Chorley Council

GOVERNANCE COMMITTEE

WEDNESDAY, 20TH NOVEMBER 2019, 2.30 PM
COMMITTEE ROOM 1, TOWN HALL, CHORLEY

AGENDA

APOLOGIES

9 **MEMBER INDUCTION PLANS FOR MAY 2020** (Pages 61 - 66)

To receive and consider the report of the Director (Policy and Governance).

10 **RIPA APPLICATION UPDATE**

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

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

GARY HALL
CHIEF EXECUTIVE

Electronic agendas sent to Members of the Governance Committee Councillor Debra Platt (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Eric Bell, Jean Cronshaw, Yvonne Hargreaves, Steve Holgate, Roy Lees and Kim Snape.

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Chorley Council

MINUTES OF	**GOVERNANCE COMMITTEE**
MEETING DATE	**Wednesday, 24 July 2019**
MEMBERS PRESENT:	Councillor Debra Platt (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Steve Holgate, Roy Lees and Kim Snape, Peter Ripley (Independent Person).
OFFICERS:	Gary Hall (Chief Executive/Statutory Finance Officer), Janice Bamber (Interim Audit and Risk Manager), Michael Jackson (Principal Financial Accountant), Ruth Rimmington (Democratic and Member Services Team Leader), Mark Heap (Grant Thornton UK LLP) and Simon Hardman (Grant Thornton UK LLP)
APOLOGIES:	Councillors Eric Bell, Jean Cronshaw and Yvonne Hargreaves

19.G.79 Minutes of meeting Wednesday, 5 June 2019 of Governance Committee

Decision – That the minutes of the Governance Committee meeting held on 5 June 2019 be confirmed as a correct record for signature by the Chair.

It was noted that, following a recruitment exercise Charlotte Fitch was appointed as the second Independent Person for a period of two years at the Council meeting the previous evening.

19.G.80 Declarations of Any Interests

There were no declarations of any interests.

19.G.81 Audit Findings Report

With the consent of the Chair this report was brought forward on the agenda.

Mark Heap, Grant Thornton, presented the report and advised that there are no significant matters to be resolved relating to the statutory audit and the preparation of the Council's financial statements for the year ended 31 March 2019. It is anticipated that an unqualified audit opinion will be issued by 31 July 2019, subject to final reviews and checks.

A risk-based review of the Council's value for money arrangements has been undertaken and it is anticipated that an unqualified value for money conclusion will be issued by 31 July 2019, subject to final reviews and checks. Some recommendations for improvement have been agreed with management.

The External Auditor has not found it necessary to exercise any additional statutory powers or duties.

The materiality for the financial statements is £1.104 million and the audit is risk based. Specifically, the following risks were reviewed; improper revenue recognition, management override of controls, valuation of land and buildings and valuation of pension fund net liability, with particular reference to the McCloud judgement.

In terms of key judgements and estimates there is nothing specific to report and the use of the going concern assumption is appropriate.

Mark Heap, Grant Thornton, noted that timescales to undertake the audit are challenging and thanked the officers from the Finance Team for their professionalism and assistance. The Chief Executive, Gary Hall, echoed this thanks to the team for their excellent work.

Members queried the audit and non-audit services on Appendix C and noted this relates to potentially recurring fees for work undertaken for the Certification of Housing Benefits Subsidy Grant and Homes England. The declaration is to ensure that there are no significant facts or matters that impact on Grant Thornton's independence as auditors.

Members noted that this would be the final Governance Committee for Michael Jackson, Principal Financial Accountant. The Chair, Councillor Debra Platt, Members of the Committee, the Chief Executive, Gary Hall and representatives from Grant Thornton thanked Michael for his work over the years, his professionalism and for being an exceptional officer.

Decision: That the report be noted.

19.G.82 Statement of Accounts 2018/19

Michael Jackson, Principal Financial Accountant, presented the report and advised that approval of the audited Statement of Accounts and publication by 31 July 2019 is a requirement of The Accounts and Audit Regulations 2015. The approved and signed Statement will be published on the Council's website.

There have been no material changes to the Statement of Accounts from the draft version published on 31 May 2018 which affected the financial position of the Council. As discussed in the previous agenda item the External Auditor anticipates providing the Council with an unmodified audit report, with a limited number of further tests to complete.

There is one change required following the Council meeting the previous evening relating to note 7. This was circulated prior to the meeting relating to one material non-adjusting event after the Balance Sheet date.

Members noted that approval of the Statement of Accounts is subject to the satisfactory completion of the audit by 31 July. On this basis the Chief Executive and the Chair of the Governance Committee will sign the Letter of Representation on 31 July. However, In the event the Chief Financial Officer is of the opinion the amendments are material to the financial position of the authority, Governance Committee will be reconvened to approve the new Statement of Accounts.

Decision:

1. **To approve the audited Statement of Accounts for 2018/19 (Appendix A), subject to any amendments which in the opinion of the Chief Financial Officer (Section 151 Officer) are minor in nature, such minor amendments to be defined as nonmaterial to the financial position of the authority. The Chief Financial Officer will exercise this delegation in consultation with the Chair of Governance Committee. In the event the Chief Financial Officer is of the opinion the amendments are material to the financial position of the authority, Governance Committee will be reconvened to approve the new Statement of Accounts.**
2. **To authorise the Chief Executive and Chair of Governance Committee to sign the Letter of Representation (Appendix B).**

19.G.83 Treasury Management Annual Report 2018/19 and Monitoring 2019/20

Michael Jackson, Principal Financial Accountant, presented the report which advises on compliance with Prudential and Treasury Indicators in 2018/19. The return on investments for the year was 0.61%, which exceeded the benchmark of 0.57%.

Details of borrowing and investments as at 31 March and at 30 June 2019 were noted, and Link Asset Services set out interest rate forecasts for 2019/20 and subsequent financial years.

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The CFR is not matched in full by external borrowing, so the Council is said to have under borrowed by using its own cash balances to finance capital expenditure. There is some loss of interest as a result, but had external loans been taken the interest payable would have been at a higher rate. Use of the Council's own cash helps to achieve savings in net interest.

It was highlighted that on 23 July 2019 Council approved a temporary increase in investment limits to allow higher balances to be held in liquid accounts, in order to manage cash flow until the purchase of a site is completed.

Prudential and Treasury Indicators were revised to take account of rephasing of expenditure from 2018/19 and other changes in 2019/20, plus the addition of the site purchase to the 2019/20 capital programme. The purchase is to be funded by external borrowing, and the Operational Boundary and Authorised Limit in particular needed to be increased before taking the borrowing. The margin between the Authorised Limit and Operational Boundary has been increased to allow temporary borrowing, probably from another local authority, to cover the payment of Value Added Tax. When the VAT is reclaimed from HMRC the temporary borrowing will be repaid.

Decision: That the report be noted.

19.G.84 Internal audit progress report as at 30 June 2019

Janice Bamber, Interim Audit and Risk Manager, presented the report which provides a summary of Internal Audit work undertaken for Chorley Council and the Shared Services element for the period 1 April to 30 June 2019.

Two items carried forward from the 2018/19 plan have now been completed; Financial Governance Arrangements in Major projects and Cash and Bank.

The main area of review for the initial quarter is the work undertaken in respect of the Annual Governance Statement. Internal Audit undertake a review and assessment of the Council's Governance Framework, its Risk Management and the overall control environment. This is a major piece of work for Internal Audit and ensures that the Council's Governance is independently assessed.

A number of reviews have been started in the first quarter and are in the process of being completed, including Asset Management – repairs and maintenance, Commercial Properties and Corporate Credit Cards.

A number of resource issues arose last year in the Shared Assurance Service that impacted on the Internal Audit Service. Following this a temporary Internal Auditor to support the Audit Team and an administration post to support the Insurance service have been appointed. A member of the Internal Audit team is also acting up to provide review and oversight of audit work.

Members advised if further resources were required the Chief Finance Officer will take any action required.

The work relating to Environmental Permitting Regulations discussed at the last meeting will be reported to the next meeting.

Decision: That the report be noted.

19.G.85 RIPA Application Update

The Chair reported that no RIPA applications had been made.

19.G.86 Work Programme

The Committee considered the work programme which set out the reports to be considered at each Governance Committee meeting throughout the Council year.

Chair Date

Report of	Meeting	Date
Chief Executive	Governance Committee	20 November 2019

TREASURY MANAGEMENT ACTIVITY MID-YEAR REVIEW 2019/20

PURPOSE OF REPORT

1. To report on Treasury Management performance in financial year 2019/20 to the end of September.

RECOMMENDATION(S)

2. That the report be noted.

EXECUTIVE SUMMARY OF REPORT

3. During the first six months of 2019/20, the Council had an average daily cash balance of £9.75m and earned interest of £32.6k, a return of 0.67%. The investment balance at the end of September was £5.5m.

4. New long-term borrowing of £39.5m has been undertaken.

5. During the second quarter of 2019/20 the Council undertook a major asset purchase and this had a significant impact on the pattern of activities.
    - The average daily cash balance was approximately 50% higher than would have normally been the case and temporary amendments to the approved Counterparty list were necessary to accommodate this.
    - Substantial new borrowing was entered into.
    - A revised set of Prudential Indicators for 2019/20 was approved, to incorporate the implications for the capital programme and borrowing limits.

6. On 9 October 2019, the Public Works Loans Board (PWLB) announced an increase of 1% in the margin of its lending rates above gilt yields. The effect of this is to significantly increase the potential cost of future borrowing. It also raises the possibility of sources of borrowing other than the PWLB being a more affordable option in the future.

7. The forecast rise in the Bank of England base rate has been further deferred and is not now expected until the final quarter of 2020.

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

CORPORATE PRIORITIES

8. 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	✓

BACKGROUND

9. At its meeting on 26 February 2019, Council approved the Treasury Management Policy Statement; Treasury Management Practices; Prudential Indicators for 2019/20 to 2021/22; the Treasury Management Strategy and Treasury Indicators for 2019/20; the Annual Investment Strategy 2019/20; and the Annual Minimum Revenue Provision (MRP) Policy for 2019/20.

10. The Treasury Management Annual Report for 2018/19 was presented to Governance Committee of 24 July 2019.

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

TREASURY ACTIVITY

12. Investment activity up to the end of September 2019 is summarised in the following table.

Table 1 - Investment Activity	**Average Daily Investment £000**	**Earnings to 30 September 2019 £**	**Average Rate %**
Fixed Term Deposits	590	1,479	0.5
Call Accounts	2,652	8,186	0.62
Money Market Funds	6,513	22,946	0.7
Total	**9,755**	**32,611**	**0.67**

The average balance over the first six months of the year has been higher than would normally be the case (the comparative figure for 2018/19 was £6.2m), because of the additional amounts temporarily held when borrowing was entered into ready to fund the purchase of a major asset. No sums have been invested as fixed term deposits. This is because the cash balances which are generally held are available only for short periods, and therefore need to be held in highly liquid accounts, which pay lower rates of interest than term deposits. Although the activity associated with the purchase of the major asset briefly produced much higher daily balances, which peaked at over £40m, these were similarly only available for a very limited time and so not suitable to be invested as fixed term deposits.

A full list of investments as at 30 September 2019 is shown below.

Table 2 - Investments as at 30 September 2019				
Counterparty	**Type**	**Amount £**	**Invested date**	**Maturity date**
BlackRock	MMF	3,000,000	Various	On call
Fedrated	MMF	1,000,000	Various	On call
Barclays BPA	Call account	1,493,190	Various	On call
Total		**5,493,190**		

The amounts of daily balances held returned to normal levels at the beginning of September and so the above figure is very similar to that at the end of September 2018, which was £5.766m.

13. 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 several days in April and May in the course of normal activities, before rising, as a result of the borrowing activity in respect of the major asset purchase, to over £32m in the second week of August and staying above this level, peaking at over £43m, for approximately three weeks.

14. In order to accommodate the need to manage the exceptionally high balances held between mid-August and the beginning of September, on 23 July 2019 Council approved a temporary revision to the approved investment counterparty list. This was a temporary variation only, with it being stipulated that the limits would, on the completion of the major asset purchase, revert to those approved by Council on 26 February 2019, as part of the 2019/20 Treasury Management Strategy. Those original limits are now back in place and are shown at Appendix A1. The details of the temporary limits are set out at Appendix A2.

15. The average interest earned of 0.67% slightly exceeds the target of 0.66% (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 2019/20 (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 2019/20.

16. New long-term borrowing of £39.5m has been undertaken in the first six months of 2019/20. This is again in connection with the major asset purchase. In order to incorporate the purchase and its borrowing requirements, a revised set of Prudential Indicators for 2019/20 was approved by Council on 23 July 2019. This was a permanent change and the new indicators are set out in Appendix B. These replace those contained in the original 2019/20 Treasury Management Strategy.

17. On 9 October 2019, without any prior notice or indication that such a move might be expected, the Public Works Loans Board (PWLB) announced an increase of 1% in the margin of its lending rates above gilt yields. Although the rates available from day-to-day will continue to vary, as they did before the announcement, in short this means that the rate

payable on any future borrowings from the PWLB will be 1% higher than it would otherwise have been. As an example, on 8 October the interest rate on a new 40-year annuity in loan was 1.95% and on the 9 October the rate was 2.97%. From this it can be seen that the result is a rise of half or more in the costs of new PWLB loans, with significant implications for future spending and financing plans. One possibility that it raises is that more competitive rates may now be available in the commercial market. Early indications are that this is only likely to be viable for amounts of £25-30m and more, but the option will be considered before any further new borrowings are entered into. It is also possible that the Municipal Bonds Agency will be offering loans to local authorities in the future. The Council's approved Borrowing Strategy does not specify choice of lender and so no amendment is required.

18. No rescheduling of debt has been undertaken in the first six months of the year.

TREASURY CONSULTANTS' ADVICE

19. Appendix C presents the advice of Link Asset Services in respect of economic matters and interest rates in the first half of 2019/20.

20. In addition, a detailed comparison of interest rate forecasts is presented as Appendix D. Bank rate and PWLB borrowing rate forecasts are given from the December quarter of 2019 through to the March quarter of 2022.

21. The next increase in Bank Rate from 0.75% to 1.00% is now expected in the December quarter of 2020. When this year's Treasury Strategy was prepared, it was expected that Base Rate would reach 1.00% in the quarter just ended in September 2019.

22. 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 2019	**Revised August 2019**	**Original February 2019**
2019/20	0.75%	0.75%	1.00%
2020/21	1.00%	1.00%	1.25%
2021/22	1.00%	1.00%	1.75%
2022/23	1.50%	1.50%	2.00%
2023/24	1.50%	1.50%	2.25%
2024/25	1.75%	1.75%	2.50%
Later years	2.25%	2.25%	2.50%

23. 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 2019, and Link's update in August 2019. The suggested earnings rates have fallen from 1.00% to 0.75% in this financial year. As noted in above in respect of investment performance in the first six months of the year, it is unlikely that this rate will be achievable for the year as a whole, 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.

24. In the forecast interest rates shown at Appendix D, PWLB borrowing rates are currently significantly higher than was expected when the Treasury Strategy for 2019/20 onwards was prepared. This is because of the increase of 1% in the margin of PWLB rates above gilt yields, as referred to above, although the difference in the forecast is less than the full 1%, because of variations in other underlying factors, principally the ongoing deferral of any rise in base rate. Overall, the forecast indicates a pattern of gradually rising rates, but this remains subject to the usual range of risk factors in respect of inflation, monetary policy decisions and domestic and international economic performance and particularly to the continuing uncertainties around the outcome of the Brexit process.

IMPLICATIONS OF REPORT

25. 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

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

COMMENTS OF THE MONITORING OFFICER

27. The Monitoring Officer has no comments.

GARY HALL
CHIEF EXECUTIVE

Report Author	Ext	Date
Tony Furber	***	12/11/19

Investment Counterparties 2019/20

APPENDIX A1: AS PER TREASURY MANAGEMENT STRATEGY 2019/20 (approved by Council 26 February 2019)

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	MMFs of high credit quality - AAA rated		Instant access	£3m per fund

APPENDIX A2: TEMPORARY VARIATIONS TO COUNTERPARTY LIST (approved by Council 23 July 2019, in effect until completion of major asset purchase on 2 September 2019)

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

Maximum durations suggested by Link Asset Services (LAS):

Yellow	5 years
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

Appendix B

Revised Prudential and Treasury Indicators 2019/20 (approved by Council 23 July 2019)

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital expenditure

This prudential indicator (Table 1) is a summary of the Council's capital expenditure plans, both those agreed previously, budgets rephased from 2018/19, and other changes to the 2019/20 capital programme.

Table 1 - Capital Expenditure 2019/20	2019/20 Estimate £000	From 2018/19 £000	Other Changes £000	2019/20 Revised £000
Customer & Digital	0	884	0	884
Early Intervention & Support	1,869	68	874	2,811
Policy & Governance	1,750	388	(200)	1,938
Regeneration & Inward Investment	10,367	6,013	33,029	49,409
Capital Expenditure Total	**13,986**	**7,353**	**33,703**	**55,042**

Capital financing

Table 2 below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Appendix B

Table 2 - Capital Financing 2019/20	2019/20 Estimate £000	All Changes £000	2019/20 Revised £000
Capital expenditure from Table 1	13,986	41,056	55,042
Capital Receipts	(410)	(256)	(666)
Grants & Contributions	(4,215)	(3,423)	(7,638)
Revenue and Reserves	(785)	(881)	(1,666)
Net financing needed for year	**8,576**	**36,496**	**45,072**

The Council's borrowing need (the Capital Financing Requirement)

The Council's Capital Financing Requirement (CFR) is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The Council is asked to approve the revised CFR projections in Table 3:

Table 3 - Capital Financing Requirement 2019/20	2019/20 Estimate £000	2019/20 Changes £000	2019/20 Revised £000
Opening CFR	51,879	(2,596)	49,283
Net financing need for the year (Table 2)	8,576	36,496	45,072
Less MRP/VRP	(570)		(570)
Closing CFR	**59,885**	**33,900**	**93,785**

Treasury portfolio position

The Council's projected treasury portfolio position is summarised below in Table 4. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

Table 4 - Portfolio Position 2019/20	2019/20 Estimate £000	2019/20 Changes £000	2019/20 Revised £000
Debt at 1 April	24,879	(3,889)	20,990
Other long-term liabilities (OLTL)	15	0	15
Total gross debt 1 April	24,894	(3,889)	21,005
Expected change in Debt	11,392	37,789	49,181
Expected change in OLTL	0	0	0
Expected change in gross debt	11,392	37,789	49,181
Gross debt 31 March	36,286	33,900	70,186
Capital Financing Requirement (Table 3)	59,885	33,900	93,785
Under / (over) borrowing	**23,599**	**0**	**23,599**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Appendix B

Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

The Council has achieved budget savings in financing capital expenditure by using its own cash balances as a source of internal borrowing, thereby reducing interest payments on external borrowing, rather than investing cash but earning a low rate of return.

The revised forecast of year-end resources in 2019/20 is presented in Table 5.

Table 5 - Year-End Resources 2019/20	2019/20 Estimate £000	2019/20 Changes £000	2019/20 Revised £000
Core Funds/Working Balances	(24,599)	0	(24,599)
Under/(over) borrowing (Table 4)	23,599	0	23,599
Expected investments	**(1,000)**	**0**	**(1,000)**

Treasury Indicators: limits to borrowing activity

The Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

The revised Operational Boundary in Table 5 takes account of the rephasing of capital expenditure to be funded by borrowing from 2018/19, and changes to the capital programme in 2019/20.

Table 6 - Operational Boundary 2019/20	2019/20 Estimate £000	2019/20 Changes £000	2019/20 Revised £000
Debt	36,271	33,900	70,171
Other long-term liabilities	15	0	15
Operational Boundary	**36,286**	**33,900**	**70,186**

Appendix B

The **Authorised Limit** for external debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
- The Council is asked to approve the following revised Authorised Limit in Table 6:

Table 7 - Authorised Limit 2019/20	2019/20 Estimate £000	2019/20 Changes £000	2019/20 Revised £000
Debt	39,271	40,303	79,574
Other long-term liabilities	15	0	15
Authorised Limit	**39,286**	**40,303**	**79,589**

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APPENDIX C

Economics and interest rates

1 Economics update

UK. This first half year has been a time of continuing political uncertainty centred on the continuing debate around the outcome of the Brexit process. To this has now been added the announcement of a further general election. Given these circumstances, any interest rate forecasts are subject to material change as the situation evolves. If the UK does indeed leave the EU on the basis of an agreed deal, then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate at some point in the coming year when there is little slack left in the labour market. This could then cause wage inflation to accelerate, which would then feed through into general inflation. If, on the other hand, the UK were to leave the EU without an agreed deal Brexit, with resultant impacts on the economy, then growth could further weaken and the MPC would be likely to cut the Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by way of e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects.

The first half of 2019/20 has seen UK **economic growth** fall as the continuing uncertainty has taken a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn, or possibly even a recession, in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) has, so far, left the Bank Rate unchanged at 0.75% throughout 2019 and is expected to hold off on changes until there is clarity in respect of the Brexit process. However, it is also worth noting that the current government has made some significant spending commitments and a relaxation in the austerity programme, which have now also been mirrored by opposition parties in the early stages of the general election campaign. If implemented, these will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, it is forecast that, if there were to be a no deal Brexit, then inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

With regard to the **labour market,** despite the contraction in quarterly GDP growth of -0.2% q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself: the latter figure, in particular, suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July and the participation rate of 76.1% achieved a new all-time high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, this month by 11,000, employers will still be having difficulty filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by

about 2.1%. As 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. The latest GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC would need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.
In the **political arena**, the forthcoming general election 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 although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9% y/y. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 has reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 bps in December. Investor confidence has been affected by the progressive increases in tariffs President Trump has imposed on Chinese imports, with China responding with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2 and there appears to be little upside potential to the growth rate in the rest of 2019. German GDP growth fell to -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a third round of Targeted Longer-Term Refinancing Operations (TLTROs). This provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and unsurprisingly, the ECB stated that governments will need to help stimulate growth by fiscal policy. On the political front, Austria, Spain and Italy are in the process of forming coalition governments, with the potential for some unlikely combinations of parties, which in turn raises questions around their likely endurance. The recent results of two recent German state elections will put further pressure on the frail German CDU/SDP coalition government.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and 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. Progress also still needs to be made to switch investment from property construction and infrastructure to consumer goods production. The trade war with the US does not currently appear to have had a significant effect on GDP growth as some of the impact of tariffs has been offset by falls in the exchange rate and by transhipping exports through other countries, rather than directly to the US.

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.

WORLD GROWTH. The trade war between the US and China is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on the synchronised general weakening of growth in the major economies of the world compounded by fears that there could even be a recession looming up in the US, although these fears are arguably overstated. These concerns have resulted in government bond yields in the developed world falling significantly during 2019. If there were to be a major worldwide downturn in growth, then central banks in most of the major economies would have only a limited range of options available, in terms of monetary policy measures, when rates are already very low in most countries (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest Purchasing Managers' Index survey statistics of economic health for the US, UK, EU and China have all been sub 50 which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during the rest of this financial year is weak.

2 Interest rate forecasts

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

This forecast includes the increase in margin over gilt yields of 100bps introduced on 9.10.19.

Link Asset Services Interest Rate View	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	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

The above forecasts have been based on an assumption that there will ultimately be an agreed Brexit deal. Given the current level of uncertainties, this is a significant assumption and so forecasts may need to be materially reassessed in the light of events over the next weeks and months.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the continuing political uncertainty. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That is shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were to be a no deal Brexit, then it is likely that there would be one or more reductions in Bank Rate to help support economic growth. The September MPC meeting expressed even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

Bond yields / PWLB rates. There has been much speculation recently that we are currently in a bond market bubble. However, given the context of heightened expectations that the US could be heading for a recession, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen, over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of very low interest rates on cash deposits.

What we saw during the last half year up to 30 September is a near halving of longer term PWLB rates to completely unprecedented historic low levels. There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but due to a correlation between US treasuries and UK gilts, which at various times has been stronger, but at other times weaker, in the UK. However, forecasting the timing of this and how strong the correlation is likely to be, is very difficult to do with any degree of confidence.

One potential danger that may be lurking in investors' minds is that Japan has become trapped in a twenty year cycle of failing to successfully stimulate economic growth and inflation, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be concern that this type of situation condition might become more general and widely spread.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt fuelled boom which now makes it harder for economies to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a vicious circle, where the credit rating of the debt of a nation is downgraded, causing bond prices to fall, in turn leading to losses on debt portfolios held by banks and insurers and so reducing their capital and forcing them to sell bonds. This, in turn, would then cause further falls in their prices and so on. In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably to the downside due to the contiuning uncertainties over Brexit, as well as a softening of the global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

One factor that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash. There has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates which have prevailed for the eleven years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could, therefore, over or under-do increases in central interest rates.

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

- **Brexit –** if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than currently anticipated.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which frequently took an anti-austerity and anti-EU stance. However, in September 2019 there was a major change in the balance of the coalition and this has resulted in a much more EU friendly

government. This has eased the pressure on Italian bonds. It remains to be seen whether the new coalition will endure.

- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position. Then in October 2018, the results of the Bavarian and Hesse state elections further undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she has continued as Chancellor, though more recently concerns have arisen over her health.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Italy, Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** for example in 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

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than is currently expected.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

	Bank Rate %			PWLB Borrowing Rates % (including 0.20% certainty rate adjustment)											
				5 year			10 year			25 year			50 year		
	Nov 19	Jul 19	Feb 19	Nov 19	Jul 19	Feb 19	Nov 19	Jul 19	Feb 19	Nov 19	Jul 19	Feb 19	Nov 19	Jul 19	Feb 19
Dec-19	0.75	0.75	1.00	2.30	1.60	2.10	2.60	1.90	2.50	3.30	2.50	3.00	3.20	2.40	2.80
Mar-20	0.75	0.75	1.00	2.50	1.70	2.20	2.80	2.00	2.60	3.40	2.60	3.10	3.30	2.50	2.90
Jun-20	0.75	0.75	1.25	2.60	1.80	2.30	2.90	2.10	2.60	3.50	2.70	3.20	3.40	2.60	3.00
Sep-20	0.75	1.00	1.25	2.70	1.90	2.30	3.00	2.20	2.70	3.60	2.80	3.20	3.50	2.70	3.00
Dec-20	1.00	1.00	1.25	2.70	2.00	2.40	3.00	2.30	2.80	3.70	2.90	3.30	3.60	2.80	3.10
Mar-21	1.00	1.25	1.50	2.80	2.10	2.50	3.10	2.40	2.90	3.70	3.00	3.40	3.60	2.90	3.20
Jun-21	1.00	1.25	1.50	2.90	2.10	2.50	3.20	2.50	2.90	3.80	3.00	3.40	3.70	2.90	3.20
Sep-21	1.00	1.50	1.75	3.00	2.20	2.60	3.30	2.60	3.00	3.90	3.10	3.50	3.80	3.00	3.30
Dec-21	1.00	1.50	1.75	3.00	2.30	2.60	3.30	2.60	3.00	4.00	3.20	3.50	3.80	3.10	3.30
Mar-22	1.25	1.50	2.00	3.10	2.40	2.70	3.40	2.70	3.00	4.00	3.30	3.50	3.90	3.20	3.40

The February 2019 forecasts were included in the Treasury Management Strategy 2019/20 to 2021/22
Link Asset Services provided updated forecasts in August and November 2019

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Grant Thornton

The Annual Audit Letter for Chorley Borough Council

Year ended 31 March 2019

August 2019

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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 2019.

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 24 July 2019.

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 £1.1million, 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 2019.
Whole of Government Accounts (WGA)	We did not need to complete work on the Council's consolidation return as the income, expenditure, assets and liabilities were below the de-minimis level set by the NAO
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

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Executive Summary

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 2019.
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 2019. We will report the results of this work to the Governance Committee separately.
Certificate	We certified that we have completed the audit of the financial statements of Chorley Borough Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

Working with the Council

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

- An efficient audit – we delivered an efficient audit with you, delivering the financial statements opinion by the end of July.
- Improved audit processes – we worked with you to streamline the audit processes through the use of inflo software, allowing an easy way to share working papers
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice.
- We shared our thought leadership reports with the senior management team at the Council on a wide range of issues, including governance and alternative delivery models
- Regular meetings with senior management and the finance team where we discussed issues relevant to the local government sector and ensured we provided an efficient and effective audit.

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 2019

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Audit of the Financial Statements

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 financial statements to be £1,104,000, 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 designed our procedures to detect errors at a lower level of precision for senior officer remuneration 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 narrative report and annual governance statement published alongside the financial statements to check the consistency with our understanding of the Council and with the financial statements 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 was 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 Financial Statements

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 land and buildings The Council revalues much of its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk and a key audit matter.	As part of our audit work we: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • wrote to the valuer to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been 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 at year end.	No issues were identified.
Management override of internal 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. For example, 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 therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	No issues were identified.

Audit of the Financial Statements

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 net pension liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£45 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	As part of our audit work we have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of the Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements • considered the implications of the McCloud ruling on the pensions liability within the Council's balance sheet .	No issues were identified

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Audit of the Financial Statements

Audit opinion
We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

Preparation of the financial statements
The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements
We reported the key issues from our audit to the Council's Governance Committee on 24 July 2019. Only a small number of non-material issues were identified from our audit work and the Council either agreed to amend the accounts or gave a valid explanation on why amendment was not to be made.

Annual Governance Statement 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.

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.

Whole of Government Accounts (WGA)
We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold on 31 July 2019.

Other statutory powers
We are pleased to report that we did not have to use any of our additional powers and duties in completing our audit.

Certificate of closure of the audit
We certified that we have completed the audit of the financial statements of Chorley Borough Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf. We also reported our finding to the Governance Committee on 24 July 2019.

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 2019.

Value for Money conclusion

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 revenue budget and capital programme delivery will not sufficiently meet those challenges.	We will review the arrangements the Council has in place to plan, manage and deliver its finances over the medium term by: • considering the Council's overall arrangements in place to develop its medium term financial plans • reviewing how the capital programme is planned and delivered, including the links to the medium term financial strategy (MTFS) • considering the development of the housing company, including how the potential financial risks and rewards are being reflected in the Council's MTFS.	The Council has a proven track record of delivering both its revenue budget and key elements of its capital programme. Much of this is due to the work and future planning of the Council's senior management who are supported by the finance team. During 2018-19 the Council met the challenge of delivering a balanced budget, reporting an underspend of £0.3million. Continued focus is required on delivering the budget, given future uncertainties around issues such as funding and implications from Brexit. The Council's capital programme is an ambitious one for a district council and is aimed at helping deliver key priorities. From an original capital programme of £26.1million approved in February 2018, which was increased to £34million due to amounts carried forward from 2017/18 and other adjustments, the Council was able to deliver almost £25million. Slippage or adjustments in the capital programme are not unusual but the amendments to planned spend tend not to be reported to Members until late in the year. Good progress was made on delivering key capital projects including Market Walk, Primrose Gardens and the Digital Park Looking forward, financial challenges remain and the Council has reported in its medium term financial strategy that it projects a cumulative gross budget deficit of £3.9million by 2021/22. Through a variety of initiatives and plans, such as reviewing fees and charges, productivity savings and council tax increases, the deficit reduces to an adjusted forecast cumulative deficit position of £1.7million. The Council remains confident that the budget deficit will be met by renegotiating contracts and transformation. Our review of arrangements built on the work completed in last year's VfM work. The Council provided further assurance that the key transformation projects are being appropriately planned, managed and monitored. Assumptions supporting the budget appear appropriate and were fully supported by explanations in the budget papers presented to Council in February. Those assumptions supporting medium term plans will need to be regularly reviewed and discussed with Members to ensure they remain consistent with policy decisions. We did note that the papers presented to the February Council meeting were thorough giving a complete picture of the financial position and consultation that took place in preparing the budget. The Council continues to consider different models for delivering efficient services, for example through extending shared services and consideration of setting up a company. Such issues receive careful and detailed consideration by Officers to help ensure outcomes are maximised for Chorley residents.

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Agenda Item 5

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	February 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

Fees

	Planned £	Actual fees £
Statutory audit	34,846	39,346
Total fees	**34,846**	**39,346**

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £34,846 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£1,500
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1,500
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£1,500
Total		£4,500

Fee variations are subject to PSAA approval.

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Agenda Item 5

A. Reports issued and fees continued

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Benefits Subsidy Grant	9,750	Self-Interest (because this is potentially a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,750 in comparison to the total fee for the audit of £34,846 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Homes England	5,000	Self-Interest (because this is potentially a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £34,846 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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.

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery

- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections

- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people

- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality

- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support

- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

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Grant Thornton
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Audit Progress Report and Sector Update

Chorley Borough Council

11 November 2019

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.

Progress at 11 November 2019

Financial Statements Audit

We issued our opinion on your 2018/19 Statement of Accounts on 31 July 2019.

We will begin our planning for the 2019/20 audit in December and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We plan to begin our interim audit in February 2020. Our interim fieldwork includes:

- Updated review of the Council’s control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by the statutory accounts publication date of 31 July 2020.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "of resources". the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by the statutory accounts publication date of 31 July 2020.

Progress at 11 November 2019

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2018/19 is in progress and will be completed by the 30 November deadline. We will report our findings to the Governance Committee in January 2020.

Meetings

We meet regularly with the Chief Executive and Finance Officers as part of our liaison meetings. We continue to be in discussion with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events and publications to support the Council. Our annual workshop for your finance team will take place early in 2020 and invites have now been sent.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We are currently reviewing the impact of these changes on both the cost and timing of audits. We will discuss this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, before communicating fully with the Governance Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Audit Findings Report The Audit Findings Report was reported to the July Governance Committee.	July 2019	Complete
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Complete
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Complete

2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2019	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 2019-20 financial statements.	January 2020	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 Reports.	March 2020	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Governance Committee.	July 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2020	Not yet due

Sector Update

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 by clicking on the logos below:

Public Sector

Local government

CIPFA – CFO confidence survey

In July, the Chartered Institute of Public Finance and Accountancy (CIPFA) reported the results of their annual confidence survey.

The survey found that the majority of local government finance officers have lost confidence in their future financial positions over the last year.

Seventy per cent of respondents said they were either slightly less or much less confident in their financial position this year compared to 2018-19.

The survey also found that 68% said they were either slightly less or much less confident in their ability to deliver services in 2020-21. Sixty-two per cent expressed equal confidence in their financial position for 2019-20 as they had last year.

CIPFA found that the area of greatest pressure for top tier authorities was children's social care, with the number of authorities rating it as the biggest pressure rising by six percentage points.

For districts the greatest pressures were housing, cultural services and environmental services.

Rob Whiteman, CIPFA chief executive, said: "Local government is facing greater demand pressures than ever before, with particularly pressures in adults' and children's social care and housing. Local authorities also lack certainty about their future financial positions, so it's unsurprising to see confidence on the decline.

"We have repeatedly pointed out that local government is in need of a sustainable funding solution, but meeting this demand requires more than pennies and pounds. The sector as a whole must come together to address the challenges of effective service delivery."

CIPFA's survey received a total of 119 responses from authorities in the UK - 56 top tier authorities, 47 English districts, 12 Scottish authorities, and 4 Welsh authorities.

CIPFA The Chartered Institute of Public Finance & Accountancy

On the same theme, a Local Government Association (LGA) survey, also reported in July, found that almost two-thirds of councils believe cash for services like adult social care, child protection and preventing homelessness will dry up by 2024-25.

The survey got responses from 141 of the 339 LGA member councils in England and Wales.

It also found that 17% of councils were not confident of realising all of the savings they had identified this year (2019-20).

The LGA said that councils needed a guarantee they will have enough money to meet growing demand pressures in particular in adult social care, children's services, special educational needs, homelessness support and public health.

Local Government Association

Financial confidence

Challenge question:

How confident is your Authority in relation to its financial position? Has this changed from previous years?

MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was "working towards improving its approach to local government oversight and support", Brokenshire promised.

"A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy," he said.

"There are potentially far-reaching consequences when audits aren't carried out properly and fail to detect significant problems."

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still "fit for purpose".

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: "Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

"Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure."

He added: "This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole."

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was "open minded", but believed the Audit Commission was "of its time".

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts "must be of the highest level of transparency and quality", the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.

Ministry of Housing, Communities & Local Government

National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO is consulting on potential changes to the Code in two stages:

Stage 1 involves engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

This stage of the consultation is now closed. The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO state that they have considered carefully the views of respondents in respect of the points drawn out from the Issues paper and this will inform the development of the draft Code. A summary of the responses received to the questions set out in the Issues paper can be found below.

Local audit in England Code of Audit Practice – Consultation Response (pdf – 256KB)

Stage 2 of the consultation involves consulting on the draft text of the new Code. To support stage 2, the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

a) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;

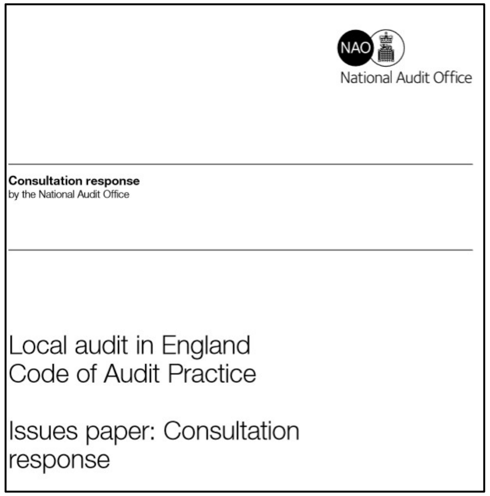
b) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and

c) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

The consultation document and a copy of the draft Code can be found on the NAO website. The consultation is open until 22 November 2019. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the Code consultation:

https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/


NAO
National Audit Office

Consultation response
by the National Audit Office

Local audit in England
Code of Audit Practice

Issues paper: Consultation response

Local Government Association – Profit with a purpose – delivering social value through commercial activity

The Local Government Association (LGA) report 'Profit with a purpose' focuses on some of the practicalities of how councils can deliver social value through their commercial activity.

Through ‘key questions’ to ask, the guidance supports councils to face the challenge of how to undertake commercial activity and achieve greater value for the public purse in ways that better meet society’s needs and outcomes for people and communities.

In addition, the publication features a number of short case studies highlighting some of the innovative commercial practice already achieving results for communities.

The LGA comments that the best approaches ensure the generation of social value is the primary factor driving commercial activity; from the initial decision to develop a commercial vision to how the approach is developed, and implemented, councils which are pulling ahead ensure social value is placed centre stage.

The guidance starts with an overview of what the LGA understands by ‘profit with a purpose’, the guidance explores different types of social value and the role of councils in driving social value alongside their commercial ambition.

The guidance then looks at how consideration and delivery of social value should be practically considered when deciding on whether to embark on commercial activity, the need for social value to be prioritised alongside financial return and the key questions councils should consider when embarking on a commercial initiative.

Following on from this, there are specific chapters on; embedding social value in governance of alternative service delivery vehicles, the role of procurement in contracting services that deliver social value and finally how to contract and performance manage social value through your service providers.

Each chapter outlines the factors that need to be considered and the ‘key questions’ councils should be asking themselves.

In addition, a number of short case studies are provided to highlight some of the innovative commercial practice already achieving results for communities.

The report can be downloaded from the LGA website:

https://www.local.gov.uk/profit-purpose-delivering-social-value-through-commercial-activity

Profit with a purpose

Challenge question:

If your Authority is looking at commercial activity, have you considered the LGA report?

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Agenda Item 6

Public Accounts Committee – Local Government Governance and Accountability

The Public Accounts Committee has found that the Government has not done enough to ensure that, at a time when local authority budgets are under extreme pressure, governance systems are improved.

The Ministry of Housing, Communities & Local Government (the Department) is responsible for: ensuring that this framework contains the right checks and balances, and changing the system if necessary. The Secretary of State also has powers to intervene in cases of perceived governance failure. The framework includes: officers with statutory powers and responsibilities; internal checks and balances such as audit committees and internal audit; and external checks and balances such as external audit and sector-led improvement overseen by the Local Government Association. These arrangements represent a significant reduction in the level of central oversight in recent years following the government's decision to abolish the Audit Commission and the Standards Board for England as part of a broader reform of local audit, inspection and reporting.

The Public Accounts Committee report summary notes "Local authorities have a good overall track record with governance arrangements generally robust across the sector, and there is evidence that local authority governance compares favourably to that of the health sector. However, this is not universal and in some authorities governance is under strain, as funding reduces and responsibilities and exposure to commercial pressures change. We are worried to hear about audit committees that do not provide sufficient assurance, ineffective internal audit, weak arrangements for the management of risk in local authorities' commercial investments, and inadequate oversight and scrutiny. This is not acceptable in the more risky, complex and fast-moving environment in which local authorities now operate.

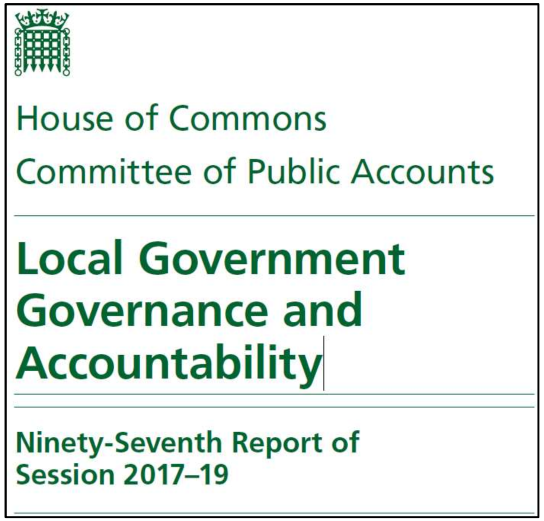
The Department has been reactive and ill-informed in its approach to oversight of the local governance system. However, the Department has now recognised that the network of bodies with responsibility for the local governance framework is fragmented and lacking the leadership needed to drive change. Encouragingly, the Department has now committed to enhancing its oversight role and producing a proactive work programme to deliver this change. We urge the Department to ensure that this activity leads to concrete actions and outcomes on a timely basis. When a local authority fails this has a significant impact on local people and the Department has a responsibility to work with local government to ensure that problems are caught early and that it can pinpoint at-risk councils. Since the abolition of the Audit Commission and other changes culminating in the Local Audit and Accountability Act 2014 there is no central assessment of value for the money, which means the Department's work is fundamental."

The report makes five conclusions, with associated recommendations:

1) The Department is not yet providing effective leadership of the local governance system.
2) The Department does not know why some local authorities are raising concerns that external audit is not meeting their needs.
3) The Department lacks reliable information on key governance risks, or relies on weak sources of information, meaning it has no way of pinpointing the at-risk councils.
4) The Department's monitoring is not focused on long-term risks to council finances and therefore to services.
5) There is a complete lack of transparency over both the Department's informal interventions in local authorities with financial or governance problems and the results of its formal interventions.

The Government response is available on the website below:

https://www.parliament.uk/documents/commons-committees/public-accounts/Gov-response-to-Public-Accounts-on-the-93-98-reports.pdf


House of Commons
Committee of Public Accounts

Local Government Governance and Accountability

Ninety-Seventh Report of Session 2017–19

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Agenda Item 6

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Chorley Council

Report of	Meeting	Date
Returning Officer	Governance Committee	19 November 2019

ELECTORAL REVIEW UPDATE

PURPOSE OF REPORT

1. To provide members of the Governance Committee with a progress report on the electoral review of Chorley Council, following the announcement of new warding arrangements being published by the Local Government Boundary Commission for England (LGBCE) on 26 March 2019.

RECOMMENDATION(S)

2. That the report be noted.

EXECUTIVE SUMMARY OF REPORT

3. The LGBCE conducted an electoral review of Chorley Council in its 2018/19 work programme to correct voter equality throughout the borough. The LGBCE's final recommendations were announced on 26 March 2019 and resulted in -

- The size of the council being reduced to 42 (from 47)
- 14 new borough wards
- Elections being held by thirds
- 3 councillors per ward

4. Since the LGBCE's announcement, work has been carried out to create new polling districts, which will be implemented with the new ward boundaries at the local election on 7 May 2020. As this election will be the first on the new warding arrangements, a whole of council election will be held. Chorley Council will revert to electing its membership by thirds from 2022.

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

CORPORATE PRIORITIES

5. This report relates to the following Strategic Objectives:

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

BACKGROUND

6. Chorley Council was first informed that the LGBCE would be undertaking an electoral review of the council in June 2017, as part of its 2018/19 work programme to correct electoral equality across the borough. The review was split into 2 stages –
   - Stage 1 – Council Size and frequency of elections
   - Stage 2 – Warding arrangements

7. At the council meeting on 23 January 2018 the Electoral Review of Chorley Council Committee (the committee) was formed with a cross party membership to oversee the review process and make recommendations to council, prior to them being submitted to the LGBCE.

Stage 1

8. Stage 1 of the review required the council to suggest its preferred size, and frequency of elections. After due consideration was given to the council's executive arrangements, scrutiny functions, regulatory duties and its commitment to outside bodies a reduction in the council size to 42 councillors was deemed appropriate by the committee.

9. The committee also recommended that the council should continue to elect by thirds. This decision triggered a requirement of the electoral review which stipulated that where an authority elects by thirds each ward should be represented by 3 councillors. As a result, the number of wards would be reduced to 14. Both recommendations were approved at the council meeting on 10 April 2018, prior to them being submitted to the LGBCE.

10. On 26 June 2018 the LGBCE advised that it was minded to approve the council's preferred council size and frequency of elections.

Stage 2

11. The LGBCE also chose the 26 June 2019 to launch a public consultation which invited interested groups and individuals to suggest the geographical makeup of the new borough wards and their names. The council's response, as proposed by the committee, was approved at its meeting on 18 September 2018 prior to submission to the LGBCE.

12. On 6 November 2018, the LBCE published its' draft recommendation and launched a second public consultation, this time based on the draft recommendation.

13. Although the draft recommendations were largely based on the council's submission, there were some significant differences, which included boundary changes to the wards of Croston and Mawdesley which included the parish of Heskin; and Euxton South being placed with the parishes of Eccleston and Charnock Richard.

14. At the council meeting on 22 January 2019, members approved a response (as proposed by the committee) to the LGBCE's draft recommendations. The response included alternative ward names for some of the wards, which the council considered better reflected the areas contained within them.

15. The council also proposed that that the parish of Heskin should be kept with the parishes of Eccleston and Charnock Richard due to historical, and practical links, and that the links between Eccleston, Charnock Richard and Euxton South were less notable. As a result, the council proposed two alternative options which put the three parishes together, and placed Euxton South with Bretherton, Croston, Mawdesley, and Ulnes Walton.

16. On the 26 March 2019, the LGBCE published its final recommendations which confirmed that –

- the council size will be reduced to 42 elected councillors
- elections will be held by thirds;
- the number of wards have reduced to 14;
- each ward being represented by 3 elected councillors.

PROGRESS MADE

17. On 22 May 2019, the draft order (that would give effect to the LGBCE's final recommendations) was laid in parliament for 40 (sitting) days for scrutiny. Since then, the LGBCE confirmed that the draft order had been confirmed and would come into effect at the next schedule local elections, due to take place on 7 May 2020.

18. The next step of the electoral review coincided with the national polling place review. Authorities across the country are required by law to consider their polling districts, polling places and polling stations every 5 years based on their existing ward boundaries. As part of the polling place review, authorities are required to undertake a public consultation, which in Chorley, took place over six weeks starting from 26 July 2019.

19. Ultimately, the council's final decision for the polling place review, was not to change any polling stations for existing wards due to an anticipated general election being held before the end of the year. However, it provided the opportunity for officers to consider the suitability of current polling station stock and alternative premises for the new warding arrangements.

NEXT STEPS

20. At the council meeting on 21 January 2020, members will have the opportunity to consider a report which will put forward recommendations of the preferred polling station premises for each ward. Although there is an expectation that most of polling stations used at present will remain as part of the polling station stock; due to changes to polling districts, a significant number of voters will have to attend a different polling station which may not necessarily be the closest to them.

21. Once the polling stations for the new ward boundaries have been finalised a publicity campaign would commence to make voters aware of any changes that could affect them.

22. The electoral register will be published for the first time on the new warding arrangements on 1 February 2020. A further update to the register will be published on 1 March 2020 in time for the election.

23. On 7 May, a whole of council election will take place, with candidates vying to be elected to one of the 42 seats available. The local election will also coincide with the election for Police and Crime Commissioner.

24. Following the election on 7 May, the council will return to electing its membership by thirds from 2022 (elections for Lancashire County Council will be held 2021).

IMPLICATIONS OF REPORT

25. 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	

26. Although due consideration will be given to allocating voters to the most appropriate polling station, furthers changes may be required for future elections, due to unforeseen issues being highlighted on the 7 May.

COMMENTS OF THE STATUTORY FINANCE OFFICER

27. The cost of the elections have been accounted for in the budget. The budgetary implications of reducing the number of elected councillors are marginal and are dependent upon any future changes in member's allowances

COMMENTS OF THE MONITORING OFFICER

28. No comments.

GARY HALL
RETURNING OFFICER

Report Author	Ext	Date
Cathryn Filbin	5123	06/11/19

Chorley Council

Report of	Meeting	Date
Director of Policy and Governance	Governance Committee	20 November 2019

MEMBER INDUCTION PLANS FOR MAY 2020

PURPOSE OF REPORT

1. To update Governance Committee on the plans for Member Induction following the all-out elections in May 2020.

RECOMMENDATION(S)

2. To note the report.

EXECUTIVE SUMMARY OF REPORT

3. At the meeting in June this Committee noted risk 14 on the Strategic Risk Register "Failure to build and maintain strong relationships of trust and confidence between officers and each party to promote good and open relationships between political parties". The all-out elections in May 2020 have the potential for a high percentage of new Councillors, therefore the Committee requested this report to set out plans to mitigate this risk, which is also highlighted in the Council's Annual Governance Statement.

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

BACKGROUND

5. As a result of the Boundary Review there are all out elections in May 2020 and the number of Councillors will reduce from 47 to 42. A number of Councillors have indicated that they will be standing down and so we are expecting a higher than usual number of new Members.

MEMBER DEVELOPMENT

6. The Council has a strong history of Member Development. The Member Support Working Group (a cross party working group) oversees the Member Development Programme and this includes the Induction for new Councillors. The Group receives feedback from

Councillors who were elected the previous May in December and takes the feedback forward in planning the next Induction at their meeting in February.

7. A formal Induction for Councillors has been in place since 2007 as part of the North West Employers Charter for Member Development. The Council also achieved Charter Two in *2010. The Council was successful in renewing Charter One in 2018. Officers and Members attend the North West Employer Councillor Development network which shares best practice and innovative ideas.

8. The Charter requires a clear commitment to Councillor development and the need for an effective Induction. Usually the Council has elections by thirds so New Member Induction takes place three out of four years with normally around four to six new Councillors elected. The induction process is reviewed each time by the Member Support Working Group and refreshed according to new Councillor feedback.

9. Induction Day always includes reference to the organisation's expectation that new Members will undertake member development as part of their role and information about the opportunities the Council will provide to do that. It also includes advice about Member support from Democratic Services officers; IT support and training for iPads; and use of My Account to report ward/service problems.

10. The Induction also includes information on the new Councillor PDP process which starts around six months after election and is a one-to-one session to review their training needs after a short period in the role. At the end of the Induction Day new Councillors are given a pro forma to indicate those areas where they would like a one-to-one briefing with the relevant officer - for example a ward walk with a neighbourhood officer or the opportunity to shadow a member of staff in the Council's Contact Centre to understand those issues raised most by the public.

MEMBER LEARNING PROGRAMME

11. Member development programmes need to have a degree of flexibility. Generally, whilst we plan ahead, sessions are not published too far in advance. This is because the programme needs to respond to the changing organisation, new policies and national and local initiatives.

12. There are eight scheduled Member Learning Sessions in the published calendar of meetings to provide advanced notice of development opportunities, although there are a significant number of additional events programmed throughout the year. There are a range of sessions, including skills based and knowledge based.

PRIOR TO ELECTION

13. A pre-election pack is distributed to all candidates and includes:

- relevant electoral legislation
- information about Committees
- the timetable of meetings
- the management structure of the Council
- a map of the wards
- the Code of Conduct for Elected Members
- information about training and development opportunities, including Induction

PLANS FOR INDUCTION IN MAY 2020

14. A report has been prepared for Senior Management Team setting out the plans for comment and buy in.

15. Traditionally we have organised an Induction Day and the plan is to retain this, but just the morning session.

9.30am start	**Welcome to Chorley Council** An overview of the organisational structure of the Council and the work of the four directorates, Gary Hall (Chief Executive)
10am	**Democratic Services Support for Councillors** Ruth Rimmington, Democratic and Member Services Team Leader
10.30am	**Preparation for the Annual Meeting** To see the Council Chamber, how it is set up and run through the procedure for the meeting.
11am	**Tour of the Town Hall and Union Street Offices**
12 noon	**Lunch with the Corporate Leadership Team**

16. All newly elected Councillors will be allocated a Democratic Services buddy as a contact point for any queries.

17. Appointments will be made with each new Councillor to complete the necessary administration (including the completion of their Register of Interest) and also to receive their iPad (and training if required).

INDUCTION HANDBOOK

18. All Members can access the Induction handbook via their iPad. The handbook includes sections on strategic information about the Council, practical information and guidance for new Councillors, Information, Communication Technology and support and finally, training and development opportunities.

19. The handbook is a resource to dip in and out of as needed and is available to all Councillors. It includes a copy of the Code of Conduct for Elected Members, the Member Officer Protocol, Personal Safety Guidance for Councillors, a guide to procurement and the social media policy.

MEET THE TEAM

20. A new session will be held to meet key officers that newly elected Councillors may come into contact with. The session will be held one evening. It is suggested that this session be open to all members (both newly elected and existing councillors) as some existing Members may find it useful as a refresher.

TOUR

21. Given the number of developments the Council has been involved in over the last few years it has been agreed that a tour be offered. This will be open to all Members (not just newly elected) as not all existing Councillors may have visited these facilities and it starts to ensure the established and new members build relationships.

VIDEO INTRODUCTIONS

22. A new feature is that each member of the Corporate Leadership Team (CLT) will do a short video, introducing themselves and outlining the services within their remit. This is to vary the

delivery of sessions and should reduce the burden on CLT in having to outline services within their remit. This could be made available to new staff as part of their induction as well.

MANDATORY TRAINING

23. Certain training sessions are mandatory, e.g. for Governance Committee, Planning Committee and Licensing Sub-Committees. This is to ensure that Members are able to make robust decisions. Training on the Code of Conduct will also be provided early in the municipal year.

ELEARNING

24. To vary the offer of training delivery we already use the Councils eLearning software, Emerge to deliver four mandatory courses: Safeguarding and Child Protection, Safeguarding for Non Adult Service Workers, Prevent and GDPR.

25. We have also started to utilise LGA and Centre for Public Scrutiny workbooks on topics such as Member and officer relationships, stress management and personal resilience, influencing skills, Local government finance, questioning skills etc.

THE MAYOR

26. Each new Mayor is given support from the Mayor's Secretary and the Civics team. A handbook is produced with guidance.

27. To assist with chairing Council meetings and public speaking required by the role, training is offered by an external provider at the beginning of the Mayoral Year.

TECHNOLOGY

28. Each Member will be issued with a new iPad and offered a 121-training session by appointment with ICT and Democratic Services. It is vital that Members are able to utilise their iPads, or if not able are given an alternative solution, as iPads are used to send meeting requests, details of training sessions, briefing notes. It is also used to facilitate paper lite meetings.

29. iPad clinics are held prior to each Council meeting and, if needed, additional iPad clinics can be arranged.

OTHER TRAINING TO BE OFFERED BY SEPTEMBER

30. The proposed sessions to be completed by September are:
- Overview and Scrutiny (prior to the first meeting)
- Common Housing issues
- Common Planning issues
- Common Ward issues
- World Café (specifically for newly elected Members)
- Chairing skills
- Personal Resilience and Emotional Wellbeing
- Dealing with the Media (including social media)

IMPLICATIONS OF REPORT

31. 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	

32. As part of the Strategic Risk Register and the Annual Governance Statement the potential for a high number of new Councillors has been identified. This impacts on relationships with officers at all levels and inexperienced Members making decisions where robust decisions are essential.

COMMENTS OF THE STATUTORY FINANCE OFFICER

33. The annual budget for the Member Development Programme is £3,000 the training outlined in this report will be met from within this budget.

COMMENTS OF THE MONITORING OFFICER

34. No comments.

COMMENTS OF THE OD AND TRANSFORMATION MANAGER

35. Suggestion to include speed networking with members and SLT to build relationships and provide SLT with an advanced political awareness course addressing any key changes.

CHRIS SINNOTT
DIRECTOR OF POLICY AND GOVERNANCE

Report Author	Ext	Date
Ruth Rimmington	01257 515118	5 November 2019

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