GOVERNANCE COMMITTEE

WEDNESDAY, 25TH NOVEMBER 2020, 2.30 PM
THE LANCASTRIAN, TOWN HALL, CHORLEY AND VIA MICROSOFT TEAMS

AGENDA

APOLOGIES

1 **MINUTES OF MEETING WEDNESDAY, 16 SEPTEMBER 2020 OF GOVERNANCE COMMITTEE** (Pages 3 - 6)

2 **DECLARATIONS OF ANY INTERESTS**

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

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

3 **TREASURY MANAGEMENT ACTIVITY MID-YEAR REVIEW 2020/21** (Pages 7 - 24)

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

4 **AUDIT FINDINGS REPORT** (To Follow)

To receive and consider the report of the External Auditor, Grant Thornton.

5 **AUDIT PROGRESS REPORT** (To Follow)

To receive and consider the report of the External Auditor, Grant Thornton.

6 **INTERNAL AUDIT ANNUAL PLAN PROGRESS REPORT APRIL TO OCTOBER** (To Follow)

To receive and consider the report of the Director of Governance.

7 **RIPA APPLICATION UPDATE**

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

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

8 **WORK PROGRAMME** (Pages 25 - 26)

To receive and consider the work programme for the Committee.

9 **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 Mark Clifford, Jean Cronshaw, Gordon France, Yvonne Hargreaves, Roy Lees and Kim Snape.

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

Chorley Council

MINUTES OF	**GOVERNANCE COMMITTEE**
MEETING DATE	**Wednesday, 16 September 2020**
MEMBERS PRESENT:	Councillor Debra Platt (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Mark Clifford, Gordon France, Roy Lees and Kim Snape
OFFICERS:	Chris Moister (Director of Governance) and James Thomson (Deputy Director of Finance)
APOLOGIES:	Councillor Jean Cronshaw and Yvonne Hargreaves
OTHER MEMBERS:	Councillor Val Caunce, Simon Hardman (Grant Thornton) and Barrie Morris (Grant Thornton)

20.G.22 Minutes of meeting Wednesday, 1 July 2020 of Governance Committee

Decision – That the minutes of the Governance Committee meeting held on 1 July 2020 be confirmed as a correct record for signature by the Chair.

20.G.23 Declarations of Any Interests

There were no declarations of any interests.

20.G.24 Update on the Statement of Accounts

Tony Furber, Principal Financial Accountant, gave a verbal update to the Committee.

The draft Statements of Accounts are not yet available as there are a number of valuations outstanding. The rest of the accounts are ready, and it is hoped that the draft Statement of Accounts will be available in a few weeks.

There is no statutory requirement for the Committee to scrutinise the draft Statement of Accounts before it is signed by the Section 151 Officer before it is published on the Council's website, but it is stated within the Council's Constitution. The draft Statement was considered by the Committee a few days after it was published last year, but that will not be possible this year.

Decision: that the Chair and Vice-Chair be kept informed of progress and have sight of the draft Statement before it is signed by the Section 151 Officer.

20.G.25 Treasury Management Annual Report 2019/20 and Quarter One Monitoring 2020/21

Tony Furber, Principal Financial Accountant, presented the report of the Section 151 Officer which reports on Treasury Management performance and compliance with Prudential Indicators for the financial year ended 31 March 2020. The report also presents monitoring figures for the quarter ended 30 June 2020, including updated interest rate forecasts from Link Asset Services.

The Committee considered the Capital Expenditure and Financing 2019/20. The large increase in the revised budget and actual levels of expenditure is attributable to the major asset purchase undertaken at the beginning of September 2020, at a cost of £33.7m.

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, then the interest payable would have been at a higher rate. Use of the Council's own cash helps to achieve savings in net interest.

The Council's treasury management debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities. The working balances held at 31 March were higher than would normally be the case (the comparative figure for 2018/19 was £2.848m) because of the measures taken to ensure that sufficient funds were available to make the necessary payments of grant support to local businesses, in response to the onset of the Covid 19 pandemic.

Investment returns remained low during 2019/20. Given the relatively low returns available compared to borrowing rates, the Council has continued to achieve budget savings by maintaining a position of under borrowing, which means that it has used its own cash balances to finance capital expenditure rather than taking additional external loans. The target to exceed for 2019/20 was 0.61% and this was achieved.

Decision: to note the report.

20.G.26 External Audit Plan

Barrie Morris, Grant Thornton, presented the report and noted that the audit will commence later than anticipated due to the delay in signing off the draft Statement of Accounts. This may impact on the 30 November publication deadline.

Simon Hardman, Grant Thornton, reported that the risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land and buildings
- Valuation of net pension fund liability
- Accounting for the purchase of Logistics House
- Covid-19 Pandemic

Risk assessment regarding arrangements to secure value for money have identified significant risks as being financial sustainability and the purchase of Logistic House.

Decision: to note the independence of the external auditors, their fees and the overall update.

20.G.27 Internal Audit Annual Plan Progress Report Q1

Chris Moister, Director of Governance, presented his report which informs members of proposed restructures to the internal audit team and updates on the progress of the development of the audit plan for 2020/21.

2020 has been particularly challenging. In addition to planned changes to the shared services being progressed, the unexpected consequences of the Covid-19 pandemic have led to reprioritisation of work to ensure continuity of service delivery.

Covid-19 has had particular impacts for the Internal Audit team. Work which would usually be delivered has been delayed although it is important to note that statutory requirements remain fulfilled. There has been a change in staffing in Internal Audit limiting both experience and capacity.

The Committee noted the progress of the Annual Governance Statement Action Plan and the proposed audit plan for the year 2020/21. The audit plan is based on reviewing the actions carried over from last year and a risk based assessment of areas requiring audit. In addition, the commitments from the AGS are incorporated into the plan. It is intended to deliver the higher risk audits and report back to Governance Committee with more detail as to the audits to be undertaken this year and the capacity.

Decision: to note the report and that Chorley Council has a strong Governance environment.

20.G.28 RIPA Application Update

Chris Moister, Director of Governance, reported that no RIPA applications had been made.

A desktop audit has been undertaken by the Information Commissioners Office which found no significant issues. Two actions, to update the RIPA policy and revisit the protocol with the Police are being undertaken.

Decision: That the update be noted.

20.G.29 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

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Chorley Council

Report of	Meeting	Date
Deputy Director of Finance/Section 151 Officer	Governance Committee	25 November 2020

TREASURY MANAGEMENT ACTIVITY MID-YEAR REVIEW 2020/21

PURPOSE OF REPORT

1. To report on Treasury Management performance in financial year 2020/21 to the end of September.

RECOMMENDATION(S)

2. That the report be noted.

EXECUTIVE SUMMARY OF REPORT

3. During the first six months of 2020/21, the Council had an average daily cash balance of £13.25m and earned interest of £10.8k, a return of 0.16%. The investment balance at the end of September was £7.3m.

4. Both the average daily balance and the rates of interest available have been significantly affected by the impacts of the Covid 19 pandemic, with the former being substantially higher than would usually be the case, while the latter have been greatly reduced.

5. No new long-term borrowing has been undertaken in the first six months of 2020/21.

6. Forecast PWLB borrowing rates have also been reduced by the effects of the pandemic.

7. The Bank of England's Base Rate remains at 0.10% and is forecast to be unchanged through to the end of March 2023.

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 25 February 2020, Council approved the Treasury Management Policy Statement; Treasury Management Practices; Prudential Indicators for 2020/21 to 2022/23; the Treasury Management Strategy and Treasury Indicators for 2020/21; the Annual Investment Strategy 2020/21; and the Annual Minimum Revenue Provision (MRP) Policy for 2020/21.

10. The Treasury Management Annual Report for 2019/20 was presented to Governance Committee of 16 September 2020.

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 2020 is summarised in the following table.

Table 1 - Investment Activity	**Average Daily Investment £000**	**Earnings to 30 September 2020 £**	**Average Rate %**
Debt Management Office	2,228	449	0.04
Other fixed term deposits	0	0	0.00
Call Accounts	4,019	3,394	0.17
Money Market Funds	7,000	6,993	0.20
Total	**13,247**	**10,836**	**0.16**

The average balance over the first six months of the year has been higher than would normally be the case. In turn, 2019/20, with an average balance in the first six months of £9.755m, was also exceptional, leaving 2018/19 as the most recent ‘normal’ comparator year, when the average balance was £6.200m. The reason for the difference in this year is the impacts on cash flow of measures taken in response to the onset of the Covid 19 pandemic, with additional temporary borrowing being entered into late in March 2020 and continuing into April and significant amounts of grant funding, associated with the payment of business support grants, being received early in April. Because of the need for investments to be kept at short notice in response to the ongoing circumstances of the pandemic, the increase in average balances did not give rise to the opportunity to make fixed term deposits at potentially higher rates of interest. Instead, use had to be made of the Debt Management Office facility, was pays only low (even relative to current rates generally) rates of interest.

13. A full list of investment counterparties and their associated limits is shown at Appendix A.

14. A full list of investments as at 30 September 2020 is shown below.

Table 2 - Investments as at 30 September 2020				
Counterparty	**Type**	**Amount £'000**	**Invested date**	**Maturity date**
Aberdeen Standard	MMF	3,000	Various	On call
BlackRock	MMF	3,000	Various	On call
Barclays BPA	Call account	1,308	Various	On call
Total		**7,308**		

15. The amounts of daily balances held remained high, but had returned to closer to normal levels by the end of September, with the comparable figure for 2019/20 being £5.493m that for the end of September 2018 £5.766m.

16. To qualify as a professional investor under MiFID II requirements, the council needs to invest at least £10m, as well as meeting other requirements. Because of the exceptional circumstances referred to above, the £10m threshold was exceeded for almost the whole of the period from April to June 2020, and for a significant proportion of the remainder of the first half of the year. This is not expected to continue and, again as noted above, the situation which has given rise to the higher than usual levels of balances also mitigates against any opportunity to make investments for longer periods.

17. The average interest earned of 0.16% would normally be measured against a target of the average LIBID 7-day rate plus 15%, which given that the Council's deposits are typically placed only in call accounts and money market funds, it is usually unlikely to meet. However, the exceptional market conditions applying in 2020/21 mean that the LIBID based calculation would produce a negative target figure. Link Asset Services have therefore produced the following table of benchmark returns. Those actually achieved by the Council have exceeded these targets. They also exceed the Link Asset Services suggested earnings rate of 0.10% for 2020/21 (see Table 3 below).

Table 2 - Benchmark Investment Rates	
Period	**Benchmark Return**
7 day	-0.06%
1 month	-0.02%
3 months	0.11%
6 months	0.21%
12 months	0.35%

18. No new long-term borrowing has been undertaken in the first six months of 2020/21, while ongoing repayments of principal have reduced the outstanding balance by £930k, from an opening amount of £64.026m to £63.096m.

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

TREASURY CONSULTANTS' ADVICE

20. Appendix B presents the advice of Link Asset Services in respect of economic matters and interest rates in the first half of 2020/21.

21. In addition, a detailed comparison of interest rate forecasts is presented at Appendix C. Bank rate and PWLB borrowing rate forecasts are given from the December quarter of 2020 through to the March quarter of 2023.

22. The Bank Rate is forecast to remain static, at 0.10%, through to the end of March 2023.

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

Table 3 - Average Earnings in each financial year			
	Revised November 2020	**Revised July 2020**	**Original February 2020**
2020/21	0.10%	0.10%	0.75%
2021/22	0.10%	0.10%	1.00%
2022/23	0.10%	0.10%	1.25%
2023/24	0.10%	0.25%	1.50%
2024/25	0.25%	0.75%	1.75%
Later years	2.00%	2.00%	2.25%

24. The most recent estimate is compared to the estimated earnings rate available at the time the Treasury Management Strategy was presented for approval in February 2020, and Link's update in July 2020. The suggested earnings rates have fallen from 0.75% to 0.10% in this financial year, reflecting the significant reduction in rates which has occurred following the outbreak of the Covid 19 pandemic. This target was exceeded in the first half of 2020/21, with the average to 30 September 2020 being 0.16%.

25. In the forecast interest rates shown at Appendix C, PWLB borrowing rates are now significantly lower than was expected when the Treasury Strategy for 2020/21 onwards was prepared, although the effect is reduced across the longer timeframes. This is again because of the impacts of the Covid 19 pandemic.

IMPLICATIONS OF REPORT

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

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

27. The Council's treasury management strategy and policies are designed to ensure the effective control and management of the risks associated with such activities.

COMMENTS OF THE STATUTORY FINANCE OFFICER

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

COMMENTS OF THE MONITORING OFFICER

29. The Monitoring Officer has no comments

JAMES THOMSON
DEPUTY DIRECTOR OF FINANCE/SECTION 151 OFFICER

Report Author	Ext	Date
Tony Furber	5027	***

OR

Background Papers		
Document	**Date**	**File**
Treasury Management Strategy 2020/21 to 2022/23 (Council 25/2/20)***	25 February 2020	***

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APPENDIX A

Investment Counterparties 2020/21

As Per Treasury Management Strategy 2020/21 (approved by Council 25 February 2020)

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

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

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Appendix B

1 Economics update

- As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

    - The fall in **GDP** in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
    - The peak in the **unemployment rate** was revised down from 9% in Q2 to 7½% by Q4 2020.
    - It forecast that there would be excess demand in the economy by Q3 2022 causing CPI **inflation** to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

- It also squashed any idea of using **negative interest rates**, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.
- The MPC expected the £300bn of **quantitative easing** purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.
- In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to **downside risks,** which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1st November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid September.
- Overall, **the pace of recovery** is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to

provide further support to recovery, then it is likely that the tool of choice would be more QE.

- There will be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.
- One key addition to **the Bank's forward guidance** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate
- The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.
- **US.** The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked **its inflation target** from 2% to maintaining an average of 2% over an unspecified time period i.e.following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.
- **EU.** The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.
- **Japan.** There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. It has been struggling to get out of a deflation trap for many years and 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. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.
- **World growth.** Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

2 Interest rate forecasts

The Council's treasury advisor, Link Group, provided the following forecasts on 11th August 2020 (PWLB rates are certainty rates, gilt yields plus 180bps):

Link Group Interest Rate View 11.8.20										
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

Additional notes by Link on this forecast table: -

- *Please note that we have made a slight change to our interest rate forecasts table above for forecasts for 3, 6 and 12 months. Traditionally, we have used LIBID forecasts, with the rate calculated using market convention of 1/8th (0.125%) taken off the LIBOR figure. Given that all LIBOR rates up to 6 months are currently running below 0.1%, using that convention would give negative figures as forecasts for those periods. However, the liquidity premium that is still in evidence at the short end of the curve, means that the rates actually being achieved by local authority investors are still modestly in positive territory. While there are differences between counterparty offer rates, our analysis would suggest that an average rate of around 0.05% is achievable for 3 months, 0.1% for 6 months and 0.15% for 12 months.*
- *During 2021, Link will be continuing to look at market developments in this area and will monitor these with a view to communicating with clients when full financial market agreement is reached on how to replace LIBOR. This is likely to be an iteration of the overnight SONIA rate and the use of compounded rates and Overnight Index Swap (OIS) rates for forecasting purposes.*
- *If clients require forecasts for 3 months to 12 months beyond the end of 2021, a temporary fix would be to assume no change in our current forecasts.*

We will maintain continuity by providing clients with LIBID investment benchmark rates on the current basis.

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its meeting on 6th August (and the subsequent September meeting), although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

GILT YIELDS / PWLB RATES. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade

war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 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. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 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.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March. After gilt yields spiked up during the initial phases of the health crisis in March, we have seen these yields fall sharply to unprecedented lows as major western central banks took rapid action to deal with excessive stress in financial markets, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. At the close of the day on 30th September, all gilt yields from 1 to 6 years were in negative territory, while even 25-year yields were at only 0.76% and 50 year at 0.60%.

From the local authority borrowing perspective, HM Treasury imposed **two changes of margins over gilt yields for PWLB rates** in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July. It is clear HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).

Following the changes on 11th March 2020 in margins over gilt yields, the current situation is as follows: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year.

As the interest forecast table for PWLB certainty rates, (gilts plus 180bps), above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely

to be very low during this period and could even turn negative in some major western economies during 2020/21.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably relatively even, but is subject to major uncertainty due to the virus.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- **UK** - second nationwide wave of virus infections requiring a national lockdown
- **UK / EU trade negotiations** – if it were to cause significant economic disruption and a fresh major downturn in the rate of growth.
- **UK - 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 we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU recently agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.

- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.
- **US – the Presidential election in 2020:** this could have repercussions for the US economy and SINO-US trade relations.

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

- **UK -** stronger than currently expected recovery in UK economy.
- **Post-Brexit** – if an agreement was reached that removed the majority of threats of economic 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 we currently expect.

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	Bank Rate %			PWLB Borrowing Rates % (including 0.20% certainty rate adjustment)											
				5 year			10 year			25 year			50 year		
	Nov 20	Jul 20	Jan 20	Nov 20	Jul 20	Jan 20	Nov 20	Jul 20	Jan 20	Nov 20	Jul 20	Jan 20	Nov 20	Jul 20	Jan 20
Dec-20	0.10	0.10	0.75	1.80	1.90	2.40	2.10	2.10	2.60	2.50	2.50	3.20	2.30	2.30	3.10
Mar-21	0.10	0.10	0.75	1.80	2.00	2.50	2.10	2.20	2.70	2.50	2.60	3.30	2.30	2.40	3.20
Jun-21	0.10	0.10	1.00	1.80	2.00	2.60	2.10	2.20	2.80	2.60	2.60	3.40	2.40	2.40	3.30
Sep-21	0.10	0.10	1.00	1.80	2.00	2.70	2.10	2.20	2.90	2.60	2.60	3.50	2.40	2.40	3.40
Dec-21	0.10	0.10	1.00	1.80	2.00	2.80	2.20	2.20	3.00	2.60	2.60	3.60	2.40	2.40	3.50
Mar-22	0.10	0.10	1.00	1.90	2.00	2.90	2.20	2.20	3.10	2.60	2.60	3.70	2.40	2.40	3.60
Jun-22	0.10	0.10	1.25	1.90	2.10	2.90	2.20	2.30	3.10	2.70	2.70	3.80	2.50	2.50	3.70
Sep-22	0.10	0.10	1.25	1.90	2.10	3.00	2.30	2.30	3.20	2.70	2.70	3.80	2.50	2.50	3.70
Dec-22	0.10	0.10	1.25	1.90	2.10	3.00	2.30	2.30	3.20	2.70	2.70	3.90	2.50	2.50	3.80
Mar-23	0.10	0.10	1.25	1.90	2.10	3.10	2.30	2.30	3.30	2.70	2.70	3.90	2.50	2.50	3.80

The January 2020 forecasts were included in the Treasury Management Strategy 2020/21 to 2022/23
Link Asset Services provided updated forecasts in July and November 2020

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Chorley Council

Governance Committee work programme 2020/21

1 July 2020

Report	Officer
Closure of Accounts - update	James Thomson
Charity and Trust Account	James Thomson
Audit Progress and Sector Update Report	Grant Thornton
External Audit Plan	Grant Thornton
Internal Audit Annual Report	Janice Bamber
Strategic Risk Update Report	Rebecca Aziz-Brook
GDPR Update	Chris Moister
Draft Annual Governance Statement	Chris Moister
RIPA Application Update	Chris Moister

16 September 2020

Update on the Statement of Accounts	James Thomson
Treasury Management Annual Report 2019/20 and Quarter One Monitoring 2020/21	James Thomson
External Audit Plan	Grant Thornton
Internal Audit Annual Plan Progress Report Q1	Chris Moister
RIPA Application Update	Chris Moister

25 November 2020

Audit Findings Report	Grant Thornton
Audit Progress Report	Grant Thornton
Treasury Management Activity Mid-Year review	James Thomson
Internal Audit Annual Plan Progress Report April to October	Chris Moister
RIPA Application Update	Chris Moister

20 January 2021

External Audit Plan	Grant Thornton
Updated financial procedures	Neil Halton
Update on Chorley Council Capital Strategy	James Thomson
Internal Audit Annual Plan Progress Report April – December	Chris Moister
New model Code of Conduct	Chris Moister
Annual Standards Report	Chris Moister
RIPA Application Update	Chris Moister

17 March 2021

Audit Progress and Sector Update Report	Grant Thornton
Chorley Borough Council Annual Audit Letter	Grant Thornton
Internal Audit Plan Progress Report April– February	Chris Moister
Internal Audit Plan	Chris Moister
Annual GDPR Report	Chris Moister
RIPA Application Update	Chris Moister