of high credit quality - AAA rated		Instant access	£3m per fund

Changes from the Investment Counterparties approved by Council on 27/2/18 are in **bold.**

** MMFs used by the council in 2017/18 were BlackRock, Federated, and Standard Life.

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Appendix C

Economics and interest rates

Economics update

UK. The first half of 2018/19 has seen UK **economic growth** post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase **Bank Rate** on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of **inflationary pressures**, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the **labour market,** unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

EUROZONE. Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

CHINA. Economic growth has been weakening over successive years, despite repeated 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.

JAPAN - has been struggling to stimulate consistent significant GDP growth and 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.

Appendix C

Interest rate forecasts

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

See also Appendix D comparing the February 2018 forecast with the August and November 2018 forecasts.

The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

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

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.
- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.
- The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.
- Weak capitalisation of some European banks.
- Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

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Appendix D

	Bank Rate %			PWLB Borrowing Rates % (including 0.20% certainty rate adjustment)											
				5 year			10 year			25 year			50 year		
	Nov 18	Aug 18	Feb 18	Nov 18	Aug 18	Feb 18	Nov 18	Aug 18	Feb 18	Nov 18	Aug 18	Feb 18	Nov 18	Aug 18	Feb 18
Dec-18	0.75	0.75	1.00	2.00	2.00	2.10	2.50	2.50	2.70	2.90	2.90	3.10	2.70	2.70	2.90
Mar-19	0.75	0.75	1.00	2.10	2.10	2.20	2.50	2.50	2.70	2.90	3.00	3.20	2.70	2.80	3.00
Jun-19	1.00	0.75	1.00	2.20	2.20	2.30	2.60	2.60	2.80	3.00	3.10	3.20	2.80	2.90	3.00
Sep-19	1.00	1.00	1.00	2.20	2.20	2.30	2.60	2.70	2.80	3.10	3.10	3.30	2.90	2.90	3.10
Dec-19	1.00	1.00	1.25	2.30	2.30	2.40	2.70	2.70	2.90	3.10	3.20	3.30	2.90	3.00	3.10
Mar-20	1.25	1.00	1.25	2.30	2.30	2.40	2.80	2.80	3.00	3.20	3.30	3.40	3.00	3.10	3.20
Jun-20	1.25	1.25	1.25	2.40	2.40	2.50	2.90	2.90	3.00	3.30	3.30	3.50	3.10	3.10	3.30
Sep-20	1.25	1.25	1.50	2.50	2.50	2.50	2.90	2.90	3.10	3.30	3.40	3.50	3.10	3.20	3.30
Dec-20	1.50	1.50	1.50	2.50	2.50	2.60	3.00	3.00	3.10	3.40	3.50	3.60	3.20	3.30	3.40
Mar-21	1.50	1.50	1.50	2.60	2.60	2.60	3.00	3.10	3.20	3.40	3.50	3.60	3.20	3.30	3.40
Jun-21	1.75			2.60			3.10			3.50			3.30		
Sep-21	1.75			2.70			3.10			3.50			3.30		
Dec-21	1.75			2.80			3.20			3.60			3.40		
Mar-22	2.00			2.80			3.20			3.60			3.40		

The Feb 2018 forecasts were included in the Treasury Strategy 2018/19 to 2022/23
Link Asset Services provided updated forecasts in August and November 2018.

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Chorley Council

Report of	Meeting	Date
Director of Policy and Governance	Governance Committee	21 November 2018

GDPR UPDATE

PURPOSE OF REPORT

1. To inform members of the implementation of the General Data Protection Regulations.

RECOMMENDATION(S)

2. Members note the report.

EXECUTIVE SUMMARY OF REPORT

3. The General Data Protection Regulations (EU 2016/679) came into force on 25 May 2018. The aim of the Regulations was to give control to individuals over their personal data and provide a simplified regulatory regime.
4. The Regulations apply to all organisations who process personal data within the European Union and this includes Local Authorities.
5. The Regulations introduce or restate a number obligations placed on organisations in relation to how they process and share personal data. The obligations serve to protect the integrity of individuals personal data and ensure it is only used for authorised purposes.
6. Chorley Council were obliged to be compliant with the requirements of the GDPR from 25 May this year. The report confirms the actions taken to attain compliance and details the arrangements for maintaining it.

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

CORPORATE PRIORITIES

7. 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 homes and communities		An ambitious council that does more to meet the needs of residents and the local area	X

BACKGROUND

8. In 2016 the European Union adopted for implementation from 25 May 2018 the General Data Protection Regulations. These regulations had direct effect in member countries jurisdictions and effect any organisations processing data within the European Union. To confirm the UK have given these regulations effect and they will continue to operate after Brexit.
9. Chorley Council process significant amounts of personal data and as a result must comply with these regulations. As a local authority we are also required to appoint a Data

Protection Officer who audits the performance of the council and is a single point of contact for individuals and the Information Commissioners Office.

10. The main thrust of the Regulations is that personal data should only be processed for the purpose it has been provided or otherwise only with explicit consent. The Regulations also place additional responsibilities on organisations to manage the security of the data held.
11. Breach of the Regulations is serious, with the Information Commissioners Office being able to levy fines of up to £5 million or 1% if global turnover (whichever is higher) or £10million / 2% of global turnover for breaches relating to special data. It should be noted though that these sanctions apply to all organisations and the risk must be set against the potential misuse. As a local authority who does not process data for "profit" the risk of a maximum level fine for a non-wilful breach is low.
12. However, there are significant reputational risks attached to breaches of the Regulations and most significantly a loss of public trust which would severely undermine the council's ability to discharge its functions.
13. It is very important for the council to ensure that we meet and exceed our obligations under the legislation to ensure continued resident confidence in our Governance arrangements'.

IMPLEMENTATION

14. As a local authority, Chorley Council has been compliant with both Data Protection and Freedom of Information legislation for many years. There were already strong policies and processes in place which demonstrated how we discharged our obligations. There was already a culture of data protection. This had both plus and negative points.
15. It was extremely positive that the Council already had a cultural awareness of data security. We already had a robust Information Security Framework against which the council could demonstrate compliance with the existing legislation. What was a challenge was to ensure the identified differences with the old legislation were communicated properly with staff. We also had to embed new roles within the organisation and ensure an understanding of the new responsibilities that went with them.
16. Corporate policies and processes were prepared and approved by the Council. These are available to all staff on the Loop. These included
    a. Corporate Data Usage Policy;
    b. Data Breach Policy;
    c. Data Retention and Erasure Policy;
    d. Employee Privacy Policy; and
    e. Information Security Policy.

    Compliance with these policies ensures the Council are able to demonstrate compliance with the Regulations.
17. There are 3 new roles identified within the Regulations
    a. Data Protection Officer;
    b. Data Controller; and
    c. Data Processor.

    The role of the SIRO (Senior Information Risk Owner) is retained and the responsibilities attached to that role continue. The Council have appointed the Monitoring Officer to the role of Data Protection Officer.
18. Data Controllers have been identified within services and work has been done with each service to prepare an Information Asset Register which details the data held by each team, what it is used for and the period it needs to be retained. This included both digital and paper based data. No distinction was drawn between personal data caught by the Regulations and none personal data. It is entirely consistent with the Council's information management approach to reduce all unnecessary data held so the strict approaches directed by the Regulations meet the Council's priorities.
19. Having completed the information audit, Data Controllers prepared service specific retention periods which have been used to update the corporate policies.

TRAINING

20. To ensure that staff have the requisite understanding, it is mandatory for all members of staff to have completed the GDPR module on the Emerge eLearning portal. All members of staff who were present (not on long term sick, maternity leave or other reasons) have completed this course. This provided ongoing testing during the module to ensure understanding of the Regulations.
21. Data Controllers have received enhanced training provided by an external trainer ActNow. This training went into greater depth than that given to data processors, particularly into the data principles. This was necessary as it enabled Data Controllers to understand the why behind the policies. Understanding why the policy operates enables the Data Controllers to constantly review and test their processes, challenging appropriately to improve the service delivery.

OPT IN AND CONSENT

22. The vast majority of the personal data held by the Council has been provided under legislation or in order for the Council to deliver a service. As long as the Council only use the personal data for the reasons it has been provided no further consent is required from our residents.
23. In order to ensure that residents receive the best possible service however, the Council have set up processes to enable them to opt in to receive information about other Council services.

COUNCILLORS

24. Councillors are also Data Processors in relation to information received from the Council and Data Controllers in relation to information received directly from residents. All Councillors have been duly registered as Data Controllers with the Information Commissioners Office and have been provided with access to the eLearning module on Emerge. In addition the Data Protection Officer provided a face to face session for all councillors.
25. Councillors can take comfort that the iPads and computer systems provided are secure, so as long as any data saved digitally is kept on the Council equipment they will be compliant. Also Councillors will only receive personal information for use for the purpose it is supplied and therefore will not need any additional consents.

THIRD PARTIES

26. Specific agreements have been put in to place with third parties concerning the use of personal data provided by the Council. These conditions have been incorporated into the Council's standard terms and conditions. The conditions require the third party to process the data only in accordance with the requirements of the GDPR and for no other purpose.

DATA PROTECTION OFFICER

27. The DPO has 3 main areas of duty in relation to the Regulations
    a. Advising and Training;
    b. Monitoring and Audit; and
    c. Point of contact for the Information Commissioners Office.

    To discharge these duties the DPO will work with the SIRO to ensure that adequate training is provided annually. This will be part of the Council's Organisational Development Strategy under Learning and Development. Members of the Legal Team have received additional training to ensure that the Council are adequately supported in relation to the interpretation and operation of the Regulations.
28. Detailed audits will be undertaken for all services. Services with the highest risk of a data breach will be prioritised, although it is intended that all services and teams will be audited.

An audit plan will be developed and presented to the Committee for information at the next meeting on 23 January 2019. The plan will commence in year 2019/20.

IMPLICATIONS OF REPORT

29. 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	

30. As mentioned in the body of the report whilst there are significant financial penalties for breach of the Regulations, the most significant risk is reputational. This risk is being managed through the adoption of robust policies and procedures and through mandatory training.
31. The audit process mentioned will also serve to mitigate the risk not only to the Council but also to resident personal data.

COMMENTS OF THE STATUTORY FINANCE OFFICER

32. All cost implications of implementation and training have been met within existing resources.

COMMENTS OF THE MONITORING OFFICER

33. The position is correctly stated in the body of the report.

CHRIS MOISTER
MONITORING OFFICER

Report Author	Ext	Date
Chris Moister	5260	

Chorley Council

Governance Committee work programme 2018/19

30 May 2018

Report	Officer
Draft Statement of Accounts 2017/18	James Thomson
Charity and Trust Accounts 2017/18	James Thomson
Outcome of Cotswold House Homes England Audit and Future Audit of Primrose Gardens	Rebecca Huddleston
External Audit Progress Update	Grant Thornton
Internal Audit Annual Report 2017/18	Dawn Highton
Annual Governance Statement	Chris Moister
Commercial Health Check	Rebecca Huddleston
Strategic Risk Update Report	Kate Howcroft
RIPA Application Update	Chris Moister

25 July 2018

Treasury Management Annual Report 2017/18	Michael Jackson
Statement of Accounts 2017/18	Michael Jackson
External Audit Findings Report 2017/18	Grant Thornton

21 November 2018

Annual Audit Letter	Grant Thornton
Audit Progress and Update	Grant Thornton
Internal Audit Interim Report as at 28 September 2018	Garry Barclay
Treasury Management Activity Mid-Year review 2018-19	Michael Jackson
GDPR Update	Chris Moister

23 January 2019

Standards Annual Report	Chris Moister
Internal Audit Progress Report as at end December 2018	Janice Bamber
Draft Capital Strategy	James Thomson / Michael Jackson
Outcome of Primrose Gardens Homes England Audit	James Thomson
Update on the Government Guidance regarding the Capital Strategy report	James Thomson

20 March 2019

Internal Audit Plan 2019/20	Janice Bamber

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