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GOVERNANCE COMMITTEE

THURSDAY, 22ND NOVEMBER, 2018, 6.00 PM

WHEEL ROOM, CIVIC CENTRE, WEST PADDOCK, LEYLAND PR25 1DH

AGENDA

1	**Apologies for absence**	
2	**Declarations of Interest** Members are requested to indicate at this stage in the proceedings any items on the agenda in which they intend to declare an interest. Members are reminded that if the interest is a Disclosable Pecuniary Interest (as defined in the Members' Code of Conduct) they must leave the room for the whole of that item. If the interest is not a Disclosable Pecuniary Interest, but is such that a member of the public could reasonably regard it as being so significant that it is likely that it would prejudice their judgment of the public interest (as explained in the Code of Conduct) then they may make representations, but then must leave the meeting for the remainder of the item.	
3	**Minutes of the Last Meeting** Held on Thursday, 20 September 2018, to be signed as a correct record.	(Pages 3 - 6)
4	**First Internal Audit Interim Report** Report of the Interim Head of Shared Assurance Services attached.	(Pages 7 - 16)
5	**Audit Progress Report and Sector Update** Report of the External Auditor attached.	(Pages 17 - 26)
6	**Treasury Management Activity Mid-Year Review 2018-19** Report of the Deputy Chief Executive (Resources and Transformation) attached.	(Pages 27 - 50)

Heather McManus
CHIEF EXECUTIVE

Meeting contact Charlotte Lynch or email clynch@southribble.gov.uk

Electronic agendas sent to Members of the Governance Committee Councillors Alan Ogilvie (Chair), James Patten (Vice-Chair), Warren Bennett, Paul Foster, Michael Green, David Suthers and Ian Watkinson

The minutes of this meeting will be available on the internet at www.southribble.gov.uk

Forthcoming Meetings
6.00 pm Thursday, 24 January 2019 - Wheel Room, Civic Centre, West Paddock, Leyland PR25 1DH

MINUTES OF	**GOVERNANCE COMMITTEE**
MEETING DATE	**Thursday, 20 September 2018**
MEMBERS PRESENT:	Councillors Alan Ogilvie (Chair), James Patten (Vice-Chair), Paul Foster, Mike Nathan, Ian Watkinson and David Suthers
OFFICERS:	Helen Seechurn (Interim Deputy Chief Executive (Resources and Transformation)/Section 151 Officer), Dianne Scambler (Governance and Member Services Team Leader), Heather McManus (Chief Executive), Dave Whelan (Legal Services Manager/Interim Monitoring Officer), Charlotte Lynch (Trainee Governance and Member Services Officer), Darren Cranshaw (Assistant Director of Scrutiny & Democratic Services), Simon Hardman (Grant Thornton PLC) and Mark Heap
OTHER MEMBERS AND OFFICERS:	Councillor Mary Green (Leader of the Council and Leader of the Conservative Group), Councillor Michael Green (Member Champion (Community Engagement and Communications)), Councillor Keith Martin, Councillor Phil Smith and Councillor Susan Snape (Cabinet Member (Finance))
PUBLIC:	0

23 Apologies for absence

Apologies were received from Councillor Carol Chisholm.

24 Declarations of Interest

Helen Seechurn, Interim Deputy Chief Executive (Resources and Transformation), declared that as she worked part-time for the Local Government Association, she would not take part in any discussion relating to Item 7: Combined Governance Committee Report on Terms of Reference and Development Plan.

25 Minutes of the Last Meeting

RESOLVED: (Unanimously)

That the minutes of the Governance Committee meeting held on 26 July 2018 be confirmed as a correct record for signing by the Chair.

26 Matters Arising from those Minutes

The Chair requested an amendment to minute 20, to clarify that the comments made were the Chair's own and were not on behalf of the Governance Committee.

27 External Annual Audit Letter

The Committee received a report of the External Auditor that provided an update on the audit of the financial statements and the Value for Money conclusion for 2017/18, as set out in the National Audit Letter.

The Annual Audit Letter repeated the External Auditor's intention as set out in the Audit Findings Report, which was issued in July, and confirmed their actions with regards to the previous Report.

The Chair questioned the Housing Benefit Grant Certification fee, which is awaiting confirmation, if there was any reason as to why this cost could be higher than planned. The External Auditor reported that there was nothing to suggest the fee would be higher than planned, and that work on the Housing Benefit Grant Certification would not be complete for another five weeks.

The Chair enquired about the difficulty in analysing overspend by service as a result of showing variances by type of spend rather than by service provision. The External Auditor commented that the Finance team ultimately decided on the format of the report.

RESOLVED: (Unanimously)

That the report be noted.

28 Audit Progress and Sector Update Report

The Committee received a report of the External Auditor detailing the progress being made in the delivery of their responsibilities as well as providing a wider sector update.

The External Auditor extended an invite to an event at the Auditor's offices in Manchester and Liverpool to the Committee members. The Cabinet member for Finance expressed her interest.

The Chair thanked the finance and audit teams for meeting the timescales of the 2017-18 audit, but enquired how the lessons learnt from the 2017-18 audit had been recorded to improve efficiency for the 2018-19 audit. The External Auditor commented that they would discuss the lessons and delivery of the audit with the Finance team and would coordinate monthly with the Shared Services Principal Financial Accountant.

The Chair asked if the detailed resource plan would be used again in future audits, to which the Shared Services Principal Financial Accountant confirmed and acknowledged the success of such action in regard to the 2017-18 audit.

The Chair also queried the Council's response to the Financial Resilience Index consultation, as highlighted within the report. The Interim Deputy Chief Executive (Resources and Transformation) stated that she had responded to the consultation.

The Cabinet Member for Finance stated that, as she had been on holiday, she was unaware that the Section 24 would be released and queried whether Members could be informed of such decisions prior to them being made. The External Auditor commented that the appropriate internal discussions had taken place beforehand but acknowledged that the timescales surrounding the publishing of decisions was short.

The final version of the Auditor's findings, that contained the issuing of the Section 24 letter, was only received by the Council one to two days before it was published on the agenda for the Governance Committee.

In response, the Cabinet Member for Finance asked if she could attend one of these meetings as she believed it may be useful for continuity purposes and extended an invite to the External Auditors to a meeting with the new Deputy Chief Executive (Resources and Transformation).

RESOLVED: (Unanimously)

That the report be noted.

29 Amended Investment Strategy Options 2018-19

The Committee received a report of the Interim Deputy Chief Executive (Resources and Transformation) that presented the performance of the Council's treasury investments in comparison with that of other councils. The report also proposed an amendment to the Investment Strategy for 2018/19, which required the approval of Full Council.

The Council's performance in the first quarter was broadly comparable with other councils but South Ribble earnt slightly less than other Lancashire councils.

It was acknowledged that this performance was simply due to the prevailing market conditions and to some operational reasons. The Interim Section 151 Officer at the time was reluctant to place term deposits which would succeed her period of employment. With upcoming changes to the Management Team, it was anticipated that the Council will begin placing term deposits with the aim of matching, if not exceeding, the performance of other councils.

The Report proposed amending the Investment Strategy to increase the limit per Investment Counterparty from £5 million to £6 million. This amendment could facilitate access to additional banks with minimum investment levels and a potential higher return on investments.

It was highlighted that the Treasury advisors now recommended Standard Chartered Bank and Sumitomo Mitsui Banking Corporation Europe from the existing counterparty list as suitable banks to place term deposits within. These banks have not previously been used.

The Chair commented that he was comfortable with amending the limit to £6 million. The Chair suggested that members of the Council may benefit from a few clarifications being made to the Report when presented to Council for approval.

RESOLVED: (Unanimously)

That the Governance Committee recommend to Council that the amended limits per Investment Counterparty presented in Appendix C should be approved.

30 Combined Governance Committee Report on Terms of Reference and Development Plan

The Assistant Director of Scrutiny and Democratic Services presented a Review of the Committee Terms of Reference and Governance Committee Development Plan.

The report was part of the Committee's work in reviewing the Council's constitution at the suggestions of the Local Government Association (LGA), communicated in the recent Peer Review of the Council.

The report also recommended that budget monitoring information be presented to both Cabinet and Scrutiny Committee in the future, rather than the Governance Committee.

A development/action plan was discussed to aid committee members going forwards.

The Chair believed that this marked a return to how the budget monitoring report was presented a number of years ago.

RESOLVED: (Unanimously)

1. That the Committee approve the draft Part 2D – Terms of Reference – prior to submission to Full Council for their final approval.
2. That the Committee approve the Governance Committee development/action plan for implementation.

Chair Date

REPORT TO	ON
Governance Committee	**22 November 2018**

TITLE	REPORT OF
1st Internal Audit Interim Report as at 28 September 2018	**Interim Head of Shared Assurance Services**

Is this report confidential?	**No**

1. PURPOSE OF THE REPORT

1.1 The purposes of this report are:

- To advise Members of the progress made on the South Ribble and Shared Services Internal Audit Plans for the period April 2017 to September 2018 and to comment on the outcomes;
- To give an appraisal of the Internal Audit Service's performance to date.

1.2 The report links with all of the corporate objectives, especially to be an 'efficient, effective and exceptional council'.

2. RECOMMENDATIONS

2.1 That the report be noted.

3. CORPORATE PRIORITIES

The report relates to the following corporate priorities:

Excellence and Financial Sustainability	X
Health and Wellbeing	
Place	

4. BACKGROUND

4.1 This is the first progress report for the 2018/19 financial year and covers the period 1st April to 28th September 2018.

5. INTERNAL AUDIT PLANS

5.1 **Appendix 1** provides a "snapshot" of the overall progress made in relation to the 2018/19 Internal Audit Plans, indicating which audits have been completed and their control rating, those that are in progress and those that have yet to start. Appendix 1 also shows the time planned and actually spent on individual audits.

5.2 The table below highlights the main pieces of work undertaken during the period together with any issues identified, where applicable;

Audit Area	Assurance Rating	Comments
South Ribble Borough Council		
Residual Work from 2017/18	Not applicable	Finalisation of audit work and reports from 2017/18.
Annual Governance Statement	Not applicable	Proactive input was provided in collating information to inform the Annual Governance Statement.
General Data Protection Regulations (GDPR)	Not applicable	Project team support provided. Largely implemented. Watching brief of residual actions ongoing.
National Fraud Initiative (NFI)	Not applicable	The NFI is a data matching exercise, which matches data within and between organisations to help detect fraud, overpayments and error. Internal Audit is co-ordinating the Council's input to the 2018/19 main exercise and is making preparations for the Council Tax Single Person Discount / Electoral Register exercise later this year.
NFI Business Rates Pilot	Not applicable	Internal Audit is co-ordinating the Council's participation in the NFI Business Rates data matching pilot exercise. The Council is part of a group which includes; Chorley, Fylde, Preston, Lancaster and South Lakeland Councils. The principle behind this pilot exercise is matching Business Rates data together with existing NFI data such as; residential care home data, creditors and premises data, within and between bodies to identify potential Business Rates fraud and error.
Refuse Collection & Recycling Contract	**Amber (8)**	Controls generally sound. Only minor improvements recommended.
Licensing Service	**Amber (6)**	Controls generally sound. Income management controls to be improved via the introduction of a refund process.
City Deal	Not applicable	Project team support ongoing.
Investment Strategy	Not applicable	Project team support ongoing.
Housing Development	Not applicable	Project team support ongoing.

CONTROLS ASSURANCE KEY

Control Rating

Limited – the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist. **Adequate** – the Authority can place only partial reliance on the controls. Some control issues need to be resolved.
Substantial – the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.
Full – the Authority can place complete reliance on the controls. No control weaknesses exist.

Control Rating	Minor	Standard	Major	Critical
Limited	4	8	12	16
Adequate	3	6	9	12
Substantial	2	4	6	8
Full	1	2	3	4

Risk Rating

Risk Rating

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

6. INTERNAL AUDIT PERFORMANCE

6.1 **Appendix 2** provides information on Internal Audit performance as at 28th September 2018. We are pleased to report that the indicators have either been achieved or exceeded with the exception of "% of planned time used" and "% audit plan completed" for South Ribble. These are due to there being staff vacancies in the team during the first half of the year and several audits still in progress as at the report date.

6.2 A number of Audit reviews are in progress or have started in Quarter 3 and arrangements have been made to draft in temporary audit resources to complete the audit plans for the current financial year pending a fundamental service delivery review which all of the services within the scope of the next phase of sharing with Chorley Council will undergo. Lancashire County Council are due to be on site in November / December 2018. The level of completion of the audit plan is being monitored on a weekly basis by the Interim Audit & Risk Manager and will be reassessed in January 2019.

7. BACKGROUND DOCUMENTS

Background papers include the 2018/19 Internal Audit Plans for South Ribble Council and Shared Financial Services

Report Author:	Telephone:	Date:
Garry Barclay	01772 625272	October 2018

APPENDIX 1 - INTERNAL AUDIT PLANS 2018/19

SOUTH RIBBLE COUNCIL

WORK AREA	RISK	QTR	EST (Days)	ACT	BAL	ASSURANCE RATING	STATUS
CORPORATE							
Annual Governance Statement	N/A	1&4	20	13.1	6.9	N/A	2017/18 AGS Completed
Anti-Fraud & Corruption	N/A	ALL	10	1.2	8.8	N/A	Ongoing
National Fraud Initiative (NFI)	N/A	ALL	15	12.0	3.0	N/A	Ongoing
RESOURCES & TRANSFORMATION							
Legal, Democratic & HR Services							
GDPR Implementation	N/A	1	5	10.1	-5.1	N/A	Ongoing
Licensing Service	MAJOR	1	15	12.4	2.6	**Amber (6)**	Completed
Payroll / HR System Data Testing	N/A	4	5	0.0	5.0		Not started
Policy, Communications, Customer, Digital & Strategic Asset Management							
Performance Management Information	CRITICAL	4	10	0.0	10.0		Not started
Project Management	CRITICAL	3	15	0.0	15.0		Not started
Council Tax	CRITICAL	3	10	0.0	10.0		Not started
Non-Domestic Rates (NDR)	CRITICAL	3	10	0.0	10.0		Not started
Housing Benefits	CRITICAL	2&3	10	4.7	5.3		In progress
Sundry Debtors	CRITICAL	3	10	0.0	10.0		Not started
ICT Review	CRITICAL	2&3	15	0.2	14.8		In progress
REGENERATION & GROWTH							
Neighbourhoods & Development							
Health & Safety	CRITICAL	2&3	10	0.6	9.4		In progress
Health, Leisure & Wellbeing Campus	N/A	ALL	5	0.5	4.5	N/A	Ongoing
Refuse Collection & Recycling Contract	CRITICAL	2	10	11.0	-1.0	**Amber (8)**	Completed
My Neighbourhoods	MAJOR	3&4	10	1.2	8.8		In progress
Planning & Property							
Property Repairs & Maintenance	CRITICAL	3	15	0.0	15.0		Not started
Commercial Properties	MAJOR	2&3	15	0.3	14.7		In progress
City Deal	N/A	ALL	5	1.3	3.7	N/A	Ongoing
Investment Strategy	N/A	ALL	5	0.4	4.6	N/A	Ongoing
Housing Development	N/A	ALL	5	0.3	4.7	N/A	Ongoing
GENERAL							
Residual Work from 2017/8	N/A	1	20	7.1	12.9	N/A	Completed
GRACE System Administration	N/A	ALL	20	15.1	4.9	N/A	Ongoing
Business Continuity	N/A	ALL	30	0.4	29.6	N/A	Ongoing
Post Audit Reviews	N/A	ALL	10	0.9	9.1	N/A	Ongoing
Contingency / Irregularities	N/A	ALL	15	11.9	3.1	N/A	Ongoing
Governance Committee	N/A	ALL	15	6.8	8.2	N/A	Ongoing
TOTALS			**340**	**111.5**	**228.5**		

SHARED FINANCIAL SERVICES

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

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APPENDIX 2

INTERNAL AUDIT PERFORMANCE INDICATORS AS AT 28th SEPTEMBER 2018

	Indicator	Audit Plan	Target 2018/19	Target to Date	Actual to Date	Comments
1	% of planned time used	SS	90%	20%	20%	Target achieved
		SRBC	90%	45%	33%	Below target
2	% audit plan completed	SS	90%	0%	0%	Not applicable
		SRBC	90%	35%	11%	Below target
3	% management actions agreed	SS	98%	0%	0%	Not applicable
		SRBC	98%	98%	100%	Target exceeded
4	% overall customer satisfaction rating (assignment level)	SS	90%	90%	100%	Target exceeded
		SRBC	90%	90%	100%	Target exceeded

SS = Shared Services
SRBC = South Ribble

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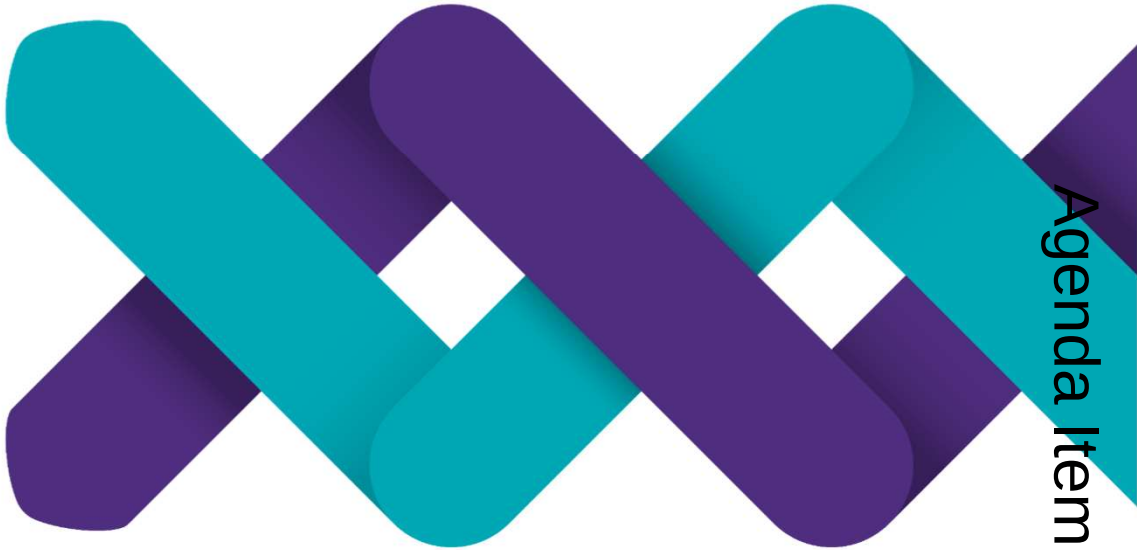
Audit Progress Report and Sector Update

South Ribble Borough Council

22 November 2018



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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.

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Progress at 7 November 2018

2018/19 Audit

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

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

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

Other areas

Certification of claims and returns

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

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

Meetings

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

Events and Publications

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

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Audit Deliverables

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

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

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Sector Update

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

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

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

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

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

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

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

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

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

We are doing this by:

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

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

Scoping Sprint

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

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

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

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

Find out more and get involved

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

Challenge question:

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

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In good company: Latest trends in local authority trading companies

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

Outsourcing versus local authority trading companies

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

Advantages of local authority trading companies

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

Choosing the right company model

The most common company models adopted by councils are:

Wholly owned | **Joint Ventures** | **Social Enterprise**

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

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

Getting it right through effective governance

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

LATC's need to adapt for the future

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

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

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

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

Download the report here

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Links

Grant Thornton website links

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

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

https://www.grantthornton.co.uk/en/insights/a-caring-society/

https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/

https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/

National Audit Office link

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

Ministry of Housing, Communities and Local Government links

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

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

Institute for Fiscal Studies

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

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REPORT TO	ON
Governance Committee	**22 November 2018**

TITLE	REPORT OF
Treasury Management Activity Mid-year review 2018/19	**Deputy Chief Executive (Resources & Transformation)**

Is this report confidential?	**No**

1. PURPOSE OF THE REPORT

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

To propose a further amendment to the Investment Strategy for 2018/19, which requires the approval of Full Council.

2. RECOMMENDATIONS

2.1 That the report be noted.

2.2 Members are asked to recommend to Council that Low Volatility Net Asset Value (LVNAV) Money Market Funds should be added to the list of approved Investment Counterparties with a limit of £5m per fund..

3. EXECUTIVE SUMMARY

Updated Prudential Indicators will be presented in the Treasury Strategy report to Council on 27 February 2019. These will take account of the latest CIPFA guidance.

Average interest earned is 0.66% to the end of September, which is more than the target of 0.49%. The earnings rate suggested by Link Asset Services for 2018/19 is 0.75% and it is anticipated that this will be exceeded by the end of the financial year by placing cash in higher interest term-deposits in the second half of the year.

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

4. CORPORATE PRIORITIES

The report relates to the following corporate priorities:

Excellence and Financial Sustainability	✓
Health and Wellbeing	
Place	

Projects relating to People in the Corporate Plan:

People	

5. BACKGROUND TO THE REPORT

The Annual Investment Strategy for 2018/19 was included in the Treasury Strategy 2018/19 to 2022/23, which was approved by Council on 28 February 2018. The report emphasised that the Council's investment priorities will be **S**ecurity first, portfolio **L**iquidity second, and only then return (**Y**ield).

The Treasury Management Annual Report 2017/18 was presented to Governance Committee on 26 July 2018. The report indicated that an average return on investments of 0.49% had been achieved, which exceeded the target rate of 0.24%, being seven day LIBID plus 15%. In the first quarter of 2018/19, the average return had increased to 0.63%.

A review of investment counterparties was carried out and reported to Governance Committee of 20 September 2018. The report will go to the Council meeting of 5 December 2018 with the recommendation that the maximum amount which should be invested in the Government's DMADF, with UK local authorities, and UK banks and building societies should be increased from £5m to £6m.

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

6. NEW CIPFA PRUDENTIAL CODE GUIDANCE

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

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

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

The revised Prudential Indicators for 2018/19 and those for 2019/20 onwards will take account of the latest CIPFA guidance available. It is not anticipated that the revised guidance will have any impact on this Council's treasury management or capital investment activities, but additional reporting requirements may be introduced.

7. TREASURY ACTIVITY

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

Table 1 - Investment Activity	Average Daily Investment £000	Earnings to 30 September 2018 £	Average Rate %
Debt Management Office	0	0	0.00
Other fixed term deposits	16,858	57,334	0.68
Notice Accounts	8,590	33,795	0.78
Call accounts	2,024	4,989	0.49
Money Market Funds	9,819	26,775	0.54
Total	**37,291**	**122,893**	**0.66**

The DMO's Debt Management Account Deposit Facility (DMADF) was not used in the first half of the financial year. Subsequently it has been used for short periods when all MMFs were at the permitted maximum balance and pending cash being invested as term deposits.

The average daily investment of £37.291m continues to be well above the £10m minimum balance invested for the Council to qualify as a professional investor under MiFID II requirements.

A full list of investments as at 30 September 2018 is presented as Appendix E. At that date all investments were within the maximum permitted by the approved Investment Strategy for 2018/19. However, on one day in June 2018 and eight days in September, the maximum held by the Council's own bank Barclays exceeded the £5m limit. The maximum held by Barclays was £5.935m. A number of operational difficulties, which subsequently have been addressed, meant that cash could not be placed with other counterparties when MMFs and other liquid accounts had reached the maximum permitted. Access to the DMADF has been reinstated, for use whenever unavoidable, and cash has been placed as fixed term deposits. The financial consequences of exceeding the £5m limit were minor – interest receivable would have been a little lower for a few days – but the purpose of the limit is to spread risk. Exceeding the limit was drawn to the attention of Shared Assurances Services promptly and will be taken into account in the audit of treasury management activities.

The investment durations per bank or building society suggested by Link Asset Services as at 12 November 2018 are presented in Appendix F. The Council receives weekly updates, and suggested durations are checked online at the time of placing any term deposits with banks or building societies. The limit per institution is as approved by Council on 28 February 2018. Appendix B includes the proposed increases in limits to be considered by Council for approval on 5 December 2018.

The average interest earned of 0.66% exceeds the target of 0.49% (being the average LIBID 7-day rate plus 15%). However, to date the average interest earned has not exceeded the Link Asset Services suggested earnings rate of 0.75% for 2018/19 (see Table 3 below). High

balances were held in highly liquid accounts such as MMFs and call accounts, and few term deposits were placed in the first half of the year. Subsequently term deposits have been made at higher interest rates and it is anticipated that the Ling suggested earnings target will be exceeded by the end of the financial year.

The comparison to the interest receivable budget is as follows:

Table 2 - Interest Receivable Budget	Budget for 2018/19 £000	Actual to 30 September 2018 £000	Forecast for year £000
Interest earned	105	123	220
Total	**105**	**123**	**220**

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

No long-term borrowing has been taken to the date of preparing this report. Financing of the 2018/19 Capital Programme requires long-term borrowing, and the interest payable has been included in the revenue budget for the year. Savings in interest payable may be achieved by delaying external borrowing, or using the Council's cash balances as an alternative to taking loans from the Public Works Loan Board (PWLB). Interest earned on cash balances would reduce as a consequence, but the Council would lose interest receivable at say 0.75% but avoid paying interest to the PWLB at say 2.50%.

8. TREASURY CONSULTANTS ADVICE

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

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

The next increase in Bank Rate from 0.75% to 1.00% is now expected in the June quarter of 2019. When this year's Treasury Strategy was prepared, it was expected that Base Rate would reach 1.00% in the December quarter of 2019. This was brought forward to the September quarter of 2019 when the forecast was updated by Link in August.

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

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

The most recent estimate is compared to the estimated earnings rate available at the time the Treasury Management Strategy was presented for approval in February 2018, and Link's update in August 2018. The suggested earnings rates have increased from 0.60% to 0.75% in this financial year. This has not yet been achieved in 2018/19, the average to 30 September 2018 being 0.66%, but the target should be exceeded by the end of the financial year if more cash is placed in higher interest rate term-deposits with suitable counterparties.

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

9. CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION

No consultation has been undertaken in preparing this report.

10. FINANCIAL IMPLICATIONS

The addition of LVNAV Money Market Funds to the list of approved Investment Counterparties is necessary for the continued use of MMFs from January onwards, when the CNAV MMFs used at present convert to being LVNAV funds. Should it not be possible to use LVNAV funds, the likelihood is that cash would have to be placed with the Debt Management Office at a lower rate of interest than earned in MMFs.

11. LEGAL IMPLICATIONS

Please see the Monitoring Officer comments.

12. COMMENTS OF THE STATUTORY FINANCE OFFICER

The proposed change will help the Council to achieve its interest receivable target for the financial year. Appendix A explains the nature of LVNAV MMFs which replace the current CNAV MMFs.

13. COMMENTS OF THE MONITORING OFFICER

The Monitoring Officer has no concerns or issues with what is proposed in this report.

14. OTHER IMPLICATIONS:

▶ **HR & Organisational Development**	
▶ **ICT / Technology**	
▶ **Property & Asset Management**	
▶ **Risk**	LVNAV MMFs replace the current CNAV funds and are not considered to be of greater risk as an investment option.
▶ **Equality & Diversity**	

15. BACKGROUND DOCUMENTS

Treasury Strategy 2018/19 to 2022/23 (Council 28/2/18)

16. APPENDICES

Appendix A Money Market Fund Reform
Appendix B Proposed Revisions to Investment Counterparties 2018/19
Appendix C Economics and Interest Rates – Treasury Advisors' advice
Appendix D Comparison of Interest Rates Forecasts
Appendix E List of Investments as at 30 September 2018
Appendix F Suggested Investment Durations as at 12 November 2018

Gary Hall
Deputy Chief Executive (Resources & Transformation)

Report Author:	Telephone:	Date:
Michael Jackson Principal Financial Accountant	01257 515490	13/11/18

Money Market Fund Reform

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

Background

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

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

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

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

In addition, there are three structural options:

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

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

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

Credit analysis/rating and stress testing:

The Regulation requires that MMF managers perform a rigorous internal credit quality assessment of money market instruments, as well as implementing a prudent stress testing regime. Moreover, such credit analysis is to be undertaken by individuals separate from the team responsible for the day-to-day management of the MMF portfolio. Given our understanding of the market, via detailed

discussions with existing fund managers, we do not believe that this change will materially alter current investment approaches.

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

Liquidity fees and redemption gates:

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

Portfolio diversification and transparency:

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

Implementation period:

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

Summary:

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

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

Timetable for conversion

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

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Investment Counterparties 2018/19

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 2 years	Unlimited **£6m per LA**
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 independent institution)**
Non-UK Banks	Non-UK banks of high credit quality	Orange Red Green	1 year 6 months 3 months	£4m per group (or independent institution); £8m in total for this category
Money Market Funds				
Money Market Funds (CNAV and **LVNAV**)	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

Changes from the approved Investment Counterparties maximum periods and limits for 2018/19 are in **bold.**

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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Economics and interest rates

Economics update

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

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

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

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

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the

temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

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

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

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Interest rate forecasts

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

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

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

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

The balance of risks to the UK

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

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

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

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

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

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

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	Bank Rate %			PWLB Borrowing Rates % (including 0.20% certainty rate adjustment)											
				5 year			10 year			25 year			50 year		
	Nov 18	Aug 18	Dec 17	Nov 18	Aug 18	Dec 17	Nov 18	Aug 18	Dec 17	Nov 18	Aug 18	Dec 17	Nov 18	Aug 18	Dec 17
Dec-18	0.75	0.75	0.75	2.00	2.00	1.80	2.50	2.50	2.40	2.90	2.90	3.10	2.70	2.70	2.90
Mar-19	0.75	0.75	0.75	2.10	2.10	1.80	2.50	2.50	2.50	2.90	3.00	3.10	2.70	2.80	2.90
Jun-19	1.00	0.75	0.75	2.20	2.20	1.90	2.60	2.60	2.60	3.00	3.10	3.20	2.80	2.90	3.00
Sep-19	1.00	1.00	0.75	2.20	2.20	1.90	2.60	2.70	2.60	3.10	3.10	3.20	2.90	2.90	3.00
Dec-19	1.00	1.00	1.00	2.30	2.30	2.00	2.70	2.70	2.70	3.10	3.20	3.30	2.90	3.00	3.10
Mar-20	1.25	1.00	1.00	2.30	2.30	2.10	2.80	2.80	2.70	3.20	3.30	3.40	3.00	3.10	3.20
Jun-20	1.25	1.25	1.00	2.40	2.40	2.10	2.90	2.90	2.80	3.30	3.30	3.50	3.10	3.10	3.30
Sep-20	1.25	1.25	1.25	2.50	2.50	2.20	2.90	2.90	2.90	3.30	3.40	3.50	3.10	3.20	3.30
Dec-20	1.50	1.50	1.25	2.50	2.50	2.30	3.00	3.00	2.90	3.40	3.50	3.60	3.20	3.30	3.40
Mar-21	1.50	1.50	1.25	2.60	2.60	2.30	3.00	3.10	3.00	3.40	3.50	3.60	3.20	3.30	3.40
Jun-21	1.75			2.60			3.10			3.50			3.30		
Sep-21	1.75			2.70			3.10			3.50			3.30		
Dec-21	1.75			2.80			3.20			3.60			3.40		
Mar-22	2.00			2.80			3.20			3.60			3.40		

Treasury Strategy 2018/19 to 2022/23 included the forecast provided by Link Asset Services in December 2017.
Link Asset Services provided updated forecasts in August and November 2018.

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Investments as at 30 September 2018

Counterparty	Type	Amount £000	Rate %	Date of investment	Date of Maturity
Cherwell District Council	Term	2,000	0.65	19/02/2018	19/11/2018
Goldman Sachs International Bank	Term	2,000	0.68	25/05/2018	26/11/2018
Helaba (Landesbank Hessen-Thueringen Girozentrale)	Term	2,000	0.64	06/12/2017	06/12/2018
Helaba (Landesbank Hessen-Thueringen Girozentrale)	Term	2,000	0.60	14/12/2017	14/12/2018
Goldman Sachs International Bank	Term	1,000	0.82	15/06/2018	17/12/2018
Coventry Building Society	Term	2,000	0.67	15/06/2018	17/12/2018
Bank of Scotland	Term	1,000	0.85	15/01/2018	15/01/2019
Goldman Sachs International Bank	Term	2,000	0.83	28/09/2018	28/03/2019
Fixed Term Deposits sub total		**14,000**		**Listed in order of maturity**	
Santander UK - 180 Day	Notice	5,000	0.95		
Bank of Scotland - 175 Day	Notice	4,000	1.00		
Notice Accounts sub total		**9,000**			
Barclays (deposit account)	Call	2,427	0.60		
Barclays (current account)	Call	1			
Call Accounts sub total		**2,428**			
Aberdeen/Standard Life MMF	MMF	3,450	0.61 (1)		
BlackRock MMF	MMF	4,900	0.67 (1)		
Federated MMF	MMF	4,970	0.64 (1)		
Money Market Funds sub total		**13,320**			
Total		**38,748**			

Note:
(1) MMF rates are variable. This is the calculated average for the year to September.

Summary of Investments by Counterparty	Type	Amount £000	Limit £000
Aberdeen/Standard Life MMF	MMF	3,450	5,000
Barclays	Call	2,428	5,000
Bank of Scotland	Term & Notice	5,000	5,000
BlackRock MMF	MMF	4,900	5,000
Cherwell District Council	Term	2,000	5,000
Coventry Building Society	Term	2,000	5,000
Federated MMF	MMF	4,970	5,000
Goldman Sachs International Bank	Term	5,000	5,000
Helaba (Landesbank Hessen-Thueringen Girozentrale)	Term	4,000	4,000
Santander UK - 180 Day	Notice	5,000	5,000
Total Investments		**38,748**	

Suggested Investment Durations as at 12 November 2018

Country	Counterparty	Suggested Duration	Limit per institution **
United Kingdom	Royal Bank of Scotland Plc National Westminster Bank Plc	12 mths 12 mths	£5m per group
	Bank of Scotland Plc Lloyds Bank Plc	12 mths 12 mths	£5m per group
	Barclays Bank Plc	6 mths	£5m
	Close Brothers Ltd	6 mths	£5m
	Coventry Building Society	6 mths	£5m
	Goldman Sachs International Bank	6 mths	£5m
	HSBC Plc	12 mths	£5m
	Leeds Building Society	100 days	£5m
	Nationwide Building Society	6 mths	£5m
	Santander UK Plc	6 mths	£5m
	Skipton Building Society	100 days	£5m
	Standard Chartered Bank	6 mths	£5m
	Sumitomo Mitsui Banking Corporation Europe Ltd	6 mths	£5m
	Yorkshire Building Society	100 days	£5m
	UBS Ltd	12 mths	£5m
Germany	Helaba (Landesbank Hessen-Thueringen Girozentrale)	12 mths	£4m

Notes:
Clydesdale Bank, Co-operative Bank, Nottingham BS, Principality BS, and West Bromwich BS had no suggested investment duration.

** Permitted by Council approval 28 February 2018.

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