Public Document Pack

GOVERNANCE COMMITTEE

TUESDAY, 24TH SEPTEMBER, 2019, 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 Meetiing** Held on 30 May 2019, to be signed as a correct record.	(Pages 3 - 6)
4	**Audit Progress Report and Sector Update** Report of the Council's External Auditor, Grant Thornton attached.	(Pages 7 - 20)
5	**Internal Audit Progress Report as at 31 August 2019** Report of the Interim Head of Shared Assurance attached.	(Pages 21 - 28)
6	**Treasury Management Annual Report 2018/19 and June Quarter Monitoring 2019/20** Report of the Interim Section 151 Officer attached.	(Pages 29 - 64)
7	**Governance Committee Forward Plan** Latest version of the Governance Committee's forward plan attached.	(Pages 65 - 66)

Meeting contact Darren Cranshaw or email dcranshaw@southribble.gov.uk

Gary Hall
INTERIM CHIEF EXECUTIVE

Electronic agendas sent to Members of the Governance Committee Councillors Ian Watkinson (Chair), James Flannery (Vice-Chair), Christine Melia, Angela Turner, Damian Bretherton, Colin Clark and Margaret Smith

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

Forthcoming Meetings
6.00 pm Tuesday, 26 November 2019 - Wheel Room, Civic Centre, West Paddock, Leyland PR25 1DH

MINUTES OF	**GOVERNANCE COMMITTEE**
MEETING DATE	**Thursday, 30 May 2019**
MEMBERS PRESENT:	Councillors Ian Watkinson (Chair), C Melia, A Turner, Colin Clark and Margaret Smith
OFFICERS:	Jane Blundell (Deputy Section 151 Officer), Tony Furber (Principal Financial Accountant (Interim)), Janice Bamber (Interim Head of Shared Assurance Services), Dave Whelan (Legal Services Manager/Interim Monitoring Officer), Simon Hardman (Grant Thornton PLC) and Coral Astbury (Trainee Governance and Member Services Officer)
OTHER MEMBERS AND OFFICERS:	Dianne Scambler (Governance and Member Services Team Leader), Darren Cranshaw (Assistant Director of Scrutiny & Democratic Services), Councillor Paul Foster (Leader of the Council and Leader of the Labour Group), Councillor Alan Ogilvie and Councillor Phil Smith, Dianne Scambler (Governance and Member Services Team Leader), Darren Cranshaw (Assistant Director of Scrutiny & Democratic Services)
PUBLIC:	1

1 Apologies for absence

Apologies were received from Councillor's Damian Bretherton and James Flannery.

2 Declarations of Interest

No declarations were made.

3 Minutes of Last Meeting

Referring to Minute number 48 Members asked for confirmation from the External Auditors that information had been circulated to the previous Committee regarding Local Authorities trading in the Affordable Housing Sector.

RESOLVED: (Unanimously)

That the minutes of the Governance Committee meeting held on Thursday 14 March 2019 to be agreed as a correct signing for by Chair.

4 Draft Annual Governance Statement

The Committee received a report of the Interim Monitoring Officer presenting the Council's Draft Annual Governance Statement, providing assurance on the

standards of corporate governance spanning all the Council's priorities and covering all activities.

Member's attention was drawn to the Annual Governance Statement 2019/20 (Appendix C) and they were asked to note the progress made against the Annual Governance Statement 2018 (Appendix B).

The Interim Monitoring Officer explained to Members that the draft annual statement was backward looking and that suggested amendments could be made before the end of July at which point the statement would come back as a final version.

Members queried why some actions on the Annual Governance Statement 2018 were no longer included on the Annual Governance Statement 2019. The Interim Monitoring Officer assured that work had been done on these actions and that the wording would be altered to reflect this.

Referring to Appendix C of the Annual Governance Statement Action Plan 2019, Members emphasised the importance of including a defined timescale for the completion of proposed actions along with a responsible officer. It was explained by the Interim Monitoring Officer that it was normal practice to complete all actions by year end but the comments of the Committee would be taken into consideration for when the Final Annual Governance Statement comes back before Committee in July 2019.

The Leader of the Council suggested a number of areas within the Draft Annual Governance Statement 2019 such as the Constitution, Financial Procedure Rules and the Scheme of Delegation as something that the Governance Committee may wish to focus on over the coming months. This was acknowledged and the Interim Monitoring Officer responded by assuring that steps would be taken to look at items on the Draft Annual Governance Statement 2019.

Resolved: (Unanimously)

That the report be noted.

5 Audit Plan 2019/20

The Committee considered a report of the Interim Head of Shared Assurance Services that sought the Committee's approval of the Internal Audit Plan for the period 1 April 2019 to 31 March 2020.

The Interim Head of Shared Assurance explained that the plan would normally come before Committee in March but due to the elections in May it was decided to defer the plan until May when a new Committee would be appointed.

The plan had been constructed following an assessment of audit need. Utilising a risk based approach which considers a number of factors such as financial risk, time lapsed since last audit and items in the Corporate Plan.

Members sought clarification from the Interim Head of Shared Assurance Services that work had now been done under ICT as this was classed as critical. In response, it was explained that ICT was classed as critical due to the size of the risk area. An independent audit had already been undertaken on ICT by Merseyside Independent

Audit. A meeting was due to take place between the Interim Head of Shared Assurance and the Director of Customer and Digital to discuss the areas identified in the report.

RESOLVED: (Unanimously)

That the Audit Plan 2019/20 is approved.

6 Internal Audit Annual Report 2018/19

The Interim Head of Shared Assurance Services presented a report which provided a summary of the work undertaken by the Internal Audit Service from April 2018 to March 2019.

The Interim Head of Shared Assurance Services advised that 78% of the Internal Audit Plan was complete for the year 2018/19, with the overall assurance rating's ranging from adequate to full. Only two areas had been assigned a Limited rating. Property Repairs and Maintenance and Commercial Properties.

Members noted that with regards to commercial properties there seemed to be some concerns in relation to the accuracy of the Council's asset register and asked for further information.

The Interim Head of Shared Assurance Services explained that there had been some duplication of the assets on different registers and that further work was needed to align some assets to the Land Registry records.

With this in mind Councillor Ogilvie, who was in the audience, asked the External Auditors if this was an area that would be given further scrutiny in the forthcoming audit. External audit responded to say that although this was an area that would be looked at in more detail it was usual to find some discrepancies and that he wasn't unduly concerned.

The Leader of the Council raised his concern at the Internal Audit Plan for 2018/19 only being 78% complete, when in previous years it had been fully completed. He asked the Interim Head of Shared Assurance Services if this was due to a lack of resource. The Interim Head of Shared Assurance Services responded by agreeing with the Leader that they were under resourced and that there was no resilience in the team. There had been a number of staffing issues over the year and owing to the fact that she was an Interim appointment she was unsure if she could access the budget required to increase capacity in the team. The Interim Monitoring Officer confirmed that if resource was needed a suitable budget would be located for this and clarity would be given to the Interim Head of Shared Assurance Services on the process.

The Leader of the Council commented on the level of detail in the Internal Audit Plan 2018/19. It was confirmed by the Interim Head of Shared Assurance Services that she had followed the previous year's layout believing this to be satisfactory for the Committee, but this would be addressed in the future.

In response to the Chair, the Interim Head of Shared Assurance Services also agreed to bring an update on the issues raised to the next Committee meeting in July.

RESOLVED: (Unanimously)

That the report be noted.

7 Statement of Accounts for the Financial Year 2018/19

The Committee received a report from the Deputy Section 151 Officer presenting the Statement of Accounts for the Financial Year 2018/19. The report advised Members of the statutory requirements for signature, audit, inspection and publication of the accounts and of their role in the process leading up to the formal submission of the accounts for approval by the 31 July 2019.

Members were advised that although the Statement of Accounts was currently in draft form, it was considered good practice to bring to Committee for comments to prepare for the final accounts in July. It was highlighted to Members that the overall financial position of the Council was good.

Members commented on the use of the traffic light system, with “off-track” actions being highlighted as both red and amber. The Deputy Section 151 Officer responded that the comments would be taken on board for when the final statement of accounts is presented.

Members from the Committee were very pleased with the Statement of Accounts and praised the Deputy Section 151 Officer and the Principal Financial Accountant (Interim) for their presentation of the report. It was requested by Members that the explanation that had been provided be included in an Executive Summary on the report, so that the statement could be more clearly understood by all members and residents.

In response to a member of the public it was explained why figures relating to the salaries of the Senior Management Team could be misleading if included in the Expenditure and Funding Analysis.

RESOLVED: (Unanimously)

That the report be noted.

Chair Date

Grant Thornton

An instinct for growth™

Audit Progress Report and Sector Update

South Ribble Borough Council

24 September 2019

Contents

Introduction

Mark Heap

Engagement Lead

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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)

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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.

PSAA Contract Monitoring -

South Ribble Borough Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at page 13. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Progress at 16 September 2019

Financial Statements Audit

We are continuing to work on your 2018-19 financial statements audit and will update Members of progress at the Governance Committee meeting. We currently expect to be in a position to issue our Audit Findings Report for the Committee meeting in November 2019.

Value for Money

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

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

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

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

We continue to work on our VfM Conclusion work and will update Members of progress at the Governance Committee meeting

Other areas

Certification of claims and returns

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

Meetings

We continue to meet regularly with Finance Officers to ensure the audit progresses. We also have also met with your Chief Executive in to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council.

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

Audit Deliverables

2018/19 Deliverables	Revised Planned Date	Status
Audit Findings Report The Audit Findings Report was originally expected to be reported to the July Governance Committee. Due to the need for additional testing we agreed with the Council that our report would be delayed.	November 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion. We originally expected to issue our report in July 2019 however, due to the need for additional testing, we agreed with the Council that the report would be delayed.	November 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	December 2019	Not yet due

2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2019	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.	January 2020	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2020	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Governance Committee.	July 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2020	Not yet due

Sector Update

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

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

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

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

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

CIPFA – CFO confidence survey

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

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

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

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

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

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

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

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

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

CIPFA The Chartered Institute of Public Finance & Accountancy

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

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

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

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

Local Government Association

Financial confidence

Challenge question:

How confident, is the Council, in relation to its financial position? Has this changed from previous years?

MHCLG – Independent probe into local government audit

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ministry of Housing, Communities & Local Government

National Audit Office – Code of Audit Practice

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

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

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

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

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

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

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

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

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

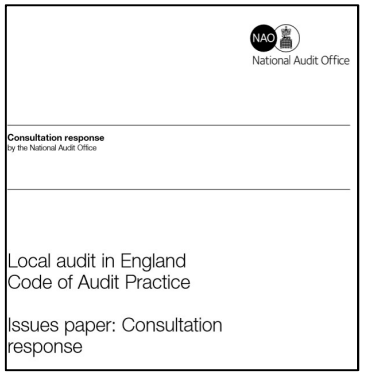
b) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and

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

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

Link to NAO webpage for the Code consultation:

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


NAO
National Audit Office

Consultation response
by the National Audit Office

Local audit in England
Code of Audit Practice

Issues paper: Consultation response

LGA: Profit with a purpose – delivering social value through commercial activity

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

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

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

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

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

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

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

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

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

The report can be downloaded from the LGA website:

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

Local Government Association

Profit with a purpose

Challenge question:

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

Profit with a purpose

Delivering social value through commercial activity

MHCLG – Brexit preparations

Councils should be fully prepared to leave the European Union by the end of October, the Communities and Local Government Secretary announced on 3 August as he ramped up preparations.

Mr Jenrick thanked councils for all the work they have already done, but said they must step up vital preparations and committed £20 million for councils across England to prepare for delivering Brexit on 31 October, whatever the circumstances.

He has asked each council to designate a Brexit lead to work with central government and oversee teams in every community who will work with stakeholders in their area to plan intensively for Brexit.

The new funding comes in recognition of the central role councils will play to make sure their residents are ready for Brexit, and is expected to support a range of activity including communications, training and the recruitment of staff.

Ministry of Housing, Communities & Local Government

The Secretary of State said:

"From Whitehall to town halls – everyone needs to be ready to fulfil our democratic mandate to leave the European Union by the end of October.

Local government has a vital role in helping to make Brexit a success and it is absolutely right that together we intensify preparations in every community.

And to do this successfully I have asked every council to appoint a Brexit lead to work with government. We'll be providing £20 million for councils to support the major step up in preparations.

I want all of us – central and local government – to be fully prepared for leaving the EU on 31 October whatever the circumstances. I know that we can achieve this, by continuing to work side by side with renewed national focus and intensity."

Brexit preparations

Challenge question:

Who is your Brexit lead and how is your authority supporting Brexit preparations?

Public Accounts Committee – Local Government Governance and Accountability

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

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

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

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

The report makes five conclusions, with associated recommendations:

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

The Government response is available on the website below:

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

House of Commons
Committee of Public Accounts

Local Government Governance and Accountability

Ninety-Seventh Report of Session 2017–19

Our commitment to our local government clients

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

"I have found Grant Thornton to be very impressive…..they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."

Director of Finance, County Council

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

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

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

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

At a wider level, the political environment remains complex:

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

Delivering real value through:

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

Grant Thornton in Local Government

Our client base and delivery

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

Our connections

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

Our people

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

Our quality

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

Our technical support

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

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REPORT TO	ON
Governance Committee	24th September 2019

TITLE	REPORT OF
Internal Audit Progress Report as at 31 August 2019	Interim Head of Shared Assurance

Is this report confidential?	**No**

PURPOSE OF THE REPORT

1. To provide the Governance Committee with a summary of Internal Audit work undertaken for South Ribble and the Shared Services element for the period 1 April 2019 to 31 August 2019.

RECOMMENDATIONS

2. Members are asked to consider and note the contents of the report.

EXECUTIVE SUMMARY

3. Governance Committee are required to be informed of and review Internal Audit work as part of their review of the Council's internal control environment and overall Governance arrangements. To that end the report outlines the work undertaken for the period, the individual opinion of the internal control environment of those pieces of work completed, the progress of work to 31 August 2019 and the status of planned and ongoing work.

The detailed information in regard to progress against individual areas of work / auditable areas up to the 31 August 2019 has been provided at Appendix 1.

CORPORATE PRIORITIES

4. 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	

BACKGROUND TO THE REPORT

5. This is the progress report of work undertaken for the 2019/20 Plan, which was previously agreed with the Governance Committee.

PROPOSALS (e.g. RATIONALE, DETAIL, FINANCIAL, PROCUREMENT)

6. Audit Plan Progress

This is the first progress report in respect of 2019/20 and includes those items carried forward from the 2018/19 plan that have now been completed. Those items are:

- Cash & Bank
- Main Accounting

The appendix also shows time against jobs previously reported as completed in 2018/19 where some follow up work was required to finalise reports, these are as follows:

- Commercial Properties
- Health & Safety
- Treasury Management

One of the main areas of review for the initial quarter is the work undertaken in respect of the Annual Governance Statement, whereby Internal Audit undertake a review and assessment of the Council's Governance Framework, its Risk Management and the overall control environment.

The following table outlines the main pieces of work completed in the last period:

Audit Work Area	Assurance Rating	Comments
Annual Governance Statement	Not applicable	Proactive Audit input was provided in collating information to inform the Annual Governance Statement.
Commercial Properties	Limited	The Audit identified a number of issues in regard to the maintenance and the accuracy of the Council's Asset Register and the undertaking of lease and rent reviews. Management Actions have addressed these issues and a follow up of these actions will be undertaken by Internal Audit later in 2019/20.
Health & Safety	Adequate	Audit work included a review of risk assessments in specific areas and a H & S Survey. Results from the review and survey have been reported to Leadership Team and an action plan compiled, progress is to be monitored by Leadership Team.
Cash & Bank	Substantial	Audit review the adequacy of the controls in a core financial system. 2 minor areas of weakness identified, no materiality.
Treasury Management	Substantial	Audit review the adequacy of the controls in a core financial system. 4 minor areas of weakness identified, no materiality.
Main Accounting	Substantial	Audit review the adequacy of the controls in a core financial system. 1 area of weakness identified, no materiality.

A number of reviews have also commenced during this period and are in the process of being completed, these will be reported in the next progress report to Committee. Those reviews that have commenced for South Ribble and Shared Financial Services are;

- GDPR Compliance Reviews
- Corporate Credit Cards
- Car Park Management / Enforcement
- Performance Management Information
- Creditors
- NFI Report on Creditor & Payroll Data Matches
- Shared Services Accounts Review

The '% of audit plan completed' for South Ribble for this period has not been achieved. This is due in part to the number of audits currently in the process of being completed (as above) and the additional other work undertaken as part of contingency / irregularities. The level of completion of the audit plan is being closely monitored and reviewed by the Interim Head of Shared Assurance.

A number of resource issues arose last year in the Shared Assurance Service that impacted on the Internal Audit Services, specifically a long term sickness. As this is still ongoing the Section 151 Officers' of both Councils' have agreed a temporary Internal Auditor to support the Audit Team and an administration post to support the Insurance Service and the renewal process. These roles can be accommodated within the existing budget. A member of the Internal Audit Team is currently acting up to provide review and oversight of audit work.

FINANCIAL IMPLICATIONS

7. There are no financial implications.

LEGAL IMPLICATIONS

8. There are no legal implications.

AIR QUALITY IMPLICATIONS

9. There are no air quality implications.

COMMENTS OF THE STATUTORY FINANCE OFFICER

10. There are no financial implications.

COMMENTS OF THE MONITORING OFFICER

11. There are no legal implications.

OTHER IMPLICATIONS:

▶ **HR & Organisational Development** ▶ **ICT / Technology**	The matters raised in the report are cross cutting and impact upon those individual services reviewed and the Internal Control environment of the Council.

▶ **Property & Asset Management** ▶ **Risk** ▶ **Equality & Diversity**	Failure to report the progress of the Audit Plan to the Governance Committee would result in the lack of awareness of those charged with the responsibility for the Governance of the Council of issues in regard to the Council's overall control environment. This could result in financial, legal and / or reputational harm to the Council.

BACKGROUND DOCUMENTS

South Ribble Internal Audit Plan 2019/20
Shared Financial Services Internal Audit Plan 2019/20

APPENDICES

Appendix 1 – Internal Audit Plans 2019/20 Progress for South Ribble Council and Shared Financial Services.

Janice Bamber
Interim Head of Shared Assurance

Report Author:	Telephone:	Date:
Janice Bamber Interim Head of Shared Assurance	01772 625272	13 September 2019

INTERNAL AUDIT PLANS 2019/20
SOUTH RIBBLE COUNCIL

WORK AREA	RISK	EST (Days)	ACT	BAL	REVIEW STATUS	ASSURANCE RATING	STATUS
AUDIT PLANNED WORK							
Areas of work to be identified		60	0	60			
RESOURCES & TRANSFORMATION							
Legal							
HR							
Absence Management	Medium	10	0	10			
Democratic Services							
Ethical Culture Review	High	10	0	10			
Customer & Digital							
ICT Review	High	20	3.3	16.7			Meeting with MIAA to agree areas to be reviewed and assessment of audit work previously undertaken within ICT
GDPR Compliance Reviews	High	10	16.2	-6.2	**Ongoing**		Further compliance reviews undertaken to cover additional areas
Council Tax	High	5	0	5			
NNDR	High	5	0	5			
Housing Benefits	High	5	0	5			
Finance							
Income Collection & Receipt	High	25	0	25			
Credit Cards	High	10	14.1	-4.1	**Draft report**		Report is with Acting Principal Auditor for review
REGENERATION & GROWTH							
Neighbourhoods & Development							
My Neighbourhood Processes	High	10	0	10			
Environmental Enforcement	High	15	0	15			
Leases / Licences to Community Centres etc.	High	10	0	10			
Parks & Neighbourhoods							
Car Park Management / Enforcement	High	10	3.5	6.5	**Commenced**		Audit testing on-going, expected completion October 2019
Tree Inspections & Maintenance	High	10	0	10			
Planning & Property							
TOTAL PLANNED WORK		**215**	**37.1**	**177.9**			
UNPLANNED WORK							
Performance Management Information (additional work)			**4.4**	**-4.4**	**Ongoing**		Additional work being undertaken to review Key Performance Indicators and Data Quality Policy

ONGOING WORK THROUGHOUT THE YEAR							
CORPORATE AREAS							
Annual Governance Statement	N/A	20	13.1	6.9			Audit input provided in collating information to inform the Annual Governance Statement
Assurance Mapping	N/A	10	4.5	5.5			
Anti-Fraud & Corruption	N/A	10	0	10			
NFI	N/A	5	0.4	4.6			Preparation for the Council Tax Single Person Discount / Electoral Register exercise later this year
Corporate Complaints	High	10	8.2	1.8			Complaints processes reviewed as part of ongoing investigation work
Governance Committee	N/A	10	2.5	7.5			
Total Corporate Areas		***65***	***28.7***	***36.3***			
PROJECT SUPPORT							
HR and Payroll system update	Project		0.2		**Project Support**		
InPhase Development	Project		2.4		**Project Support**		
Project Support Total Days		***20***	***2.6***	***17.4***			
GDPR Implementation	Project	5	4.6	0.4	**Project Support**		Increased Audit presence within project group
Project Support Totals		***25***	***7.2***	***17.8***			
TOTAL ONGOING WORK		**90**	**35.9**	**54.1**			
OTHER WORK							
Residual Work from 2018/19							
Commercial Properties	N/A		4.6		**Completed**	**Limited**	Previously reported
Health & Safety	N/A		12.9		**Completed**	**Adequate**	Previously reported
Project Management	N/A		1.9		**Completed**	**N/A**	Work undertaken now incorporated into project support due to development of InPhase.
Residual Work Total Available Days		***10***	***19.4***	***-9.4***			
GENERAL Areas							
GRACE System Administration	N/A	10	0	10			
Post Audit Reviews	N/A	5	0.3	4.7			
General Areas Total Available Days		***15***	***0.3***	***14.7***			
Contingency / Irregularities							
Contingency / Investigations / Irregularities			**60.6**		**Ongoing**		Work mainly undertaken by Interim Head of Shared Assurance
Contingency/Irregularities Total Available Days		**10**	**60.6**	**-50.6**			
TOTAL OTHER PLAN		**35**	**80.3**	**-45.3**			
TOTALS		**340**	**157.7**	**182.3**			

SHARED FINANCIAL SERVICES

WORK AREA	RISK	EST (Days)	ACT	BAL	REVIEW STATUS	ASSURANCE RATING	COMMENTS
AUDIT PLANNED WORK							
Creditors	High	20	14.8	5.2	**Ongoing**		Testing ongoing, expected completion October 2019
Financial Systems;	High	20	0	20			
Procurement	High	30	0	30			
Money Laundering	High	20	0	20			
NFI Data Matching Reviews of Financial Matches inc. Creditors / Payroll / Housing Benefits	Medium	10	10.2	-0.2	**Draft report**		Work undertaken on Creditors & Payroll matches re: employees, Draft report to be reviewed
Total Planned Work		***100***	***25***	***75***			
UNPLANNED WORK							
Shared Services Review of Accounts			7	-7	**Draft report**		Report is with Interim Head of Shared Assurance for review
Total Unplanned Work			**7**	**-7**			
OTHER WORK							
General Areas							
GRACE System Administration	N/A	5	0.2	4.8			
Post Audit Reviews	N/A	5	0	5			
Total General Areas		***10***	***0.2***	***9.8***			
Residual Work from 2018/19							
Cash & Bank			11.5		**Completed**	Substantial	2 minor areas of control weakness identified, no materiality
Treasury Management			1.1		**Completed**	Substantial	4 minor areas of control weakness identified, no materiality
Payroll			2.9		**Draft report**		Awaiting agreement of Management actions.
Main Accounting					**Completed**	Substantial	1 area of control weakness identified, no materiality
Total Residual Work		***5***	***15.5***	***-10.5***			
Contingency / Irregularities							
Total Contingency / Irregularity Work		**5**	0	5			
TOTALS		**120**	**47.7**	**72.3**			

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REPORT TO	ON
Governance Committee	**24 September 2019**

External Audit Annual

TITLE	REPORT OF
Treasury Management Annual Report 2018/19 and June Quarter Monitoring 2019/20	**Interim S151 Officer**

Is this report confidential?	**No**

1. PURPOSE OF THE REPORT

1.1 To present the outturn for Treasury Management activity in financial year 2018/19.
1.2 To present monitoring information for the quarter to June 2019.

2. RECOMMENDATIONS

2.1 Members are asked to note the report.

3. 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	

4. BACKGROUND TO THE REPORT

4.1 The Treasury Strategy for 2018/19 to 2022/23 was approved by Council on 28 February 2018. The strategy included prudential and treasury indicators, the treasury management strategy, the annual investment strategy, and the annual Minimum Revenue Provision (MRP) Policy.

4.2 A mid-year review of Treasury Management activity was presented to Governance Committee on 22 November 2018. In addition, an assessment of amended investment strategy options for 2018/19 was presented to Council on 5 December 2018. Council approved the addition of LVNAV Money Market Funds to the list of investment counterparties, and an increase in the maximum investment limit for UK local authorities, banks and building societies to £6m (per group or independent institution, as appropriate).

4.3 On 27 February 2019, Council approved the Treasury Management Policy Statement for 2019/20, which included revised prudential and treasury indicators for 2018/19. Where relevant, comparisons with 2018/19 indicators in this outturn report are to those approved most recently.

4.4 A glossary of technical terms used in the report is presented as Appendix H.

5. THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING

5.1 The Council undertakes capital expenditure on long-term activities. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

5.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure for 2018/19.

Table 1 - Capital Expenditure 2018/19	**2018/19 Estimate £000**	**2018/19 Revised £000**	**2018/19 Actual £000**	**2018/19 Variance £000**
2018/19 Capital Programme	8,151	2,898	2,422	(476)
Additional finance lease liability	104	103	0	(103)
Capital Expenditure Total	**8,255**	**3,001**	**2,422**	**(579)**

Additional analysis of the schemes included in the 2018/19 Capital Programme was presented to Cabinet on 19 June 2019 in the report "South Ribble Borough Council Budget Out-turn Report 2018/19".

5.3 Financing of the capital expenditure is shown in the following table.

Table 2 - Capital Financing 2018/19	**2018/19 Estimate £000**	**2018/19 Revised £000**	**2018/19 Actual £000**	**2018/19 Variance £000**
Capital expenditure from Table 1	8,255	3,001	2,422	(579)
Capital Receipts	(450)	(1,152)	(1,151)	1
Grants & Contributions	(1,394)	(849)	(753)	96
Revenue and Reserves	(3,839)	(897)	(518)	379
Net financing needed for year	**2,572**	**103**	**0**	**(103)**

6. THE COUNCIL'S OVERALL BORROWING NEED

6.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the unfinanced capital expenditure in 2018/19 plus prior years' unfinanced capital expenditure which has not yet been paid for by revenue or other resources. At outturn there was no additional unfinanced capital expenditure in 2018/19.

6.2 Part of the Council's treasury activity is to address the funding requirement for this borrowing need. Depending on the capital expenditure programme, the Council's cash position is organised to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB), or the money markets), or utilising temporary cash resources within the Council. In 2018/19 it did not prove necessary to borrow for this purpose.

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

6.4 The Council's underlying borrowing need is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management

arrangements which ensure that cash is available to meet capital commitments. External debt can be borrowed and repaid, but this does not change the CFR.

6.5 The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

6.6 The 2018/19 MRP Policy (as required by MHCLG Guidance) was approved by Council as part of the Treasury Strategy 2018/19 to 2022/23 on 28 February 2018.

6.7 The Council's CFR for the year is shown in Table 3 below, and represents a key prudential indicator. It includes financing by means of a finance lease for leisure related capital investment, which increases the Council's borrowing need. No borrowing is actually required in respect of the finance lease because this is included in the contract.

Table 3 - Capital Financing Requirement 2018/19	**2018/19 Estimate £000**	**2018/19 Revised £000**	**2018/19 Actual £000**	**2018/19 Variance £000**
Opening CFR	4,722	4,626	4,626	0
Net financing need for the year (Table 2)	2,572	103	0	(103)
Less MRP/VRP	(934)	(886)	(886)	0
Closing CFR	**6,360**	**3,843**	**3,740**	**(103)**

See also Note 35 Capital Expenditure and Financing in the Statement of Accounts 2018/19.

6.8 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

6.9 **Gross borrowing and the CFR.** In order to ensure that borrowing levels are prudent over the medium term and are only for capital purposes, the Council ensures that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year (2017/18) plus the estimates of any additional CFR for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator would allow the Council some flexibility to borrow in advance of its immediate capital needs, but this was not required in 2018/19.

6.10 Table 4 shows the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 4 - Portfolio Position 31 March 2018	2018/19 Estimate £000	2018/19 Revised £000	2018/19 Actual £000	2018/19 Variance £000
Debt at 1 April	0	0	0	0
Other long-term liabilities (OLTL)	749	900	900	0
Total gross debt 1 April	749	900	900	0
Change in Debt	1,750	0	0	0
Change in OLTL	(212)	(213)	(298)	(85)
Expected change in gross debt	1,538	(213)	(298)	(85)
Gross debt 31 March	2,287	687	602	(85)
Capital Financing Requirement (Table 3)	6,360	3,843	3,740	(103)
Under borrowing	**4,073**	**3,156**	**3,138**	**(18)**

6.11 **The authorised limit.** This is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The revised limit set for 2018/19 by Council on 27 February 2019 was £3.687m and actual gross borrowing shown in Table 4 was £0.602m. The Council has maintained gross borrowing within its authorised limit.

6.12 **The operational boundary.** This is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached. The revised operational boundary set for 2018/19 was £0.687m and actual gross debt at 31 March 2019 was £0.602m.

6.13 **Actual financing costs as a proportion of net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income), against the revenue stream (council tax, business rates, and various Government grants).

Table 5 - Ratio of Financing Costs to Net Revenue Stream 2018/19	2018/19 Estimate %	2018/19 revised %	2018/19 Actual %	2018/19 Variance %
Ratio	7.95	5.59	5.04	-0.55

The actual ratio was lower than estimated in 2018/19 because net financing costs were lower than estimated and the revenue stream was higher.

7. TREASURY POSITION AS AT 31 MARCH 2019

7.1 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. Gross debt is shown in Table 4, and Investments (including Cash and Cash equivalents but excluding accrued interest) are shown in Table 6.

Table 6 - Year-End Resources 2018/19	2018/19 Estimated £000	2018/19 Revised £000	2018/19 Actual £000	2018/19 Variance £000
Core Funds/Working Balances	(27,228)	(38,156)	(37,256)	900
Under borrowing (Table 4)	4,073	3,156	3,138	(18)
Investments	**(23,155)**	**(35,000)**	**(34,118)**	**882**

7.2 A detailed analysis of Short Term Investments and Cash and Cash Equivalents is presented as Appendix A. Term Deposits by counterparty are shown in Table 7.

Table 7 - Summary of Term Deposits by Counterparty 31 March 2019	Type	Amount 31 March 2019 £000	Limit £000
Bank of Scotland	Term	2,000	6,000
Goldman Sachs International Bank	Term	4,000	6,000
UK Banks		6,000	
Conwy County Borough Council	Term	2,000	6,000
Hull City Council	Term	2,000	6,000
Lancashire County Council	Term	6,000	6,000
Salford City Council	Term	2,000	6,000
Slough Borough Council	Term	2,000	6,000
Thurrock Borough Council	Term	2,000	6,000
UK Local Authorities		16,000	
Fixed Term Deposits sub total		**22,000**	

7.3 The table confirms that the maximum balance invested with each counterparty complied with the limit approved by Council. Appendix B presents the approved limits for 2018/19.

7.4 Council approved a maximum of £5m should be invested with UK local authorities for more than 365 days and up to two years. No sums were invested for more than 365 days.

Table 8 - Maximum Principal Sums Invested > 365 Days 2018/19	**2018/19 Estimate £000**	**2018/19 Revised £000**	**2018/19 Actual £000**
UK Government	0	0	0
UK Local Authorities	5,000	5,000	0
UK Banks & Building Societies	0	0	0
Non-UK Banks	0	0	0
Total	**5,000**	**5,000**	**0**

8. INVESTMENT PERFORMANCE 2018/19

8.1 Investment returns remained low during 2018/19. When the treasury management strategy for 2018/19 was approved, the expectation was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018/19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in the anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were kept in highly liquid accounts in anticipation that rates would be higher later in the year, when placing cash in term deposits would become more attractive.

8.2 Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns 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 external loans.

8.3 **Investment Policy.** The Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by Council for 2018/19. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as ratings outlooks, credit default swaps, banks share prices etc.). Link Asset Services, the Council's treasury advisors, provide suggested investment durations for the approved counterparties. From time to time, suggested durations reduce after a term deposit has been placed, for instance from twelve to six months, but this did not occur during 2018/19.

8.4 Investment performance for 2018/19 is presented in Table 9.

Table 9 - Investment Performance 2018/19	Average Daily Investment £000	Interest 2018/19 £	Average Rate %
Fixed Term Deposits	18,384	147,963	0.80
Notice Accounts	8,795	78,669	0.89
Call Accounts	2,034	9,505	0.47
Money Market Funds	10,779	66,134	0.61
Debt Management Office DMADF	64	322	0.50
Total	**40,056**	**302,593**	**0.76**

8.5 The average return of 0.76% in 2018/19 compares to the 0.49% achieved in the previous year, and reflects the gradual increase in interest rates. It proved necessary to use the Debt Management Office's Debt Management Account Deposit Facility for short periods when balances with other counterparties had reached the maximum approved by Council. This was avoided later in the year by an increase in the maximum investment per UK bank or local authority from £5m to £6m.

8.6 The average 7-day LIBID for 2018/19 was 0.50%. The target to exceed for 2018/19 was 7-day LIBID plus 15%, which was 0.57%. This was achieved.

8.7 Link Asset Services suggested a budgeted investment earnings rate of 0.60% for 2018/19, based on investment durations of up to three months. Though the Council placed few term deposits in the first half of the year, more cash was invested for durations of up to a year in the second half, and the target was exceeded.

9. MONITORING JUNE QUARTER 2019/20

9.1 Investments as at 30 June 2019 are listed in Appendix D. All investments, which totalled £39.59m, were in accordance with the approved investment strategy and list of counterparties for 2019/20. Of this total, £25.0m was in term deposits and notice accounts, and the balance of £14.59m was in more liquid accounts at lower rates of interest.

9.2 Appendix E presents the approved limits for 2019/20.

10. ADVICE OF LINK ASSET SERVICES

10.1 Link Asset Services' review of the Economy and Interest Rates in 2018/19 is presented as Appendix C.

10.2 A detailed economic commentary on developments during the quarter ended 30 June 2019 is presented as Appendix E.

10.3 Appendix F is a detailed commentary on interest rate forecasts. This includes an updated forecast for the rate of return on cash invested for 2019/20 and subsequent years.

11. CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION

11.1 No consultation was undertaken in preparing this report.

12. FINANCIAL IMPLICATIONS

12.1 There are no direct financial implications arising as a result of this report. Variances from the revised budgets for interest receivable and payable for 2018/19 were reflected in the report "South Ribble Borough Council Budget Out-turn Report 2018/19", presented to Cabinet on 19 June 2019.

13. LEGAL IMPLICATIONS

13.1 Presentation of this report is required to comply with the CIPFA Code of Practice on Treasury Management in the Public Services (2017 edition).

14. COMMENTS OF THE STATUTORY FINANCE OFFICER

14.1 There are no financial implications arising directly as a result of this report. All financial implications in respect of treasury management activity arise as a result of the annual Treasury Strategies for 2018/19 and 2019/20 approved previously by Council. This report presents details of actual performance achieved as a result of implementing the approved strategies.

15. COMMENTS OF THE MONITORING OFFICER

15.1 Please see the Legal Implications section above.

16. OTHER IMPLICATIONS

▶ **HR & Organisational Development** ▶ **ICT / Technology** ▶ **Property & Asset Management** ▶ **Risk** ▶ **Equality & Diversity**	Risk is an important issue for Treasury Management activity, and management of risk is at the heart of the Treasury Strategy for each financial year.

17. BACKGROUND DOCUMENTS

- CIPFA Treasury Management in the Public Services: Code of Practice & Cross-Sectoral Guidance Notes (December 2017 edition)
- CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities (July 2018 edition)
- CIPFA Prudential Code for Capital Finance in Local Authorities (December 2017 edition)
- CIPFA Standards of Professional Practice: Treasury Management
- MHCLG Guidance on Local Government Investments
- MHCLG Guidance on Minimum Revenue Provision
- Treasury Strategy 2018/19 to 2022/23 (Council 28 February 2018)
- Amended Investment Strategy Options 2018/19 (Council 5 December 2018)
- Treasury Management Policy Statement 2019 (Council 27 February 2019)

18. APPENDICES

Appendix A: Investments as at 31 March 2019
Appendix B: Investment Counterparties 2018/19
Appendix C: Link Asset Services' review of the Economy and Interest Rates
Appendix D: Investments as at 30 June 2019
Appendix E: Investment Counterparties 2019/20
Appendix F: Detailed economic commentary on developments during quarter ended 30 June 2019
Appendix G: Detailed commentary on interest rate forecasts
Appendix H: Glossary of Terms

SMT Member's Name: Jane Blundell
Job Title: Interim S151 Officer

Report Author:	Telephone:	Date:
Michael Jackson	01257 515490	20/06/19

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List of Investments as at 31 March 2019

Counterparty	Type	Sum Invested £000	Accrued Interest £000	Total 31 March 2019 £000	Rate %	Link Suggested Duration	SRBC Approved Duration	Date Invested	Maturity Date
Thurrock Borough Council	Term	2,000	6	2,006	0.92%	60 mths	24 mths	06-Dec-18	08-Apr-19
Hull City Council	Term	2,000	6	2,006	0.90%	60 mths	24 mths	26-Nov-18	28-May-19
Conwy County Borough Council	Term	2,000	5	2,005	0.90%	60 mths	24 mths	14-Dec-18	14-Jun-19
Goldman Sachs International Bank	Term	2,000	6	2,006	1.04%	6 mths	6 mths	19-Dec-18	19-Jun-19
Goldman Sachs International Bank	Term	2,000	6	2,006	1.03%	6 mths	6 mths	20-Dec-18	20-Jun-19
Salford City Council	Term	2,000	7	2,007	0.90%	60 mths	24 mths	05-Nov-18	05-Jul-19
Slough Borough Council	Term	2,000	2	2,002	0.98%	60 mths	24 mths	25-Feb-19	27-Aug-19
Lancashire County Council	Term	5,000	22	5,022	1.08%	60 mths	24 mths	31-Oct-18	31-Oct-19
Bank of Scotland	Term	2,000	5	2,005	1.10%	12 mths	12 mths	15-Jan-19	15-Jan-20
Lancashire County Council	Term	1,000	2	1,002	1.12%	60 mths	24 mths	04-Feb-19	04-Feb-20
Fixed Term Deposit sub total		**22,000**	**67**	**22,067**	**Listed in Order of Maturity**				
Santander UK PLC	180 Day Notice	5,000	4	5,004	1.00%	6 mths	6 mths	15-Mar-16	n/a
Bank of Scotland	175 Day Notice	4,000		4,000	1.13%	12 mths	12 mths	30-Nov-17	n/a
Notice Accounts sub total		**9,000**	**4**	**9,004**					
Short-Term Investments		**31,000**	**71**	**31,071**					
Barclays BPA Deposit Account	Call	616	(1)	615	0.60%	6 mths	6 mths	On Call	n/a
Other Cash Balances		29	9	38					
Call Accounts sub total		**645**	**8**	**653**					
Blackrock	MMF	2,000	0	2,000	0.64%	(1)	AAA-rated	On Call	n/a
Money Market Funds sub total		**2,000**	**0**	**2,000**					
Other Cash & Cash Equivalents Balances		473		473					
Cash and Cash Equivalents		**3,118**	**8**	**3,126**					
Total Investments/Cash & Equivalents		**34,118**	**79**	**34,197**					

Notes
(1) MMF rates are variable. This is the calculated average for the year to March

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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

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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The Economy and Interest Rates 2018/19

UK. After weak **economic growth** of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing country in the G7 in quarter 4.

After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in **wage inflation** which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

As for **CPI inflation** itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. 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.

Brexit. The Conservative minority government has so far, (8.4.19), been unable to muster a majority in the Commons over its Brexit deal. The EU has set a deadline of April 12 for the House of Commons to propose what form of Brexit it would support. If another form of Brexit, other than the proposed deal, does get a majority by April 12, then it is likely there will need to be a long delay to Brexit to allow time for negotiations with the EU. It appears unlikely that there would be a Commons majority which would support a disorderly Brexit or revoking article 50, (cancelling Brexit). There would also need to be a long delay if there is no majority for any form of Brexit. If that were to happen, then it increases the chances of a general election in 2019; 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 in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate) in quarter 1 of 2018 to 4.2% in quarter 2, 3.5% in quarter 3 and then back to 2.2% in quarter 4. The annual rate came in at 2.9% for 2018, just below President Trump's aim

for 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around that number in 2019 i.e. below the Fed's target of 2%. The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fourth increase in 2018 and the ninth in the upward swing cycle. However, the Fed now appears to be edging towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years. Financial markets are now predicting two cuts of 25 bps by the end of 2020.

EUROZONE. The European Central Bank (ECB) provided massive monetary stimulus in 2016 and 2017 to encourage growth in the EZ and that produced strong annual growth in 2017 of 2.3%. However, since then the ECB has been reducing its monetary stimulus measures and growth has been weakening - to 0.4% in quarters 1 and 2 of 2018, and then slowed further to 0.2% in quarters 3 and 4; it is likely to be only 0.1 - 0.2% in quarter 1 of 2019. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The ECB completely ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures to stimulate growth. With its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the limit of cutting rates. At its March 2019 meeting it said that it expects to leave interest rates at their present levels "at least through the end of 2019", but that is of little help to boosting growth in the near term. Consequently, it also announced a third round of TLTROs; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans.

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.

WORLD GROWTH. Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US, though this fear is probably overdone.

List of Investments as at 30 June 2019

Counterparty	Type	Total 30 June 2019 £000	Rate %	Link Suggested Duration	SRBC Approved Duration	Date Invested	Maturity Date
Salford City Council	Term	2,000	0.90%	60 mths	24 mths	05-Nov-18	05-Jul-19
Slough Borough Council	Term	2,000	0.98%	60 mths	24 mths	25-Feb-19	27-Aug-19
Lancashire County Council	Term	5,000	1.08%	60 mths	24 mths	31-Oct-18	31-Oct-19
Goldman Sachs International Bank	Term	2,000	0.92%	6 mths	6 mths	04-Jun-19	04-Dec-19
Goldman Sachs International Bank	Term	2,000	0.94%	6 mths	6 mths	19-Jun-19	19-Dec-19
Bank of Scotland	Term	2,000	1.10%	12 mths	12 mths	15-Jan-19	15-Jan-20
Lancashire County Council	Term	1,000	1.12%	60 mths	24 mths	04-Feb-19	04-Feb-20
Fixed Term Deposit sub total		**16,000**	**Listed in Order of Maturity**				
Santander UK PLC	180 Day Notice	5,000	1.00%	6 mths	6 mths	15-Mar-16	n/a
Bank of Scotland	175 Day Notice	4,000	1.13%	12 mths	12 mths	30-Nov-17	n/a
Notice Accounts sub total		**9,000**					
Short-Term Investments		**25,000**					
Barclays BPA Deposit Account	Call	2,588	0.60%	6 mths	6 mths	On Call	n/a
Other Cash Balances		2					n/a
Call Accounts sub total		**2,590**					
Aberdeen Standard	MMF	2,000	0.73%	(1)	AAA-rated	On Call	n/a
BlackRock	MMF	5,000	0.74%	(1)	AAA-rated	On Call	n/a
Federated	MMF	5,000	0.71%	(1)	AAA-rated	On Call	n/a
Money Market Funds sub total		**12,000**					
Cash and Cash Equivalents		**14,590**					
Total Investments/Cash & Equivalents		**39,590**					

Notes
(1) MMF rates are variable. This is the calculated average for the year to June

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Investment Counterparties 2019/20

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	MMFs of high credit quality - AAA rated		Instant access	£5m 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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Detailed economic commentary on developments during quarter ended 30 June 2019

This section has been provided by Capital Economics to Link Asset Services and therefore includes their views and opinions of future trends and events.

During the quarter ended 30 June 2019 *(quarter 2 of 2019):*

Brexit was delayed until 31st October 2019;

GDP rose by a solid 0.5% q/q in Q1, but contracted at the start of Q2;

The fundamentals that determine consumer spending remained healthy;

Inflation bobbed around the Bank of England's 2% target;

There was a widespread fall in investors' global interest rate expectations;

The MPC kept Bank Rate on hold at 0.75%, but struck a more dovish tone;

The economy posted a **stronger-than-expected expansion in Q1 of 0.5% q/q,** but that was probably a temporary high as activity was brought forward ahead of the original 29th March Brexit deadline. As a result, we doubt Q2 will be as good. Indeed, stock building added 0.9 ppts to the quarterly rate of GDP growth in Q1 as firms built up their stocks ahead of a possible no deal Brexit. Admittedly, a large chunk of these stocks were imported, so the net boost was smaller than this – perhaps around 0.3 ppts. Nonetheless, stock building will exert a similar *drag* on GDP growth in Q2.

In fact, the chances of the economy escaping a **quarterly contraction in Q2** seem to be receding in light of the latest survey and official data. GDP fell by 0.4% m/m in April, the largest monthly fall in three years. This partly reflected the decision by car manufacturers to bring forward their annual car plant shutdowns from August to April in case of a no deal. As a result, vehicle production dropped by 24% m/m knocking 0.2 ppts off overall GDP in April. Granted, the Society of Motor Manufacturers & Traders (SMMT) car production data suggest that these losses were recouped in May. After all, production rose by 60% m/m, which probably provided a 0.3 ppts boost to GDP in May.

Even so, GDP may still struggle to expand in Q2 as a whole – we have pencilled in a contraction of 0.1% q/q. Indeed, June's manufacturing PMI suggests the sector is still suffering from a Brexit-related hangover and a weak global economy and probably shrank in Q2.

What's more, household spending will probably fall short of the impressive 0.6% q/q rise in Q1. Retail sales volumes were flat in April and fell by 0.5% m/m in May. But a major slump in consumer spending in Q2 or further ahead seems unlikely.

Indeed, looking through the Brexit volatility, while consumer confidence has been relatively weak, the fundamentals that determine consumer spending have remained healthy. Admittedly, **employment** only rose by 32,000 in the three months to April, well below the

98,000 average monthly rise in 2018. But with the unemployment rate still at its 45-year low of 3.8%, the tightness in the labour market has pushed up wage growth. Indeed, the headline measure excluding bonuses nudged up from 3.3% in March to 3.4% in April – just below the decade high of 3.5%. And with inflation bobbing around the Bank of England's 2% target**, real wage growth has reached its highest rate since late 2016.**

CPI inflation dropped from 2.1% in April to 2.0% in May as the previous upward pressure on airfares due to the later timing of Easter unwound. Underlying price pressures look subdued too. Core services inflation fell from 3.1% to 2.9% in May and input price inflation dropped from 4.5% to just 1.3%, its lowest rate since June 2016. At the same time, output price inflation nudged down from 2.1% in May to 1.8%.

Nonetheless, there are still some reasons to think that CPI inflation will edge up at the end of the year as rising agricultural prices push up food inflation and core inflation starts to pick up now that the lagged effects of a fall in import price inflation have come to an end. What's more, the recent pick-up in wage costs is consistent with a **rise in core services inflation to just shy of 4% in early-2020.**

Bank Rate. Meanwhile, investors have reassessed the outlook for UK monetary policy and have gone from expecting rate hikes in early May to now expecting *cuts*. This is partly because of the weakening global outlook and rising expectations of rate cuts in the US and euro-zone. But growing concerns over a no deal Brexit have also weighed on expectations. Indeed, at the Treasury Committee in June, the Governor of the Bank of England, Mark Carney, gave the strongest hint yet that in a no deal Brexit, the Monetary Policy Committee (MPC) would cut rates. In that scenario, we think that rates would be cut fairly quickly from 0.75% to 0.25%.

Meanwhile, it wasn't surprising that the **MPC** kept Bank Rate on hold at 0.75% at June's meeting given the drop in GDP in April and inflation falling back to target in May. What was perhaps more surprising after its hawkish comments in May, was the Committee's new-found dovish tone. The MPC noted that "the near term data have been broadly in line with the May Inflation Report, but that **downside risks to growth have increased."** It also sounded more concerned about the possibility of a no deal Brexit. Instead of chastising the market for underestimating how much interest rates might rise as it did in May, the MPC pointed out that "the ongoing tension between the MPC's forecast…of a smooth Brexit and the assumptions about alternative Brexit scenarios that were priced into financial market variables".

Turning to fiscal policy, regardless of the Brexit situation, all roads appear to lead to **looser fiscal policy.** There was good news for the Chancellor at the end of 2018/19. Public sector net borrowing (PSNB ex.) came in only just above the OBR's February forecast of £23.4bn in 2018/19 – a far cry from the £37.1bn the OBR predicted in March 2018. Admittedly, PSNB ex. will probably rise slightly this year due to a number of promises made by the current Chancellor Phillip Hammond in the 2018 Budget, including spending on the NHS. But the OBR's projections still suggest that there is around £27bn headroom against the current fiscal rule.

Indeed, both **Johnson and Hunt** are promising wider ranging and bigger tax cuts and spending rises with the policies announced so far adding up to £20bn and £40bn a year

respectively. Of course, using up the headroom is not free money. It simply means that there is room to increase borrowing without breaking the current fiscal rule that the cyclically-adjusted budget deficit has to be below 2% of GDP in 2020/21.

Of course, how much borrowing rises depends on **the outcome of Brexit.**

- If a deal is reached, faster GDP growth would reduce public spending, raise tax revenues and cut the deficit, perhaps allowing fiscal policy to be loosened without borrowing rising at all.
- However, in a no deal, the weaker economy would push up the deficit. As a result, the new Chancellor would have to choose between keeping the fiscal rules intact or loosening fiscal policy to give the economy a boost. We think that he/she would opt for the latter, arguing that exceptional circumstances allowed for his/her fiscal rules to be suspended.

The fact that both Johnson and Hunt seem willing to leave the EU without a deal means **the chances of a general election** and a Labour government have also risen, as Parliament may vote to bring down the government. Looser fiscal policy seems to be on the cards under a Labour Government too. Admittedly, Labour only plans to raise borrowing by a small amount, in part because it plans to pay for higher day-to-day spending with tax increases. But there is a big question mark over whether Labour would manage to raise as much money from its planned tax rises as it claims. Indeed, the Institute for Fiscal Studies thinks that, at best, Labour will raise £41bn rather than £49bn, leaving a “manifesto black hole” of nearly £10bn.

Turning to the **financial markets**, concerns over global growth and subsequent falls in interest rate expectations have caused **developed market bond yields to slump** – the 10-year gilt yield fell from 1.05% at the start of the quarter to 0.81%. However, lower interest rate expectations have supported increases in equities. The FTSE 100 finished the quarter around 2.5% higher although it underperformed compared to the S&P 500 perhaps since the FTSE 100 has a high concentration of energy firms, so the fall in oil prices over the quarter has probably weighed on its overall performance.

Meanwhile, despite the narrowing in the gap between 2-year government bond yields in the US and the UK to around 100bps, which would normally put upward pressure on sterling in relation to the dollar, **sterling** has fallen to $1.26 this quarter. This is mainly because investors have become more concerned about a no deal Brexit with betting markets now pricing in about a 30% chance of a no deal compared with just 15% at the start of May.

Elsewhere, in the **US**, the markets are convinced the **Fed will start to cut rates in July.** But we think that a temporary truce in the trade war means it is slightly more likely that a cut will be delayed until September. However, a sharp slowdown in GDP growth in the second half of 2019 should still prompt the Fed to cut interest rates by a cumulative 75bps.

Meanwhile GDP growth in the **euro-zone** will probably only manage 0.2% q/q in Q2. Our expectations for interest rates in the euro-zone are roughly in line with market expectations – we have pencilled in a 10bps cut in September from -0.4% currently to -0.5%. What’s more, we expect the ECB to re-launch QE in October.

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Detailed commentary on interest rate forecasts

Our treasury management advisers, Link Asset Services provided us on 1 July with the following update to their interest rate forecasts.

We normally update our interest rate forecasts after the Bank of England releases its quarterly interest rate forecast. However, these are far from being normal times! What we have seen since our previous forecasts on 7 May is a sharp deterioration of economic growth news, and expectations for growth, in the major economies of the world – the US, EU and China. This has led to a sharp downturn in government bond yields, lower than we previously anticipated. We, therefore, felt that we could not wait until the next quarterly Inflation Report on 1 August to take account of this sharp movement in financial markets.

As for the UK itself and forecasts for Bank Rate, we have moved back our forecast for the first increase from quarter 1 2020 to quarter 3 2020. Our central assumption is that there will be a reasonable form of muddle through Brexit. But it is clear to all that there are very many uncertainties around this central assumption.

In addition, we now also have a greater number of uncertainties around our Bank Rate and PWLB rate forecasts e.g.:

- when / whether Brexit will occur
- hard Brexit / deal Brexit
- will there be an extension of the Brexit deadline / would the EU agree to an extension?

There are also a great number of uncertainties around the political situation and the Tory leadership contest e.g.:-

- the fiscal policy changes proposed by both candidates to counter the effects of a hard Brexit through tax cuts etc.
- how MPs will vote on Brexit and these fiscal proposals
- how would the Bank of England respond to a major fiscal loosening
- could MPs vote to revoke article 50 (withdrawal from EU)
- whether there could be a general election if the Commons ends up in stalemate
- the chances of a no deal Brexit increasing, as negotiating a deal before 31 October looks challenging

In order to make any forecast we have, as previously mentioned, had to make one central assumption – a reasonable muddle-through outcome for Brexit. If the facts change, our forecasts will also change. As events unfold it is possible we may see 50bps movement in rates and yields at any time e.g. a hard Brexit could result in an immediate 50 bps cut in Bank Rate. But that is not our central assumption.

Our key advice to clients in the midst of such large-scale uncertainties is to focus on managing risk, rather than making a bet on one outcome or the other.

A key issue facing all central banks, except the US Fed, is that they have very little ammunition, in terms of normal monetary policy measures, to take action to counter the next economic downturn. The Bank of England and the MPC will have an agenda to restock their ammunition by raising Bank Rate as soon as is feasible, and, at a later time, possibly unwinding quantitative easing.

On the international scene, after the Fed raised central rates to 2.25% – 2.50% on 19 December, it now appears that the chance of any further increases has probably ended and markets are now forecasting cumulative cuts of 1% to 1.25% over the next year or so.

The ECB has had to change tack to committing to put more monetary stimulus into the economy in order to stimulate lack lustre economic growth. Core inflation is likely to stay well below its target rate. It is becoming increasingly likely that there could be some marginal change downwards in the current negative central rates and a resumption of quantitative easing in order to stimulate economic growth and so encourage a rise in inflation towards its target of near to, but under, 2%.

Economic growth prospects in China have also cooled despite various monetary policy measures to stimulate economic growth.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

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

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.

- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than 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 2018 of a government which has made a lot of anti-austerity noise. The EU is again in the midst of a sharp disagreement with Italy over setting a budget within the limits of EU rules. The rating agencies have already downgraded Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold Italian debt. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance over €200bn of debt maturing in 2019. However, the biggest concern is the major holdings of Italian government debt held by Italian banks and insurers. Any downgrading of such debt would cause Italian bond prices to fall, causing losses on their portfolios, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc. This is the so called **'doom loop'**. Due to the Italian government's already high level of debt, it would not be able to afford to bail out the banking system. **Portugal** faces the same problem as its debt is also only one notch above junk level.

- Weak capitalisation of some **European banks**, particularly Italian banks.

- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she has continued as Chancellor, though more recently concerns have arisen over her health.

- **Other minority EU governments.** Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.

- **Italy, Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.

- The increases in interest rates in the US during 2018, combined with an on-off potential trade war between the USA and China, sparked major volatility in equity markets during the final quarter of 2018 and into 2019. Some **emerging market countries** which have borrowed heavily in dollar denominated debt could be particularly exposed to investor flight from equities to safe havens, typically US treasuries, German bunds and UK gilts.

- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.

- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.

- **The Fed causing a sudden shock in financial markets** through misjudging the timing, direction and pace for the next movements in the Fed Funds Rate and in changes in levels 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 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.

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

LINK ASSET SERVICES' FORECASTS

We do not currently think that the MPC would increase Bank Rate before any clearing of the fog on Brexit. We have pushed back our first increase in Bank Rate from February 2020 to August 2020. Our forecast for the end of the three year forecast period has been lowered from 1.75% to 1.50%

Financial markets, (short sterling rates), are now expecting a first increase in Bank Rate towards the end of 2023.

Forecasts for average investment earnings beyond the three year time horizon will be heavily dependent on economic and political developments.

Gilt yields and PWLB rates

The general situation is for volatility in bond yields to endure as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e. equities, or the "safe haven" of government bonds. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently, although there are likely to also be periods of sharp volatility from time to time.

We have pointed out consistently that the Fed. Rate was likely to go up more quickly and more strongly than Bank Rate in the UK, but now it is likely to fall before the second stage of any UK monetary policy tightening.

Our forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU, (apart from the departure of the UK), within our forecasting time period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth. However, the current round of increases in tariff rates sparked by President Trump, both actual and threatened, are causing on-going concern around the potential impact on world growth and also on inflationary pressures.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how volatile PWLB rates and bond yields are at present. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Borrowing advice: since November 2018, PWLB rates have fallen significantly. As our long term forecast for Bank Rate is 2.25%, and all PWLB rates are very near to or below 2.25%, and well below 2.25% in periods up to 10 years, there is added value in most borrowing periods. Value, however, in the longer term rates could be negated or minimal, if Bank Rate does not climb to at least 2.25% over the medium term. Accordingly, clients will need to review and assess their risk appetite in terms of any underlying borrowing requirement they may have, and also project forward their position in respect of cash backed resources.

Any new borrowing should also take into account the continuing cost of carry, the difference between investment earnings and borrowing rates, especially as our forecasts indicate that

Bank Rate may rise to only 1.50% by March 2022. Please speak to your CRM to discuss opportunities available.

Our suggested **budgeted investment earnings rates for investments** up to about three months' duration in each financial year for the next six years are as follows:

	Now	**2019/20 report**
2019/20	0.75%	1.00%
2020/21	1.00%	1.50%
2021/22	1.50%	1.75%
2022/23	1.75%	1.75%
2023/24	2.00%	2.00%
2024/25	2.00%	2.50%
Later years	2.25%	

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is unchanged. Negative, (or positive), developments could significantly impact safe-haven flows of investor money into UK, US and German bonds and produce shorter term movements away from our central forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps.

Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

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

The Jan 2019 forecasts were included in the Treasury Management Policy Statement 2019/20
Link Asset Services provided an updated forecast in July 2019.

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Glossary of Terms

Authorised Limit –represents the limit beyond which borrowing is prohibited, and needs to be set and revised by the Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate – the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Capital expenditure – material expenditure on capital assets, such as land and buildings, capitalised in accordance with regulations.

Capital Financing Requirement (CFR) – the level of capital expenditure to be financed from borrowing. This requirement will eventually be met by revenue resources through the Minimum Revenue Provision (MRP) mechanism.

CIPFA – Chartered Institute of Public Finance and Accountancy

Counterparty – the other party involved in a borrowing or investment transaction.

Credit Rating – a qualified assessment and formal evaluation of the credit history and capability of repaying obligations of an institution (bank or building society). It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time. Ratings are prepared by Finch, Moody's and Standard & Poor's, and these are monitored by Link Asset Services.

Gilt - is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock exchange.

Liquidity – the ability of an asset to be converted into cash quickly and without any price discount. The more liquid an organisation is, the better able it is to meet short term financial obligations.

LIBID – London Interbank Bid Rate - the interest rate at which London banks ask to pay for borrowing Eurocurrencies from other banks. Unlike LIBOR, which is the rate at which banks lend money, LIBID is the rate at which banks ask to borrow. It is not set by anybody or organisation, but is calculated as the average of the interest rates at which London banks bid for borrowed Eurocurrency funds from other banks. It is also the interest rate London banks pay for deposits from other banks.

LVNAV MMF (Low Volatility Net Asset Value MMF) - a type of fund categorised as a Short Term MMF. Units in the fund are purchased or redeemed at a constant price, as long as the value of the assets in the fund do not deviate by more than 0.2% from par.

MHCLG – Ministry of Housing, Communities and Local Government (formerly DCLG)

Minimum Revenue Provision (MRP) - is a provision the council has set-aside from revenue to repay loans arising from capital expenditure financed by borrowing. MRP is required even when borrowing is internal rather than external.

Monetary Policy Committee (MPC) – independent body which determines the Bank Rate.

Money Market Fund (MMF) - mutual fund that invests only in highly liquid instruments such as cash, cash equivalent securities, and high credit rating debt-based securities with a short-term, maturity—less than 13 months. As a result, these funds offer high liquidity with a very low level of risk.

Operational Boundary – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an early warning indicator to ensure the Authorised Limit is not breached.

Prudential Code – the Local Government Act 2003 requires the Council to 'have due regard' to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Prudential Code is published by CIPFA.

PWLB – Public Works Loan Board. An institution managed by the Government to provide loans to public bodies at rates which reflect the rates at which the government is able to sell gilts.

Revenue expenditure – day to day items which may not be capitalised without a Government direction, including employees' pay, transport and premises costs, supplies and services, and benefits.

Last updated: 03/09/19

Governance Committee

Forward Plan

Meeting Date	Item	Lead Officer
24 September 2019	Treasury Management Annual Report 2018/19 and June Quarter Monitoring 2019/2020	Jane Blundell
	Internal Audit Plan First Quarter's Progress Monitoring Report – April to June 2019	Janice Bamber
26 November 2019	Corporate Risk Register	Janice Bamber
	Internal Audit Plan six-monthly Progress Monitoring Report – April to September 2019	Janice Bamber
28 January 2020	Constitution: ▶ Scheme of Delegation ▶ Financial Regulations	 Dave Whelan Jane Blundell
	Internal Audit Plan Third Quarter's Progress Monitoring Report – April to December 2019	Janice Bamber
31 March 2020	External Audit Plan	Grant Thornton
	Governance Committee Self-evaluation	Darren Cranshaw
	Draft Governance Committee Annual Report	Darren Cranshaw
	2019/2020 Closure of Accounts – approval of accounting policies	Jane Blundell
26 May 2020	Draft Statement of Accounts 2019/2020	Jane Blundell
	Internal Audit Annual Report 2019/2020	Janice Bamber
	Draft Annual Governance Statement	Dave Whelan
	Governance Committee Skills Audit	Darren Cranshaw

Items to be scheduled:

- ▶ Annual Audit letter 2019 – Jane Blundell
- ▶ Annual Governance Statement – Dave Whelan

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