Public Document Pack

RUSHMOOR BOROUGH COUNCIL

LICENSING AND GENERAL PURPOSES COMMITTEE

at the Council Offices, Farnborough on
Monday, 30th January, 2017 at 7.00 pm

To:

Cllr A. Jackman (Chairman)
Cllr M.L. Sheehan (Vice-Chairman)

Cllr Sophia Choudhary
Cllr Liz Corps
Cllr A.H. Crawford
Cllr B. Jones
Cllr S.J. Masterson
Cllr M.D. Smith
Cllr L.A. Taylor
Cllr Jacqui Vosper
Cllr J.E. Woolley

Enquiries regarding this agenda should be referred to the Committee Administrator, Kathy Flatt, Democratic and Customer Services, Tel. (01252 398829) or email kathy.flatt@rushmoor.gov.uk.

A G E N D A

1. **MINUTES –** (Pages 1 - 4)

   To confirm the Minutes of the Meeting held on 28th November, 2016 (copy attached).

2. **THE AUDIT PLAN –** (Pages 5 - 22)

   To receive a report from Ernst & Young (copy attached) which sets out how the company will carry out its responsibilities as auditor for the audit of the 2016/17 financial year.

3. **CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2015/16 –** (Pages 23 - 32)

   To receive a report from Ernst & Young (copy attached) which summarises the results of the audit work on the Council's major grant claim under the Housing Benefits Subsidy Scheme for the financial year 2015/16.

4. **EXTERNAL AUDITOR'S SECTOR BRIEFING –** (Pages 33 - 42)

   To receive a copy of Ernst & Young's local government and audit committee briefing paper (copy attached).

5. **SELECTION OF THE MAYOR AND DEPUTY MAYOR 2017/18 –** (Pages 43 - 44)

   The Chief Executive to report on the outcome of the selection process for the Mayor-Elect and Deputy Mayor-Elect 2017/18. A copy of the criteria for the selection process is attached for information. The Committee will be asked to make a recommendation to the Council.

6. **FEES AND CHARGES - SKIN PIERCING –** (Pages 45 - 46)

   To consider the Head of Environmental Health and Housing's Report No. EHH1702 (copy attached), which seeks approval for revised fees and charges for skin piercing registration functions provided by the Environmental Health and Housing Service, to come into effect on 1st April, 2017.

7. **INTERNAL AUDIT UPDATE –** (Pages 47 - 52)

   To receive the Audit Manager's Report No. AUD1701 (copy attached) on internal audit work undertaken during September to December, 2016.

8. **ANNUAL TREASURY MANAGEMENT STRATEGY 2017/18 AND PRUDENTIAL INDICATORS FOR CAPITAL FINANCE –** (Pages 53 - 80)

   To consider the Head of Financial Services' Report No. FIN1703 (copy attached), which sets out the Treasury Management Strategy 2017/18, Prudential Indicators for Capital Finance and the Minimum Revenue Provision Statement for submission to the Council on 23rd February, 2017.

9. **FOLLOW UP FROM AUDIT RESULTS REPORT –** (Pages 81 - 84)

To consider the Head of Financial Services' Report No. FIN1704 (copy attached) which sets out the Council's response to an issue raised by Ernst & Young in their annual Audit Results Report, previously reported to the Committee on 26th September, 2016.

10. **PAY POLICY STATEMENT –** (Pages 85 - 92)

To consider the Corporate Director's Report No. CD1701 (copy to follow), which seeks approval of the Pay Policy Statement for recommendation to the Council for adoption.

PUBLIC PARTICIPATION AT MEETINGS

Members of the public may ask to speak at the meeting on any of the items on the agenda by writing to the Committee Administrator at the Council Offices, Farnborough by 5.00 pm three working days prior to the meeting.

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LICENSING AND GENERAL PURPOSES COMMITTEE

Meeting held on Monday, 28 November 2016 at the Council Offices, Farnborough at 7.00 pm.

Voting Members

Cllr A. Jackman (Chairman)
Cllr M.L. Sheehan (Vice-Chairman)

Cllr Sophia Choudhary
Cllr Liz Corps
Cllr A.H. Crawford
Cllr B. Jones
Cllr S.J. Masterson
Cllr M.D. Smith
Cllr L.A. Taylor
Cllr J.E. Woolley

Apologies for absence were submitted on behalf of Councillor Jacqui Vosper.

14. **MINUTES**

The Minutes of the Meeting held on 26th September, 2016 were approved and signed by the Chairman.

15. **APPOINTMENT OF EXTERNAL AUDITOR**

The Committee considered the Head of Financial Services' Report No. FIN1625, which sought approval to recommend to the Council that Rushmoor should opt in to the appointing person arrangements made by Public Sector Appointments for the appointment of external auditors and to authorise the Head of Financial Services to sign the notice of acceptance on behalf of the Authority, subject to the Council's decision.

The Committee was advised that, following the demise of the Audit Commission, new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act, 2014 required authorities to either opt in to the appointing person regime or to establish an auditor panel and conduct their own procurement exercise. The Report advised that notice had to be given to the Public Sector Audit Appointments (PSAA) by 9th March, 2017 of an intention to opt-in to the appointed person regime. It was further noted that the appointment of auditors for the 2018/19 financial year was required by 31st December, 2017.

The Committee considered the advantages of using PSAA and also the disadvantages if the Council was to decide to undertake its own procurement. It was noted that the use of PSAA would minimise the risks inherent in the Council undertaking its own procurement. The Committee also considered the financial implications and were of the opinion that economies of scale would mean that procuring via PSAA would be significantly less than procuring individually or through a smaller group of authorities.

The Committee RECOMMENDED TO THE COUNCIL that:

(i) the Authority opt in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors; and

(ii) the Head of Financial Services be authorised to sign the notice of acceptance on behalf of the Authority, subject to the decision of the Council.

16. **ANNUAL AUDIT LETTER**

The Chairman welcomed Mr. Andrew Brittain, Executive Director at Ernst & Young LLP, to the meeting to present the external auditors' Annual Audit Letter for the year ended 31st March, 2016.

The purpose of the Audit Letter was to communicate to Members and external stakeholders the key issues arising from the work of the external auditors which it was considered should be brought to the attention of the Council. Detailed findings from the 2015/16 audit results report had already been presented to the Committee on 26th September, 2016 . The matters reported in the Audit Letter were the most significant for the Council.

RESOLVED: That the Annual Audit Letter for the year ended 31st March, 2016 be noted.

17. **TREASURY MANAGEMENT OPERATIONS MID-YEAR REPORT 2016/17**

The Committee received the Head of Financial Services' Report No. FIN1626, which set out the main activities of the Treasury Management Operations during the first half of 2016/17 and an update on the current economic conditions that affected Treasury Management decisions. The Report also showed the actual prudential indicators relating to capital and treasury activities for the period and compared these to the indicators which had been set in the Annual Treasury Management Strategy for the year.

It was noted that 2016/17 had continued to present challenges for treasury management. The Council's treasury team had concentrated on the security of deposits and investments while having regard to the returns available. It was estimated that the Council's increased capital expenditure in the current year would raise the level of external borrowing at the end of the year.

Further capital expenditure in 2017/18 and future years would require progressive redemption of the Council's investments as borrowing increased. Every effort was being made to retain the higher yielding investments for as long as possible, as their redemption in the future to raise cash for capital purposes would cause significant revenue effects in relation to the loss of investment income. The Council continued to seek to diversify its investments in order to maximise returns and to safeguard the Council's treasury management position.

The Committee was advised that the Council had complied with its Treasury and Prudential Indicators for 2016/17.

During debate on the item, Members raised questions regarding pooled funds and the risk profile of investments. Following discussion on the subject, it was agreed that the Committee should receive more frequent treasury management operations reports.

RESOLVED: That the Head of Financial Services' Report No. FIN1626 be noted.

The meeting closed at 7.34 pm.

CLLR A. JACKMAN (CHAIRMAN)

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Rushmoor Borough Council

Year ending 31 March 2017

Audit Plan

30 January 2017

Ernst & Young LLP

Building a better
working world

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Rushmoor Borough Council
Council Offices
Farnborough Rd
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Hampshire GU14 7JU

30 January 2017

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Licensing and General Purposes Committee (L&GPC) with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 30 January 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Andrew Brittain
For and behalf of Ernst & Young LLP
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Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ''Statement of responsibilities of auditors and audited bodies '. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Rushmoor Borough Council give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended;
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness;

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. One particular area of focus will be the incorrect capitalisation of revenue expenditure on Property, Plant and Equipment.	We will ► Review and test revenue and expenditure recognition policies ► Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ► Develop a testing strategy to test material revenue and expenditure streams ► Review and test revenue cut-off at the period end date ► Review in-year financial projections and compare to year-end position. ► Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised
Risk of management override	
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.	Our approach will focus on: ► Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ► Reviewing accounting estimates for evidence of management bias, and ► Evaluating the business rationale for significant unusual transactions ► Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

Other Risks

Financial Statements Presentation – Expenditure and Funding Analysis and Comprehensive Income and Expenditure Statement	
Amendments have been made to the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the* code) this year changing the way the financial statements are presented. The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the '*Telling the Story'* review of the presentation of local authority financial statements. The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis. This change in the code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.	Our approach will focus on: ► Review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code ► Review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported. ► Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ► Identifying fraud risks during the planning stages;
- ► Enquiry of management about risks of fraud and the controls to address those risks;
- ► Understanding the oversight given by those charged with governance of management's processes over fraud;
- ► Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ► Determining an appropriate strategy to address any identified risks of fraud, and,
- ► Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
For 2016-17 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our initial risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has not identified any risks which we view as relevant to our value for money conclusion. However we note from our discussions with key officers that aspects of the Medium Term Financial Plan are still evolving and therefore it is our intention to keep this under review as the audit progresses. Should this review change our initial risk assessment we will bring an update to this Audit Plan via a progress report to the next Licensing and General Purposes Committee.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- Financial statements
- Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require;

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

Processes

A key consideration in our audit planning process is the effectiveness of entity level controls; including the extent to which the Council assesses risk, implements controls in order to minimise risk and performs ongoing testing and monitoring of the effectiveness of the controls implemented. Good entity controls are underpinned by an effective IT environment.

Although we are not intending to rely on system controls in 2016-17, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Governance Statement.

We are aware from discussions with key officers that the Chief Executive is due to retire in February 2017. We will review this process as part of our work on Senior Officer Remuneration.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests

► Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Licensing and General Purposes Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements. As we are taking a fully substantive approach to the audit we will not be relying directly on the work of Internal Audit. We believe this offers a more efficient approach to the audit.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Property, Plant and Equipment	EY property valuations team Third party management specialists – Wilks Head and Eve
Pensions	EY pensions valuation team Third party management specialists – AON Hewitt
Treasury Management	Arlingclose external Treasury Management consultants

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

► Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source date is relevant and reliable;

► Assess the reasonableness of the assumptions and methods used;

► Consider the appropriateness of the timing of when the specialist carried out the work; and

► Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ► Addressing the risk of fraud and error;
- ► Significant disclosures included in the financial statements;
- ► Entity-wide controls;
- ► Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ► Auditor independence.

Procedures required by the Code

- ► Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement
- ► Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements' of the Council is £1,343,000 based on 2% of Gross Revenue Expenditure. We will communicate uncorrected audit misstatements greater than £67,169 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Rushmoor Borough Council is £49,838.

4.6 Your audit team

The engagement team is led by Andrew Brittain, who has experience on Rushmoor Borough Council. Andrew is supported by Adrian Balmer who is responsible for the day-to-day direction of audit work and is the key point of contact for the Head of Financial Services and Chief Finance Officer.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Licensing and General Purposes Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Licensing and General Purposes Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Licensing and General Purposes Committee timetable	Deliverables
High level planning	November 2016 - December 2017	January 2017	Audit Plan
Risk assessment and setting of scopes	November 2016 - December 2017	January 2017	Audit Plan
Testing routine processes and controls	January – March 2017	March 2017	Progress Report
Year-end audit	July- August 2017		
Completion of audit	August 2017	September 2017	Report to those charged with governance via the Audit Results Report Audit report including our opinion on the financial statements and overall value for money conclusion. Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	August 2017	September 2017	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
► The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that we are independent; ► Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ► An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with

PSAA Terms of Appointment. At the time of writing there are currently no non-audit services that have been offered.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work. There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Andrew Brittain, the audit engagement Partner and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £	Explanation
Opinion Audit and VFM Conclusion	49,838	49,838	49,838	
Total Audit Fee – Code work	**49,838**	**49,838**	**49,838**	
Certification of claims and returns [1]	7,511	7,511	8,652	
Total	**57,349**	**57,349**	**58,490**	

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

[1] Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Licensing and General Purposes Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	► Audit Plan
Significant findings from the audit ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process ► Findings and issues regarding the opening balances on initial audits	► Audit Results Report
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	► Audit Results Report
Fraud ► Enquiries of the Licensing and General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud	► Audit Results Report
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	► Audit Results Report
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	► Audit Results Report
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Licensing and General Purposes Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Licensing and General Purposes Committee may be aware of	► Audit Results Report

Required communication	Reference
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director's consideration of independence and objectivity such as: ► The principal threats ► Safeguards adopted and their effectiveness ► An overall assessment of threats and safeguards ► Information about the general policies and process within the firm to maintain objectivity and independence	► Audit Plan ► Audit Results Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ► Whether the events or conditions constitute a material uncertainty ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ► The adequacy of related disclosures in the financial statements	► Audit Results Report
Significant deficiencies in internal controls identified during the audit	► Audit Results Report
Fee Information ► Breakdown of fee information at the agreement of the initial audit plan ► Breakdown of fee information at the completion of the audit	► Audit Plan ► Audit Results Report Annual Audit Letter if considered necessary
Certification work ► Summary of certification work undertaken	► Certification Report ► Annual Audit Letter if considered necessary

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Ernst & Young LLP

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Certification of claims and returns annual report 2015-16

Rushmoor Borough Council

January 2017

Ernst & Young LLP

Building a better working world

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30 January 2017
Ref: HB1

Direct line: 07976 515115
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Dear Committee Members,

Certification of claims and returns annual report 2015-16
Rushmoor Borough Council

We are pleased to report on our certification work. This report summarises the results of our work on Rushmoor Borough Council's 2015-16 claim.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Public Sector Audit Appointments Ltd (PSAA) made arrangements for certifying claims and returns in respect of the 2015-16 financial year. These arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Statement of responsibilities

The 'Statement of responsibilities of grant-paying bodies, authorities, Public Sector Audit Appointments and appointed auditors in relation to claims and returns', issued by PSAA, serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the Council. As appointed auditor we take no responsibility to any third party.

Summary

We checked and certified the housing benefits subsidy claim with a total value of £37,327,041. We met the submission deadline.

Fees for certification work are summarised in section 2. The fees for 2015-16 are available on the PSAA website (www.psaa.co.uk).

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working world

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We welcome the opportunity to discuss the contents of this report with you at the Licensing and General Purposes Committee on 30 January 2017.

Yours faithfully

Andrew Brittain
Executive Director
Ernst & Young LLP
Enc

Contents

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£37,327,041
Amended/Not amended	Amended – The claim form was amended but due to rounding the amendment resulted in no impact on subsidy claimed. See further details below.
Qualification letter	Yes
Fee – 2015-16	£8,652
Fee – 2014-15	£7,960

Cell 11: Rent Rebates – Total Expenditure (Benefit Granted)

Cell Total £41,377

Cell Population 75

Headline Cell £41,377

Testing of the initial sample identified:

- Two cases in which weekly rent had been incorrectly entered in the assessment of benefit entitlement for a period of 2 weeks and 4.43 weeks leading to an aggregate overpayment of housing benefit of £0.15p impacting the headline cell 11 and underlying cell 13. The weekly rent liability had been correctly calculated but incorrectly entered into the Northgate housing benefits system resulting in this small overpayment of benefit. As the error in inputting benefit calculation data resulted in an overpayment of benefit and the population was small it was decided to undertake 100% testing, specifically testing that the calculation of rent liability had been undertaken correctly.

We tested 100% of non-HRA cases and identified no further errors in our testing. However due to the value of the errors there was no adjustment to subsidy and therefore the claim was not required to be amended.

Cell 094: Rent Allowances – Total Expenditure (Benefit Granted)

Cell Total £37,617,907

Cell Population 7846

Sub Population £2,389,815

Cell Population 569

Headline Cell £37,617,907

Testing of the initial sample identified:

- One case in which weekly earned income had been incorrectly entered in the assessment of benefit entitlement for a period of 1 weeks leading to an aggregate underpayment of housing benefit of £0.06p impacting the headline cell 94 and underlying cell 102. The weekly earned income had been correctly calculated but incorrectly entered into the Northgate housing benefits system resulting in this small underpayment of benefit. However, such an error in inputting benefit calculation data could equally have given rise to an overpayment of benefit. Given the nature of the population and the error found an additional random sample of 40 cases with earnings was selected for testing from a sub-population of cell 102 (£2,389,815).

Testing of the additional sample identified 3 cases where benefit had been overpaid. This was due to the miscalculation of earnings and resulted in an overstatement of cell 102 by £44.29. In line with the guidance the error was extrapolated and the value of the extrapolated error was found to be £406. No adjustments to the claim have been made in respect of these findings. The percentage error rate in our sample reflects the individual cases selected. The value of the errors found ranged from £0.10p to £26.19 and the benefit periods affected ranged from 1 week to 4 weeks.

Given the nature of the population it is unlikely that even significant additional work would result in an amendment to this cell that will allow us to conclude it is fairly stated.

We have reported these observations to the DWP in a qualification letter.

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2. 2015-16 certification fees

Public Sector Audit Appointments (PSAA) determine a scale fee each year for the audit of claims and returns. For 2015-16, these scale fees were published by the PSAA in April 2015 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2014-15	2015-16	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	7,960	8,652	8,652

3. Looking forward

The duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work is delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2016-17 is £7,511. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2016-17.

Details of individual indicative fees are available at the following web address: http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Director of Finance and Resources before seeking any such variation.

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Local government audit committee briefing

Contents at a glance

This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please contact your local audit team.

Building a better working world

Government and economic news

EY Item Club

The latest EY Item Club forecast (Autumn 2016) focuses on the United Kingdom's decision to leave the European Union and highlights that it believes the relatively small impact on the economy to date may be deceptive. The Sterling's performance could be an indication that troubles lie ahead.

At the moment, growth in the economy is being driven entirely by the consumer, supported by rising employment and real wages, as well as ultra-low interest rates. However, sterling's devaluation will push inflation up to 2.6% temporarily next year. With average earnings still subdued, which will slow the consumer. In the meantime, many firms have put investment and recruitment on hold whilst they assess the likely impact of the Article 50 negotiations on their business and consider their long-term options.

Policy uncertainty is feeding through into lower levels of business confidence which we expect to translate into lower investment in 2017. This together with a squeeze on margins from input cost inflation and a tightening labour market in some areas is leading to investment projects that are seen as marginal either being cancelled or delayed, with some of this capital being diverted to other geographies.

Now is the time to update strategies and associated business plans to reflect the slowing macro-environment and emerging policy outlook. Slowing growth and rising inflation together with a depreciating currency which could negatively impact the economy.

Sustainability and transformation plans

The NHS Planning Guidance issued in December 2015 included the requirement for Sustainability and Transformation Plans (STPs). NHS organisations were asked to work together to come up with a 5-year plan for their area for all areas of NHS spending.

A named individual has been identified to lead each STP. In most cases this is from CCGs, NHS Trusts and Foundations but there are a smaller number from local government bodies.

These STPs have now been delivered and are designed to articulate how individual organisations will play their part in delivering their locally agreed STP objectives, including sustainable financial balance across the health economy.

From April 2017, access to NHS transformation funding will be linked to effective delivery of the STP. STPs represent a shift in focus from the role of competition within the health system to one of collaboration — referred to as 'place-based planning'. NHS organisations are telling us that the changing needs of their populations are best met through integrated models of care, with the delivery of care being best met by different areas of the NHS working in a co-ordinated way. The King's Fund has argued that a place based approach to planning and delivering health and social care services is the right approach — and that this should also include collaborating with other services and sectors outside the NHS — with the aim of improving the health and wellbeing of local populations.

Government and economic news

Development and delivery of STPs is a complex task, with large footprints, involving many different organisations, in an already stretched environment in terms of finances and capacity. There are further challenges with the need to address weaknesses in NHS incentives to work together and to avoid organisations focussing on individual goals rather than the effective implementation of STP objectives — for example, NHS Trusts are closely monitored on their own performance targets.

The STPs have been delivered in a relatively short timeframe and propose major changes to services. With the growing financial challenges in the system, the STPs are required to show how they will bring the NHS back into financial balance. Given the short timeframes, the submitted plans will need further development and engagement before they can be effectively implemented.

Four of the STPs have been published early and these demonstrate the significance of the changes being considered under these plans, including reducing the number of acute hospitals and the consolidation of services. Such changes are likely to lead to public and political opposition.

The challenge for STP partners will be to move from the planning phase to implementation in order to realise the objectives agreed.

Treasury confirms public sector pay offs to be capped at £95,000

The Treasury have confirmed that public sector exit packages will be capped at £95,000. The announcement follows a consultation period which heard replies from over 350 interested parties. The changes will apply to the majority of the five million public sector workers. Reflecting on the announcement the Treasury noted that the reduction in exit packages across the public sector would result in significant savings but would still offer a comparable and competitive settlement process similar to that in the private sector.

The proposals include the following:

- A cap on the salary level at which exit packages can be calculated. It is likely that this will fall in line with the current NHS cap of £80,000
- The tariff for calculating exit packages will be based on three weeks' pay per year of service with a maximum of 15 months being the cap
- A clawback proposal would also come into effect which would mean that anyone returning to a public service post soon after leaving with an exit package would be required to repay their redundancy payment

Government and economic news

Pension investment schemes

There is a proposal to replace the Local Government Pension Scheme 2009 with new draft regulations as set out below:

The two main areas of reform are:

- A package of reforms that propose to remove some of the existing prescribed means of securing a diversified investment strategy and instead place the onus on authorities to determine the balance of their investments and take account of risk
- The introduction of safeguards to ensure that the more flexible legislation proposed is used appropriately and that the guidance on pooling assets is adhered to. This includes a suggested power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary

Revaluation of business rates

The next revaluation of all properties for business rates will take effect from 1 April 2017. From next April, businesses will benefit from the biggest ever cut in business rates in England-worth £6.7bn over the next five years. £3.4bn worth of transitional relief will be available to provide support for the changes. By 2020 councils will be able to keep 100% of all local taxes to fund local services. Invoices will be issued by councils, and the valuations carried out by the VOA, as is currently done, to avoid conflict of interest.

The small business rate multiplier is expected to fall from April 2017 by 1.7p to 46.7p, the standard rate multiplier is also expected to fall by 1.7p to 48.0p.

Schools no longer required to convert to academies

The government will no longer pursue a bill making it compulsory for all schools to convert to academies after protest from Councils, the bill will now only encourage converting.

The original plans required all schools to have converted, or have plans in place to do so by 2022. The announcement coincides with draft plans to introduce more grammar schools in England, reversing the 1998 ban on new grammar schools. And proposals suggesting more schools will be allowed to select pupils based on academic ability which is under consultation until mid-December.

In addition a bill on technical and further education has been published with the aim of boosting the countries productivity by addressing skills shortages by providing high quality technical education. This stems from the independent panel chaired by Lord Sainsbury, which undertook a review of the post-16 skills system and advised Government on measures to improve technical education in England, this led to the Post-16 Skills Plan published in July 2016, which set out the plan to replace thousands of courses with 15 routes into technical employment.

Government and economic news

Public sector borrowing

Public sector borrowing for August has decreased by £0.9bn to £10.5bn compared with the same month last year. This is due largely to a decrease in central government net borrowing of £0.4bn as well as a fall in local government borrowing of £0.2bn.

Public sector net debt at the end of August was £1,621.5bn which is equivalent to 83.6% of UK GDP. This is an increase of £52bn compared with August 2015.

The latest figures come 2 months after the vote to leave the European Union in June.

The Emergency Services Network

In 2011 the Government set up the Emergency Services Mobile Communications Programme to look at options to replace the current provider, Airwave Solutions Limited, for communications between personnel in the field and control rooms. The current contract is set to expire in 2019 and the objective was to replace the current service with one that:

- Makes high speed data easily available to the emergency services
- Provides more flexibility and takes advantage of new technologies as they emerge
- Costs less

The chosen option to replace the Airwave service and meet the three objectives is the Emergency Services Network (ESN). The provision of this service has been contracted out to three main providers Kellogg Brown and Root, Motorola Solution and EE ltd.

The plan is emergency services will start moving to this new network in September 2017 and the process will be complete by December 2019.

It is estimated to cost £1.2bn from April 2015 to March 2020. After this date the ESN is expected to save money compared to Airwave, the current provider.

Barclays changes LOBO loans to fixed rate loans

Following a period of public scrutiny Barclays has changed its Lender Option Borrower Option (LOBO) Loans to Councils and Local Authorities to a fixed rate basis. The LOBO's had initially been offered at lower rates than the other main source of public sector funding the Public Works Loan Board (PWLB) however Barclays always retained the right to adjust the interest rate. This had come under scrutiny and it was argued didn't offer value for money for taxpayers. A series of objections by local electors have been made to the 2015-16 accounts of 24 local authorities that have taken out LOBO loans. The objections predominantly argued that the decision to take out LOBO loans was irrational and unreasonable, and thereby unlawful. Appointed auditors are currently considering these objections under the legal framework for objections contained in the Local Audit and Accountability Act 2014.

Under the changes Barclays has stated that over 100 local authorities and housing associations will benefit from the change. It will also give such bodies much more certainty over their finances in the future as it will remove an element of uncertainty attached with the nature of the loans by locking the loans in at a fixed rate for the duration of the loans. Barclays said that clients impacted had been notified of the change in June 2016.

Accounting, auditing and governance

PSAA as appointing person

In July 2016, the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation three of the Local Audit (Appointing Person) Regulations 2015. This means that PSAA can make auditor appointments for audits of the accounts from 2018/19 of principal authorities that choose to opt into its arrangements.

Appointments for 2018/19 must be made by 31 December 2017. Details of the scheme as well as a timetable will be available soon.

Governing culture: practical considerations for the board and its committees

Corporate culture has been a hot topic for many years now and we are finding Boards and Audit Committees are starting to question more and more how they can ensure proper oversight. The EY Corporate Governance team have prepared a report that summarises the findings of the recent EY and FT board survey on culture and their own work at individual organisations.

We would define culture as the collective values and beliefs that exist in an organisation, or parts of an organisation, that inform and influence behaviours, actions and decision making. Culture can then be split into four organisational pillars:

- Political architecture: where does power lie and how is it used?
- Performance architecture: how do economic and performance objectives drive behaviour?
- Social architecture: what values govern relationships and what behaviours do these drive?
- Operational architecture: how do organisational frameworks, systems and processes affect behaviour?

Audit committees have a unique role to play in the governance of culture, which can directly affect internal control processes, risk management and the integrity of the financial statements. The Corporate Governance team included the following key messages for the audit committee:

- The audit committee should understand how culture can impact the effectiveness of risk mitigation strategies and support decision making throughout the company in line with the risk appetite determined by the board
- The committee should consider the cultural context for performance and results and the integrity of the financial statements
- Data analytics can help the committee create a picture of culture throughout the company, including across international locations. This data should form part of the overall analysis that is used to drive further assurance and oversight efforts
- The committee should be aware of cultural factors that can influence the relationship with the external auditor. It should use internal audit as a resource for monitoring and championing the desired culture throughout the organisation

If you have any questions on culture or corporate governance then please speak to your external audit team who will be able to provide information on the various pieces of work we have done, and could do, for your organisation.

Regulation news

Gender Pay Gap

Subject to the approval by Parliament the regulations for mandatory reporting on the gender pay gap will come into force during October 2016. However, employers will have around 18 months from commencement to publish the required information for the first time.

Employers with 250 or more employees will fall within the scope of the regulations.

Pay

The regulations will require employers to publish their overall mean and median gender pay gaps as they are complementary indicators. As well as giving employers a better understanding of any pay gaps identified, this will facilitate comparisons with national and international figures.

Bonus

Employers within scope will need to publish the difference between the mean bonus payments paid to men and women (regulation 6). The mean takes into account the full distribution of bonuses paid by an employer. Only those employees who receive 10 bonuses should be included in the calculation. Employers will also be required to publish the proportion of male and female employees that received a bonus.

Salary Quartiles

Employers will be required to report on the number of men and women in each quartile of their pay distribution (regulation 7). Quartiles split into four equal groups, where each group contains a quarter of the data. Employers will calculate their own salary quartiles based on their overall pay range. The objective is to identify the numbers of women and men in each quarter by the overall pay distribution. This is straightforward to produce and will help employers consider where women are concentrated in terms of their remuneration, and if there are any blockages to their progression.

Impact

This is not yet a disclosure requirement but is something that could emerge in the future.

Key questions for the audit committee

What questions should the Audit Committee be asking itself?

What actions are being taken to consider the impact of the UK's decision to leave the European Union?

Do we have appropriate governance arrangements in place to facilitate the delivery of the STP?

Are we ready for the changes to exit package calculations?

If you are an administering authority has the impact of the proposed changes to the new pension investment scheme been considered and how the local authority will go about determining the value of their own investment?

Did your local authority have a Barclays LOBO and if so have the impact of the changes made by Barclays been considered by your organisation?

Has the local authority got a plan in place to appoint an external auditor before 31 December 2017?

How thoroughly has the committee discussed the impact of culture on risk, risk management and the internal control environment?

Are there systems in place to be able to calculate the gender pay gap, ensuring your organisation is prepared if this does become a requirement?

Find out more

EY Item Club

http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections

Sustainability and transformation plans

https://www.england.nhs.uk/wp-content/uploads/2016/02/stp-footprints-march-2016.pdf

https://www.kingsfund.org.uk/projects/sustainability-and-transformation-plans

Exit packages

http://www.publicfinance.co.uk/news/2016/09/treasury-confirms-public-sector-pay-offs-be-capped-ps95k

Pension investment schemes

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479642/Consultation_on_investment_reform.pdf

Revaluation of business rates

https://www.gov.uk/government/news/government-promises-fairer-bills-for-business-across-the-country

Schools conversion to academies dropped

http://www.bbc.co.uk/news/education-37791282

and

https://www.gov.uk/government/collections/technical-and-further-education-bill

Public sector borrowing

http://www.publicfinance.co.uk/news/2016/09/public-sector-borrowing-falls-august

The Emergency Services Network

https://www.nao.org.uk/wp-content/uploads/2016/09/Upgrading-emergency-service-communications-the-Emergency-services-Network.pdf

Barclays changes LOBO loans to fixed rate loans

http://www.publicfinance.co.uk/news/2016/09/barclays-ditches-lobo-loans

PSAA as appointing person

http://www.psaa.co.uk/2016/08/news-release-psaa-specified-as-appointing-person/

Governing culture: practical considerations for the board and its committees

http://www.ey.com/uk/en/issues/governance-and-reporting/corporate-governance/ey-governing-culture---practical-considerations-for-the-board-and-its-committees

Gender Pay Gap

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504398/GPG_consultation_v8.pdf

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ED None

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AGENDA ITEM NO. 5

CRITERIA FOR THE SELECTION OF THE MAYOR AND DEPUTY MAYOR

The Council has established criteria for selecting the Mayor and Deputy Mayor. The Licensing and General Purposes Committee keeps the criteria under regular review. The arrangements are as follows:

- The position of the Mayor and Deputy Mayor of the Borough will be taken in order of seniority from all the elected Members of the Council and will be calculated in accordance with the procedure adopted by the Council on 20th May 1976 as follows:

  “The order of seniority of Members of the Council shall be determined by the length of previous local government service with the Council, including past service with the former Aldershot Borough Council and Farnborough Urban District Council. In the case where two or more Members have the same length of service, then priority between such Members shall be determined by the number of votes received by each Member expressed as a percentage of the total number of ballot papers issued at the most recent election held in their respective Wards.”

- The normal progression through the Mayoralty will be by the holding of the position of Deputy Mayor and then progressing to the position of Mayor the following year.

- Should an elected Member be in the position of not being able or wanting to accept the nomination when they reach their position within the seniority list, they will be considered in the following Municipal Year, depending on his or her wishes.

- The Offices of Mayor and Deputy Mayor must at all times be apolitical. The Offices should not be used for political advantage.

- Past Mayors will not be considered for the position of Mayor or Deputy Mayor until fifteen years after the completion of the end of their Mayoral Year; at that time their position on the seniority list will be calculated on the basis of total length of service less fifteen years.

- A Member will not normally be selected until that Member has served a full four year term.

- A Member will not normally be selected for Mayor or Deputy Mayor if they are seeking re-election at that year’s Borough Council Elections.

- Where a Member who has not been mayor before has the same number of eligible years’ service as a Member who has already been Mayor, the

Member who has not been mayor shall be given priority in the selection Process.

- A Member should recognise the time required in carrying out the duties and responsibilities of the Mayor and be able to allocate that time during his or her year of office.

- Those considered for appointment:

    - must demonstrate a broad base of support amongst Councillors

    - should be able to demonstrate some experience of chairing meetings

- The Mayor-Elect and Deputy Mayor-Elect will be selected at the Licensing and General Purposes Committee on the basis of the selections being submitted to full Council in March.

AGENDA ITEM NO. 6

LICENSING & GENERAL PURPOSES COMMITTEE
30TH JANUARY 2017

DIRECTORATE OF COMMUNITY AND ENVIRONMENT
ENVIRONMENTAL HEALTH & HOUSING
REPORT No: EHH 1702

FEES AND CHARGES – SKIN PIERCING

1.0 INTRODUCTION

1.1 This report seek Committee approval for revised fees and charges for skin piercing registration functions provided by the Environmental Health & Housing Service, to come into effect on 1st April 2017.

2.0 BACKGROUND

2.1 The Local Government (Miscellaneous Provisions) Act 1982 provides for the registration of skin piercing activities including acupuncture, tattooing, ear-piercing and electrolysis. The Act also advises that a local authority may charge such reasonable fees as they may determine for registration under this section.

2.2 The Local Authority (Functions & Responsibilities) (England) Regulations 2000 place responsibility for the determination of fees and charges for such matters on the Licensing & General Purposes Committee. A report considering the wider approach to the Council's fees and charges was put to Cabinet on the 15th November 2016 with a recommendation that such fees be uplifted with an implementation of 1st April 2017.

3.0 PROPOSAL

3.1 The fees for these registration services were last reviewed in January 2011 and were set at £125 to register a business premises and £92 per person. Following a review of the work required to deliver the registration activity, and based on the principle of full cost recovery (effectively delivering the requirement to set a "reasonable fee") for the services provided it is proposed that:

- The fee for the registration of the premises be set at £160
- The fee per person be set at £90

with effect from 1st April 2017.

4.0 RECOMMENDATIONS

4.1 Members are recommended to approve the revised fees for skin piercing registration as set out in this report, to take effect on 1 April 2017.

QAMER YASIN
HEAD OF ENVIRONMENTAL HEALTH AND HOUSING SERVICES

Contact: Colin Alborough, Food and Health & Safety Manager (01252 398169)

AGENDA ITEM NO. 7

LICENSING AND GENERAL PURPOSES COMMITTEE
30TH JANUARY 2017

AUDIT MANAGER
REPORT NO. AUD101

INTERNAL AUDIT – AUDIT UPDATE

Overview:
This report is to set out to the committee the work of internal audit undertaken during September 2016 to December 2016.

Action required:
The committee is required to note the content of the report.

1 INTRODUCTION

1.1 This is a periodical report for Committee on the work of Internal Audit to provide an overview of the work undertaken during September 2016 to December 2016.

1.2 The last report was presented to the Committee on the 26th September 2016 where details of the audit plan for the current financial year were reported (See Appendix A). Along with an update on the internal audit work completed during March 16 – August 16.

2 DETAILS OF KEY WORK COMPLETED DURING SEPTEMBER 2016 TO DECEMBER 2016

Housing Benefits

2.1 The Council's benefits system is reviewed biennially. Using nationally published data by the Department for Work and Pensions (DWP), for quarter 1 of 2016/17, RBC are currently joint first place for processing times. With new claims being processed within 5 days and change in circumstances being processed within 1 day.

2.2 The audit concluded that the system continues to operate effectively with sound controls in place and Benefit claims are correctly calculated and processed in a timely manner with a sound audit trail to support entitlement.

2.3 Parameters are loaded onto the benefits system annually in line with the DWP stipulated amounts. A minor error was identified with the figure inputted for one parameter within the system. However, this has now been rectified and only impacted 2 accounts with a total value of £8.66.

2.4 The audit found that prompt system generated action was taken at the early stages of debts becoming due. However, once the standard processes had been exhausted the audit revealed some concerns about the speed with which some debts were managed.

2.5 These concerns were discussed fully with the Revenues and Benefit Manager who shared the concerns and had factored this matter into an ongoing Systems Thinking review currently being carried out.

2.6 The Audit Team agreed to return to this matter to follow up with the Revenue and Benefits Manager once the Systems Thinking review changes have been implemented.

Treasury Management

2.7 The Council's Treasury Management system is reviewed biennially. In regard to investments, Rushmoor maintains a balance between achieving optimum performance with low risk parameters, as set out in the 2016/17 Strategy.

2.8 The audit concluded that the system continues to operate effectively with sound controls in place. Records and documentation supporting transactions provide a clear audit trail, correct account coding and compliance with the approved strategy.

Council Tax Billing and Collection

2.9 The Council Tax Billing and Collection processes are reviewed biennially. Since the last review in 2014/15, the team has been re-structured and a core team now manages the day to day Council Tax operations, led by an experienced Local Taxation Manager

2.10 As well as the re-structure, the team has undertaken a Systems Thinking review of procedures, and the updated leaner processes were introduced over a period from April 2015 to April 2016.

2.11 The audit concluded that:

- The system continues to operate effectively with sound controls in place.
- The annual billing cycle and approvals is well established and controlled as is the management of the Valuation Office records, rejected Direct Debit payments, refunds, the iWorld system access controls and the monthly finance reconciliations.
- The payments outstanding up to the Liability Order stage are appropriately managed.

2.12 A few minor areas were highlighted for improvement and further action has been agreed to be carried out:

- Ensuring that future inspections or end dates to assess the status of discounts or exemptions are always booked.
- Ensuring uncommon discounts are reviewed regularly to assess their status, for example caravans, care homes, religious communities, a visiting forces account and a child benefit account.

- Ensuring that a clear system is in place for officers to declare accounts where there may be a potential conflict of interest, e.g. for relatives living in the Borough, and identification of these would enable access / the nature of transactions to be restricted on iWorld. There may be other corporate areas, e.g. Benefits, where this could also be applicable.

Council Tax and NNDR Recovery

2.13 The recovery system is reviewed biennially. Since the previous review in 2014/15, there have been notable changes within the team with the previous Recovery Manager and key staff leaving, the structure of the Revenues team changing and the introduction of the Council Tax Reduction Scheme, whereby residents previously not liable for Council Tax became liable for a proportion, although still on Benefits.

2.14 Following the Systems Thinking review, the core team have adopted a more pro-active approach in collecting debt by communicating with residents at key debt stages, in particular before the Summons stage, to encourage dialogue and payment.

2.15 The audit concluded that changes in the last two years have resulted in a fall in the collection rates from 2014/15. The systems for the recovery of monies following the Liability Order stage is recognised by management as currently requiring an enhanced focus.

2.16 Therefore a temporary officer recently joined to assist the team, officers within the Support Team and Core Team are being given specific debts to review and a proposal to further re-align officer duties in the short term to improve recovery up to the financial year-end are being undertaken.

2.17 The iWorld system currently allows both ‘creating’ and ‘approval’ of write-offs by the Principal Revenues & Benefits Manager and the Senior Local Taxation Officer. Therefore, there is not an appropriate level of segregation of duties for this process. The Principal Revenues and Benefits Officer has agreed to introduce a segregation of duties to this process.

Server Virtualisation

2.18 The landscape of IT Infrastructure has changed radically in the last 5 years, in that there has been a fundamental swing to the use of virtualisation technology. Virtualisation allows multiple servers to run from a single physical server, which, therefore reduces the number of physical servers and the overheads of management, cost, power and cooling that are associated with these.

2.19 Therefore, the Council implemented a project to upgrade its server infrastructure whilst introducing and gaining the advantages and benefits of virtualisation technologies infrastructure and a shared storage solution. The project was completed in June 2016.

2.20 An external IT auditor was brought in to carry out a review to ensure that the project had appropriate management controls and the virtual servers had robust security controls in place.

2.21 The audit concluded that the general controls over server virtualisation were satisfactory, including compliance with the Government's stringent Public Services Network (PSN) Code of Connection for the current year compliance.

Audit Follow-ups

2.22 The follow ups below have been carried out. All showed progress being made towards implementing the recommendations agreed as part of the audit:

- **Member/ Mayor Allowances**
  An audit was carried out, in 2015/16, on Member/ Mayor allowances. The audit concluded that allowances were correctly paid, although the date allowances commenced was not clearly documented. Clear documentation is now available to show when allowances should commence.

  Furthermore, clear documentation and reconciliations were not available for the Mayor's charity events. Clear documentation and reconciliations are now available for the events.

- **Maintenance Team**
  An audit was carried out on the maintenance team in 2013/14. The audit concluded that appropriate documentation was not available in order to assess the team. Therefore, a new system was proposed to be implemented in order to address this.

  The Principal Engineer is working with IT services in order to get the system in place. However, this is not a quick solution due to development, testing and other priorities. Once the system is in place a further follow up will be carried out.

Mobile devices follow up

2.23 A follow up was also carried out on the Mobile Devices audit. It was reported at the last committee, in September, that one high priority recommendation had not yet been fully implemented and was being referred back to the Directors Management Board. This recommendation has now been fully implemented prior to it being referred back to the Directors Management Board.

3 WORK UNDERWAY

3.1 The following audit work is currently underway and the findings will be reported as part of the next internal audit update report to the committee:

- *Public Sector Internal Audit Standards (PSIAS)* – At the last meeting, it was reported that the results from carrying out the self-assessment against these standards would be reported to the committee. However, due to the amount of work required with the self-assessment this work is still ongoing but should be reported as part of the next internal audit update to the committee in September 2017.

- *Cash Receipting audit* – This is a key financial system, which is audited biennially.
- *Parking Machine Income* – This audit is reviewing the income from parking machines to ensure that the collection and banking processes are robust, provide a sound audit trail and are appropriately reconciled.
- *Activation Aldershot (Capital Project)* – A project from the capital programme is reviewed annually. This project will be reviewed to ensure that the project has been robustly carried out and managed to meet the objectives of the project.

3.2 The Audit plan for 2017/18 is also being developed and will be reported to the Committee at the next meeting in March.

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Audit Manager

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APPENDIX A

INTERNAL AUDIT WORK 2014/15	
Audit Work	**Audit Days**
Significant financial audits as directed by external audit	
Treasury Management	**15**
Cash receipting	**15**
Housing Benefits and Council tax support	**15**
Council Tax Billing and Collection	**15**
Council Tax and NNDR Recovery	**15**
Capital Accounting - Activation Aldershot	**20**
System/Value For Money (VFM) audits / connection to 8 Point Plan	
Heating Contract *(Point 7)*	**20**
Prospect Community Centre (brought forward from previous year) *(Point 4)*	**20**
New banking process *(Point 2)*	**5**
Maintenance team follow up	**5**
Planning Enforcement follow up	**1**
Car Park machine income off street parking *(Point 2 & 3)*	**25**
Building Control – joint service with Hart Council *(Point 2 & 3)*	**25**
Petty cash/ procurement cards *(Point 5 & 7)*	**10**
Specialist Information Technology Audits	
Car Park system follow up	**1**
Express system follow up	**1**
IT Security Audit – including the new firewall	**10**
Server virtualisation	**10**
Anti-Fraud and Corruption work	
Her Majesty's Revenue & Customs (HMRC) follow up	**2**
Financial grants follow up	**2**
Review of corporate governance statement	**1**
Constitution (brought forward from previous year)	**20**
Review/ update corporate governance policies	**2**
Corporate Projects – Allocation of Audit Manager's time to enable the delivery of these projects	
Channel Shift *(Point 2)*	**15**
Co-location 2 *(Point 3 & 4)*	**121**
Corporate Governance	**30**
Action Learning sets	**10**

AGENDA ITEM NO. 8

LICENSING & GENERAL PURPOSES COMMITTEE
30TH JANUARY 2017

HEAD OF FINANCIAL SERVICES
REPORT NO. FIN1703

ANNUAL TREASURY MANAGEMENT STRATEGY 2017/18 AND PRUDENTIAL INDICATORS FOR CAPITAL FINANCE

SUMMARY AND RECOMMENDATIONS:

RECOMMENDATION:

Members are requested to recommend to Cabinet:

(i) Approval of revised Treasury Management and Prudential Indicators for the year 2016/17 attached at Appendix A
(ii) Approval of the Treasury Management Strategy, Annual Borrowing Strategy and Annual Investment Strategy attached at Appendix B;
(iii) Approval of the Prudential Indicators set out in Appendix C; and
(iv) Approval of the Minimum Revenue Provision (MRP) Statement set out in Appendix D.

1. INTRODUCTION

1.1 This report provides an update to the Treasury Management Indicators and the Prudential Indicators for capital financing for the year 2016/17. It also sets out the proposed Treasury Management Strategy for the year 2017/18, including the borrowing and investment strategies and treasury management indicators, the Prudential Indicators for capital finance for 2017/18 and the Minimum Revenue Provision Statement.

2. PURPOSE

2.1 The purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk approach, pursuing optimum performance while ensuring that security of the investment is considered ahead of investment return. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.

2.2 The second main function of the treasury management service is the funding of the Council's capital plans i.e. the longer-term cash flow planning to ensure that the Council can meet its capital spending obligations.

2.3 The purpose of Prudential Indicators is to set a framework for affordable, prudent and sustainable capital investment.

2.4 The Council's full-year capital expenditure for 2016/17 will be in the region of £27.5m. The Treasury Management Strategy for 2016/17, approved by Council on 25 February 2016, presented a core capital programme of £8.8m for an array of capital projects alongside an estimate for an expanded capital programme that incorporated £8.5m of potential expenditure on strategic aims and invest-to-save schemes under part 3 of the Council's 8-point plan (Income generation and investment opportunities). Prudential Indictors, dependent on the level of capital expenditure for 2016/17, were therefore set to cover the extended programme.

2.5 The Council subsequently approved the acquisition of five investment properties in the first half of the current year and the acquisition of a number of Union Street properties in Aldershot. Some other capital items were also approved.

2.6 Taken together, the additional approved capital expenditure amounts to over £20m, although there has been some slippage of items in the original estimate for the year 2016/17. The investment properties will achieve high rental income returns to the General Fund Revenue Account, and the Union Street properties have been acquired for regeneration reasons.

2.7 The effect of achieving such a substantial approved programme of capital expenditure in the current year requires the Council to consider and re-approve a number of the Prudential Indicators set for 2016/17. Discussion and reasoning for this requirement is provided in Appendix A.

2.8 The remaining appendices (B to D) set out the Treasury Management Strategy and the Prudential Indicators for 2017/18 to 2019/20 and fulfil key legislative requirements as follows:

Appendix B

- The **Treasury Management Strategy** which sets out how the Council's treasury service will support capital decisions taken during the period, the day to day treasury management and the limitations on activity through treasury prudential indicators, in accordance with CIPFA's Code of Practice on Treasury Management[1] and Prudential Code[2];
- The **Annual Borrowing Strategy** which sets out the Council's objectives for borrowing together with the approved sources of long and short-term borrowing and;
- **Annual Investment Strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss, in accordance with CLG Investment Guidance.

Appendix C

- The setting of **Prudential Indicators** and the expected capital activities for the period as required by CIPFA's Prudential Code for Capital Finance in Local Authorities[2].

Appendix D

- The Council's **Minimum Revenue Provision (MRP) Statement,** which sets out how the Council will pay for capital assets through revenue each year, as required by the Local Government Act 2003 (Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003).

2.9 These policies and parameters provide an approved framework within which officers undertake the day-to-day capital and treasury activities.

3. SCOPE

3.1 This report covers the Council's treasury management activities as set out in paragraphs 2.1 and 2.2 above. The funds invested consist of short-term cash available due to timing of income and expenditure i.e. from movements in working capital, or from reserves that need to be available in the short term, and potentially longer-term investment funds derived from the Council's capital receipts.

3.2 Arlingclose advice continues to indicate that the Council should diversify investment risk (spreading smaller amounts over an increasing number of counterparties).

3.3 The Council will now need to incur some borrowing to support the financing of its approved capital programme in the current year (2016/17). It therefore commences the year 2017/18 in a position where its investment holdings remain significant, but it also carries some debt. There will be an inevitable requirement to incur some additional borrowing to service capital expenditure in 2017/18.

3.4 However, careful observation of the Prudential Indicator "gross debt v capital financing requirement" will need to be undertaken progressively throughout the financial year. This means that the Council will have to redeem an element of its market investments towards the end of 2017/18, and in future years, in order to reflect the requirements of this Indicator.

AMANDA FAHEY **HEAD OF FINANCIAL SERVICES**

Background papers:
1. Treasury Management in the Public Services (CIPFA)
2. The Prudential Code for Capital Finance (CIPFA)
3. SI 2003/3146 - Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
4. SI 2004/3055 - Local Authorities (Capital Finance and Accounting) (Amendment)

. REVISION TO THE 2016/17 TREASURY & PRUDENTIAL INDICATORS

1.1 Significant additional approved capital expenditure was incurred in 2016/17 in relation to the acquisition of income yielding investment properties, and also for an array of other approved capital items. These capital items were not included in the Council's original capital budget for 2016/17. Cabinet approval for all of these additional capital expenditure items has successively occurred during the year 2016/17.

1.2 The Council's Prudential Indicators for 2016/17 were approved by Council within the Annual Treasury Management Strategy Statement (TMSS) on 25 February 2016. The indicators were set in the knowledge that there was a need to progress expenditure on Invest- to-Save schemes (as part of the 8-Point Plan) and strategic projects such as regeneration schemes.

1.3 Capital expenditure for Invest-to-Save schemes was estimated to be £8.5m when reported in the TMSS for 2016/17, although the Council has now approved additional capital expenditure of around £17m in relation to Invest-to-Save schemes. A figure twice in value compared to the TMSS projection for the year 2016/17.

1.4 The resulting additional approved capital expenditure in 2016/17 means that some of the Treasury Management & Prudential Indicators previously set for 2016/17 require restatement and approval. Each of these Indicators is examined as follows:

1.5 **Treasury Management Indicators:** The list of Treasury Management Indicators in the TMSS 2016/17 approved by Council on 25 Feb 2016 is given below:

a) Credit Risk (Credit Score Analysis)
b) Interest Rate Exposure * (see paragraphs 1.6 & 1.7)
c) Maturity Structure of Borrowing
d) Principal Sums Invested for Periods Longer than 364 days

1.6 Items a, c & d remain as previously stated for the year 2016/17, and do not require revision. However, Item b (Interest Rate Exposure) has been affected by the substantial increase in the year's capital programme. Temporary borrowing has been incurred during the financial year in order to provide sufficient liquid funds to service the needs of the approved capital programme. This has exerted pressure on the indicator. The Revised 2016/17 figures provided in the table at 1.7 requires Council approval.

1.7 **Interest Rate Exposure**: This indicator is set to monitor the Council's exposure to the effects of changes in interest rates. The indicator calculates the relationship between the Council's net principal sum outstanding on its borrowing to the minimum amount it has available to invest. The upper limits on fixed and variable rate interest rate exposures expressed as the amount of net principal borrowed is:

	2016/17 Approved 25 Feb 2016 £m	2016/17 Revised £m
Upper limit on fixed interest rate exposure	-27	6
Upper limit on variable interest rate exposure	-19	-27

1.8 The Council has incurred elements of borrowed funds during 2016/17 to provide cash to service the substantially increased capital programme. This borrowing has increased cash flows requiring some amounts to be deposited temporarily into short-term deposits. The above limits therefore require revision to reflect this matter.

1.9 It is expected that for most Councils the interest rate exposure calculation would result in a positive figure. The fixed limit for exposure is a positive figure. This relates to fixed rate borrowing being incurred (generating debit interest charges) offset by a limited, reducing range of fixed rate investments (generating credit interest charges). The net effect of these two fixed rate elements produces a net debit (of £6m). As the Council has more variable rate funds available to invest and does not intend to borrow at a variable rate, the variable rate limit on exposure calculation has resulted in a negative figure.

1.10 **Prudential Indicators:** The list of Prudential Indicators in the TMSS 2016/17 approved by Council on 25 Feb 2016 is given below:

1. Estimates of Capital Expenditure
2. Estimates of Capital Financing Requirement
3. Gross Debt and the Capital Financing Requirement
4. Operational Boundary for External Debt
5. Authorised Limit for External Debt
6. Ratio of Financing Costs to Net Revenue Stream
7. Incremental Impact of Capital Investment Decisions

1.11 All of the above items require revision because of the substantial additional amount of capital expenditure that have been approved after the Council's approval of the TMSS for 2016/17.

1.12 The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the

Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

1.13 **Estimates of Capital Expenditure:** The Council's planned core capital expenditure and financing may be summarised as follows:

Capital Expenditure and Financing	2016/17 Approved 25 Feb 2016 £m	2016/17 Revised £m
General Fund	8.802	27.547
TOTAL EXPENDITURE	**8.802**	**27.547**
Capital Receipts	5.477	13.000
Capital Grants & Contributions	2.575	1.290
Revenue	0.750	0.728
Borrowing	-	12.529
TOTAL FINANCING	**8.802**	**27.547**

1.14 **Estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for capital purposes.

Capital Financing Requirement	2016/17 Approved 25 Feb 2016 £m	2016/17 Revised £m
General Fund	4.7	13.9
Total CFR	**4.7**	**13.9**

Grants and external contributions are expected to be received for some specific capital schemes, but the Council will need to borrow to finance a significant element of its core capital expenditure. This is in addition to the existing use of Local Enterprise Partnership funding for which borrowing is incurred but repayment of the borrowing is achieved by the receipt of external contributions.

1.15 **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short-term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Gross Debt and the Capital Financing Requirement	2016/17 Approved 25 Feb 2016 £m	2016/17 Revised £m
Capital Financing Requirement (measured in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years)	4.7	29.3
Total Gross Debt	4.7	15.0
Difference	-	14.3

1.16 **Operational Boundary for External Debt:** The operational boundary is based on the Council's estimate of most likely (i.e. prudent, but not worst-case) scenario for external debt. It links directly to the Council's estimates of core capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases, Private Finance Initiatives and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2016/17 Approved 25 Feb 2016 £m	2016/17 Revised £m
Borrowing	5.0	20.0
Total Debt	**5.0**	**20.0**

1.17 **Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with Section 3(1) the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long-term liabilities. This Prudential Indicator separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved Treasury Management Policy Statement and practices. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2016/17 Approved 25 Feb 2016 £m	2016/17 Revised £m
Borrowing	9.0	22.0
Other long-term liabilities	1.0	1.0
Total Debt	**10.0**	**23.0**

1.18 **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed "core" capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Approved 25 Feb 2016 %	2016/17 Revised %
General Fund	-7	-8

The ratio is negative as the Council currently has net interest income.

1.19 **Incremental Impact of Capital Investment Decisions:** This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	**2017/18 Estimate £**	**2018/19 Estimate £**	**2019/20 Estimate £**
General Fund - increase in annual band D Council Tax	-	(0.05)	(0.21)

1.20 **Adoption of the CIPFA Treasury Management Code:** The prudential indicator in respect of treasury management is that the Council adopt CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The aim is to ensure that treasury management is led by a clear and integrated forward treasury management strategy, with recognition of the existing structure of the Council's borrowing and investment portfolios. The revised edition of the Code (November 2011) was adopted by the Council on 20th February 2014.

TREASURY MANAGEMENT STRATEGY 2017/18

1. INTRODUCTION

1.1 This strategy has been prepared in accordance with CIPFA's Treasury Management in the Public Sector: Code of Practice, which requires the Council to approve a Treasury Management Strategy before the start of each financial year.

1.2 In addition, DCLG issued revised Guidance on Local Authority Investments in March 2010 that requires the Council to approve an Investment Strategy before the start of each financial year.

1.3 The Council approves an annual strategy to be prepared in advance of the year, a mid-year review and an annual report after its close. The Licensing and General Purposes Committee is the nominated Committee responsible for the effective scrutiny of the Treasury Management Strategy and policies.

1.4 The Council has invested sums of money and is therefore exposed to financial risks including loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

1.5 This strategy covers:

- External context
- Current borrowing and investment portfolio position
- Annual Borrowing Strategy
- Annual Investment Strategy
- Specified & Non-specified Investments
- Performance Indicators

2. EXTERNAL CONTEXT

2.1 **Economic background:** The major external influence on the Council's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have been weighed down by uncertainty over whether leaving the Union also meant leaving the single market. The Prime Minister has now confirmed in a speech to Parliament the intention to leave. Negotiations are expected to start in March 2017 once the UK formally triggers exit from the EU and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

2.2 The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher.

The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

2.3 Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

2.4 **Credit outlook**: Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard. Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however continue to fall.

2.5 **Interest rate forecast**: The Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium-term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

3. CURRENT BORROWING & INVESTMENT PORTFOLIO POSITION

3.1 The Guidance on Local Government Investments in England gives priority to security and liquidity, and the Council's aim has been to achieve a yield commensurate with these principles. The Council continues to follow Arlingclose advice in the knowledge that whilst long-term interest rate forecasts remain low it should generate enhanced returns with counterparties other than banks and to invest across a diverse investment portfolio.

3.2 During 2016/17 the Council has generated returns from existing long-term pooled fund investments together with diversification within the Council's investment portfolio. The Council held the following investments at 31st December 2016:

- £20m in pooled funds (providing a balance across a range of 5 different types of fund)
- Bond - £1 million Yorkshire BS at a fixed rate of 1.33% (until Apr 18)
- Bond - £1 million Yorkshire BS at a fixed rate of 1.18% (until Apr 18)
- Bond - £2 million Leeds BS at a fixed rate of 1.47% (until Apr 18)
- Bond - £1 million Leeds BS at Libor + 0.27% (until Feb 18)
- £2m with Dumfries and Galloway Council (until July 2017)
- Bank investment - £1 million Lloyds (until Apr 2017)
- Various temporary investments of minor amounts held in Money Market funds all for durations of 6 months or less

3.3 The graph below has been produced by Arlingclose and demonstrates that during the nine months to 31 December 2016 the Council's returns on its total investment portfolio at 2.3% were amongst the highest when benchmarked against their other local authority clients.

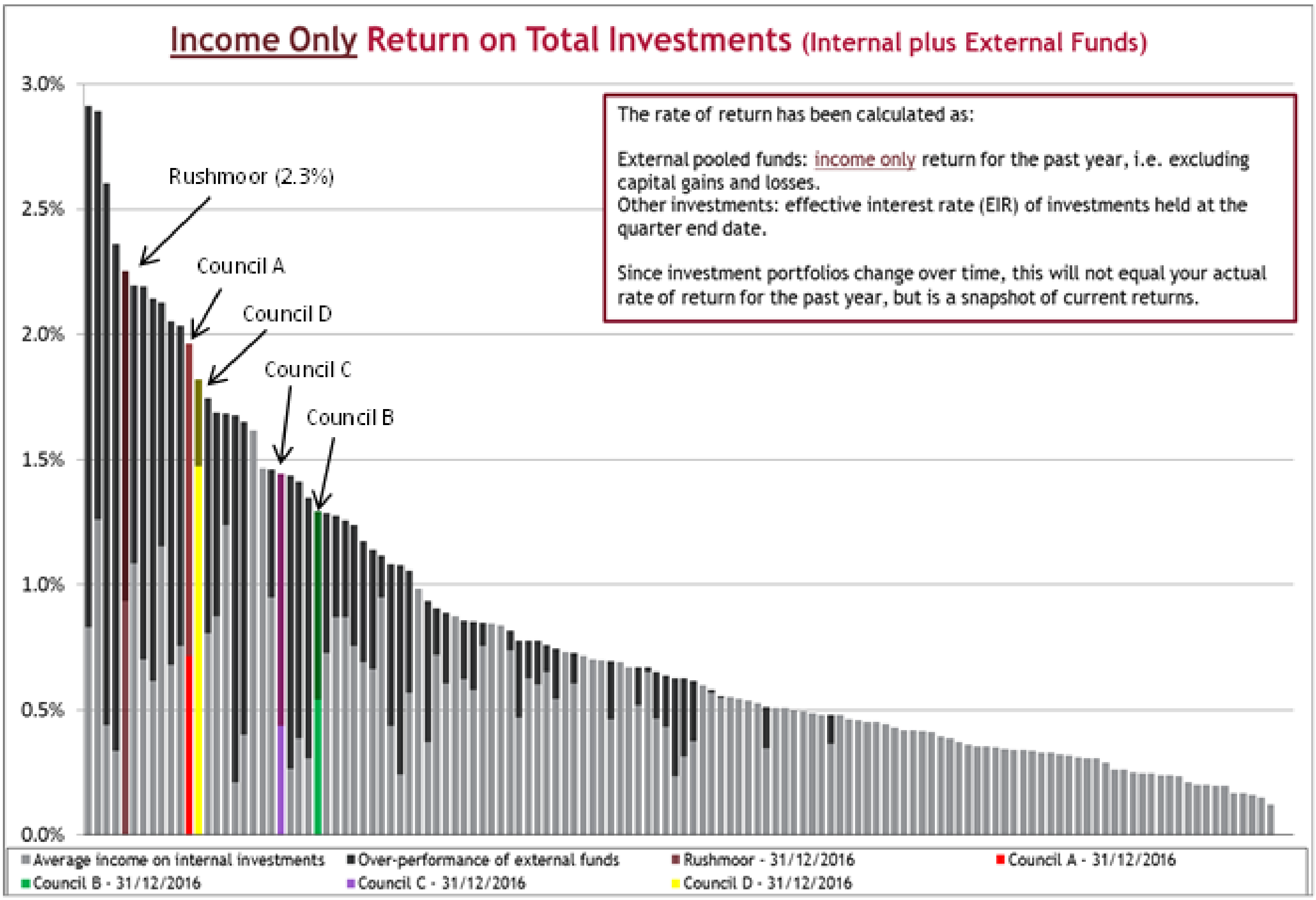

Table 1: – Existing Investment & Debt Portfolio Position

	Actual Portfolio at 31st Dec 16 £m	Average Rate %
Total External Borrowing		
Borrowing from the M3 LEP	3	0.0
Borrowing from other Local Authorities	5	0.3
Other external Borrowing	-	
Total Gross External Debt	8	0.2
Investments:		
Managed in-house:		
Short-term investments	3	0.9
Long Term Investments	5	1.2
Money Market Funds	2	0.4
Call accounts	-	-
Managed externally:		
Pooled Funds:		
Payden & Rygel's Sterling Reserve	5	0.84
CCLA LAMIT Property Fund	5	5.55
Aberdeen Absolute Fund	3	2.00
UBS Multi Asset Fund	5	3.72
Threadneedle Investments	2	4.32
Total Investments	30	2.50

Table 1 Illustrates the Council's investment and debt portfolio position as at 31st December 2016.

4. ANNUAL BORROWING STRATEGY 2017/18

4.1 The Council made use of funds from the Local Enterprise Partnership (LEP) by borrowing £3 million in an earlier year to progress the Aldershot regeneration schemes. External contributions will be received over a seven-year period to fully finance this amount. However, at the commencement of 2017/18 much of this borrowed amount remains outstanding.

4.2 Capital expenditure in the previous financial year (2016/17) is substantial, utilising a significant proportion of the available capital receipts to finance the capital programme, and an element of prudential code borrowing will be required in order to achieve overall financing for that year. The Council will incur some additional borrowing during 2017/18 in order assist in the financing of its capital programme.

4.3 **Objectives**: The Council's chief objective when borrowing money will be to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

Sources: The approved sources of long-term and short-term borrowing are detailed within TMP 4 (Approved Instruments, Methods and Techniques), and are summarised below:

- Public Works Loan Board (PWLB)
- Money market loans (long term & temporary)
- Any bank or building society authorised to operate in the UK
- UK Local Authorities
- UK public and private sector pension funds (except the Local Government Pension Scheme administered by Hampshire County Council)
- Capital market bond investors
- UK Municipal Bond Agency plc and other special purpose companies created to enable local authority bond issues.
- Lottery monies

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Operating and finance leases
- Hire purchase
- Private Finance Initiative

5. ANNUAL INVESTMENT STRATEGY 2017/18

5.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged from £39 million reducing to £30 million. However, overall market investments are expected to further decline in 2017/18. These reductions are mainly due to the Council's capital expenditure requirements linked to the Prudential Code requirement to ensure that Gross Debt does not exceed the Capital Financing Requirement.

5.2 **Objectives**: Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3 **Strategy**: The Council continues to maintain a diverse range of secure and/or higher yielding asset classes during 2017/18, whilst retaining short-term accessibility.

5.4 Table 2 outlines the approved investment counterparties with whom the Council may invest its surplus funds, subject to the cash, investment and time limits shown. The schedule of approved counterparties is underpinned by a detailed list of named counterparties. This list is maintained within Financial Services for treasury management operational purposes.

Table 2: Approved Investment Counterparties

<table>
<tr><th colspan="2">Counterparty</th><th>Cash limit per counterparty</th><th>Investment Limit (per type of counterparty)</th><th>Time limit †</th></tr>
<tr><td rowspan="8">Banks Unsecured whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:</td><td>AAA</td><td>£2m</td><td rowspan="8">£20m in total</td><td>5 Years*</td></tr>
<tr><td>AA+</td><td>£2m</td><td>5 Years*</td></tr>
<tr><td>AA</td><td>£2m</td><td>4 years*</td></tr>
<tr><td>AA-</td><td>£2m</td><td>3 years*</td></tr>
<tr><td>A+</td><td>£2m</td><td>2 years</td></tr>
<tr><td>A</td><td>£2m</td><td>13 months</td></tr>
<tr><td>A-</td><td>£2m</td><td>6 months</td></tr>
<tr><td>BBB+</td><td>£1m</td><td>100 days</td></tr>
<tr><td rowspan="9">Banks Secured whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:</td><td>AAA</td><td>£4m</td><td rowspan="9">Unlimited</td><td>20 years</td></tr>
<tr><td>AA+</td><td>£4m</td><td>10 years</td></tr>
<tr><td>AA</td><td>£4m</td><td>5 years</td></tr>
<tr><td>AA-</td><td>£4m</td><td>4 years</td></tr>
<tr><td>A+</td><td>£4m</td><td>3 years</td></tr>
<tr><td>A</td><td>£4m</td><td>2 years</td></tr>
<tr><td>A-</td><td>£4m</td><td>13 months</td></tr>
<tr><td>BBB+</td><td>£2m</td><td>6 months</td></tr>
<tr><td>BBB or BBB-</td><td>£2m</td><td>100 days</td></tr>
<tr><td rowspan="9">Government whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:</td><td>AAA</td><td>£4m</td><td rowspan="9">Unlimited</td><td>50 Years</td></tr>
<tr><td>AA+</td><td>£4m</td><td>25 Years</td></tr>
<tr><td>AA</td><td>£4m</td><td>15 Years</td></tr>
<tr><td>AA-</td><td>£4m</td><td>10 Years</td></tr>
<tr><td>A+</td><td>£2m</td><td>5 Years</td></tr>
<tr><td>A</td><td>£2m</td><td>5 Years</td></tr>
<tr><td>A-</td><td>£2m</td><td>5 Years</td></tr>
<tr><td>BBB+</td><td>£1m</td><td>2 Years</td></tr>
<tr><td>None</td><td>£4m</td><td>25 Years</td></tr>
</table>

Counterparty		**Cash limit per counterparty**	**Investment Limit (per type of counterparty)**	**Time limit †**
Corporates whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£2m	£6m in total	20 Years
	AA+	£2m		10 Years
	AA	£2m		10 Years
	AA-	£2m		10 Years
	A+	£2m		5 Years
	A	£2m		2 Years
	A-	£1m		13 months
	BBB+	£1m		6 months
	none	£0.5m		5 Years
Registered Providers whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£4m	£10m in total	20 Years
	AA+	£4m		10 Years
	AA	£4m		10 Years
	AA-	£4m		10 Years
	A+	£4m		5 Years
	A	£4m		5 Years
	A-	£4m		5 Years
	BBB+	£4m		5 Years
	None	£4m		5 Years
The Council's current account bank if it fails to meet the above criteria		£2m	£2m	next day
UK Building Societies without credit rating		£1m	£4m	1 Year
Money market funds		£5m	£20m in total	n/a
Collective Investment Schemes (pooled funds)		£5m per fund	£20m in total	These funds do not have a defined maturity date

** no longer than 2 years in fixed-term deposits and other illiquid instruments*

5.5 Investments may be made with banks or any public or private sector organisations that meet the above credit rating criteria. The Council may also invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Council's treasury management adviser.

5.6 Further information as to why certain counterparties have been included in Table 2 is set out below:

- **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

- **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

- **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

- **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

  Investments in unrated small businesses may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Council's treasury management adviser.

- **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

- **Money Market Funds**: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. We will continue to use funds that offer same-day liquidity as an alternative to instant access bank accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

- **Other Pooled Funds**: The Council will continue to use pooled bond, equity and property funds that offer enhanced returns over the longer term, but are potentially more volatile in the shorter term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

5.7 **Risk Assessment and Credit Ratings**: The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made with that entity
- we will recall or sell any existing investments with that entity where we can do so at no cost
- due consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.8 **Other Information on the Security of Investments**: The Council will also take account of other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. The Council will not proceed with an investment with an organisation if it has doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not reflected in general credit-ratings. In these circumstances, where the Council feels the whole market has been affected, it will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

6. SPECIFIED AND NON-SPECIFIED INVESTMENTS

6.1 **Specified Investments**: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government
  - a UK local authority, parish council or community council
  - a body or investment scheme of “high credit quality”.

The Council defines “high credit quality” organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

6.2 **Non-specified Investments**: Any investment not meeting the definition of a specified investment is classified as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure e.g. company shares.

Non-specified investments at the Council are limited to longer term investments e.g. pooled funds, or other long-term (12 months +) investments with other LAs, banks or building societies, and investments with bodies and schemes not meeting the definition of high credit quality. Limits on non-specified investments are shown in Table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£40m
Total investments without credit ratings or rated below A-	£30m
Total non-specified investments	£40m

6.3 **Approved Instruments**: The Council may lend or invest money using any of the instruments detailed in Treasury Management Practice (TMP) 4, held within Financial Services. The approved instruments are summarised as follows:

- interest-bearing bank accounts
- fixed term deposits and loans

- callable deposits and loans where the Council may demand repayment at any time (with or without notice)
- callable deposits and loans where the borrower may repay before maturity
- certificates of deposit
- bonds, notes, bills, commercial paper and other marketable instruments
- shares in money market funds and other pooled funds
- reverse repurchase agreements (repos)

Investments may be either made at a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

6.4 **Liquidity management**: The Council produces cash flow forecasts to determine the maximum period for which funds may be committed. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

7. TREASURY MANAGEMENT INDICATORS

7.1 The Treasury Management Code requires that local authorities set a number of indicators for treasury management performance, which have been set out below at paragraphs 7.3 to 7.5. The Council has also adopted a voluntary measure for credit risk as set out in paragraph 7.2

7.2 **Credit Risk (Credit Score Analysis)**: Counterparty credit quality is assessed and monitored by reference to credit ratings. Credit ratings are supplied by rating agencies Fitch, Standard & Poor's and Moody's. Arlingclose assign values between 1 and 26 to credit ratings in the range AAA to D, with AAA being the highest credit quality (1) and D being the lowest (26). Lower scores mean better credit quality and less risk.

The advice from Arlingclose is to aim for an average A-, or higher, average credit rating, with an average score of 7 or lower. The scores are weighted according to the size of our deposits (value-weighted average) and the maturity of the deposits (time-weighted average).

	Target
Portfolio average credit rating	A-
Portfolio average credit score	7.0

7.3 **Interest Rate Exposure**: This indicator is set to monitor the Council's exposure to the effects of changes in interest rates. The indicator calculates the relationship between the Council's net principal sum outstanding on its borrowing to the minimum amount it has available to invest. The upper limits on fixed and variable rate interest rate exposures expressed as the amount of net principal borrowed is:

	2017/18 £m	2018/19 £m	2019/20 £m
Upper limit on fixed interest rate exposure	16	24	22
Upper limit on variable interest rate exposure	-25	-21	-12

It is expected that for most Councils the interest rate exposure calculation would result in a positive figure. As the Council has more funds available to invest than it intends to borrow, the calculation has resulted in a negative figure for variable rate funds.

7.4 **Maturity Structure of Borrowing**: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

7.5 **Principal Sums Invested for Periods Longer than 364 days**: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2017/18	2018/19	2019/20
Limit on principal invested beyond year end at any one time	£40m	£40m	£40m

8. OTHER ITEMS

8.1 There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

8.2 **Policy on Use of Financial Derivatives**: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk, and to reduce costs or increase income at the expense of greater risk. The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Embedded derivatives, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

8.3 **Investment Training**: The needs of the Council's treasury management staff for training in investment management are assessed on a continuous basis, discussed as part of the staff appraisal process and reviewed as the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

8.4 **Investment Advisers:** The Council jointly tendered the treasury management service together with three other District Councils located within the Hampshire area, and appointed Arlingclose Limited for a further 3 year contract in April 2016. This contract enables the Council to receive specific advice on investment, debt and capital finance issues. The quality of this service will be reviewed on an ongoing basis as part of the process of monitoring the Council's investment portfolio.

8.5 **Investment of Money Borrowed in Advance of Need**: The Council may, from time-to-time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and potential interest rate changes. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £30 million during 2017/18. The maximum period between borrowing and expenditure is expected to be two years.

8.6 **Financial Implications -** Investments**:** The budget for investment income in 2017/18 is £839k (gross of borrowing interest), based on an average investment portfolio of £30 million at interest rates ranging from 0.4% liquid MMF and other short-term investments to 5% on the highest yielding long-term pooled property investment fund. Performance of investments against budget will be reviewed on an ongoing basis and as part of our quarterly budget monitoring process. The investment income will reduce depending on the pace and size of capital expenditure that arises from the 8-Point Plan work and strategic projects.

8.7 **Financial Implications -** Borrowing**:** The budget for interest costs in relation to borrowing in 2017/18 is £51k. It is determined using estimated short-term interest rates. The Council's actual borrowing at the end of 2017/18 is estimated to be in the region of £20 million.

8.8 **Other Options Considered:** The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Finance Officer continues to believe that the above strategy represents an appropriate balance between risk management and cost effectiveness. An alternative strategy might be to invest in a narrower range of counterparties and/or for shorter periods. The likely impact of this alternative would be lower interest income alongside a reduced risk of loss from credit-related defaults. Investing in a wider range of counterparties and/or for longer periods would result in the opposite impact i.e. interest income would be higher but there would be a greater risk of loss.

PRUDENTIAL INDICATORS

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

2 **Estimates of Capital Expenditure:** The Council's planned core capital expenditure and financing may be summarised as follows:

Capital Expenditure and Financing	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund	27.547	13.629	2.026	2.161
TOTAL EXPENDITURE	**27.547**	**13.629**	**2.026**	**2.161**

Capital Receipts	13.000	4.300	0.500	0.500
Capital Grants & Contributions	1.290	3.285	1.331	1.431
Revenue	0.750	-	-	-
Borrowing	12.507	6.044	0.195	0.230
TOTAL FINANCING	**27.547**	**13.629**	**2.026**	**2.161**

The estimates for 2018/19 & 2019/20 are based on the capital programme recommended for Council approval as part of the 2017/18 budgetary process. In order for the Council to approve Prudential Indicators for 2018/19 & 2019/20 (as part of this document) realistic estimates of potential capital expenditure for these financial years has been made. The table that follows reflects these estimates:

Capital Expenditure and Financing	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund	As above	As above	13.000	12.000
TOTAL EXPENDITURE	As above	As above	**13.000**	**12.000**

Capital Receipts	As above	As above	0.500	0.500
Capital Grants & Contributions	As above	As above	1.330	1.430
Revenue	As above	As above	-	-
Borrowing	As above	As above	11.170	10.070
TOTAL FINANCING	As above	As above	**13.000**	**12.000**

3 Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for capital purposes.

Capital Financing Requirement	31.03.17 Estimate £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
General Fund	13.9	19.8	30.7	40.4
Total CFR	**13.9**	**19.8**	**30.7**	**40.4**

Grants and external contributions are expected to be received for some specific capital schemes, but the Council will need to borrow to finance a significant element of its core capital expenditure. This is in addition to the existing use of Local Enterprise Partnership funding for which borrowing is incurred but repayment of the borrowing is achieved by the receipt of external contributions.

4 Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short-term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Gross Debt and the Capital Financing Requirement	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Capital Financing Requirement (measured in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years)	29.3	26.5	28.1	24.5
Total Gross Debt	15.0	19.5	25.5	24.5
Difference	14.3	7.0	2.6	-

5 Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent, but not worst-case) scenario for external debt. It links directly to the Council's estimates of core capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases, Private Finance Initiatives and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	20.0	27.0	30.0	27.0
Total Debt	**20.0**	**27.0**	**30.0**	**27.0**

6 **Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with Section 3(1) the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long-term liabilities. This Prudential Indicator separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved Treasury Management Policy Statement and practices. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	22.0	29.0	31.0	30.0
Other long-term liabilities	1.0	1.0	1.0	1.0
Total Debt	**23.0**	**30.0**	**32.0**	**31.0**

7 **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed core capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
General Fund	**-8**	**-6**	**-4**	**-**

The ratio is negative as the Council currently has net interest income.

8 **Incremental Impact of Capital Investment Decisions:** This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	**2017/18 Estimate £**	**2018/19 Estimate £**	**2019/20 Estimate £**
General Fund - increase in annual band D Council Tax	**-**	**(0.05)**	**(0.21)**

Adoption of the CIPFA Treasury Management Code: The prudential indicator in respect of treasury management is that the Council adopt CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The aim is to ensure that treasury management is led by a clear and integrated forward treasury management strategy, with recognition of the existing structure of the Council's borrowing and investment portfolios. The revised edition of the Code (November 2011) was adopted by the Council on 20th February 2014.

MINIMUM REVENUE PROVISION STATEMENT

1.1 Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

1.2 The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

1.3 The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

1.4 The CLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. This statement only incorporates options recommended in the Guidance.

1.5 For any unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets, but which has been capitalised by regulation or direction, will also be charged over 50 years.

1.6 For assets acquired by finance lease or private finance initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

1.7 Where loans are made to other bodies and designated as capital expenditure, no MRP will be charged. However, the capital receipts generated by the repayments on those loans will be aside to repay debt instead.

1.8 It should be noted that the Council continues to make use of two revolving infrastructure funds from the Local Enterprise Partnership (LEP). The related capital expenditure does not however give rise to MRP as a contract of structured external repayments will eliminate the need to incur MRP.

1.9 At the commencement of 2016/17 the Council incurred a Capital Financing Requirement (CFR) of £1.4m in relation to a specific element of capital expenditure. The Council has incurred a significant level of capital expenditure in 2016/17 and will need to engage in an element of Prudential Code borrowing in that financial year to achieve total financing of its capital programme. It is inevitable therefore that the borrowing that is required in 2016/17 will require MRP to be charged to the Council's General Fund Revenue Account in 2017/18 and future years.

1.10 The implementation of International Financial Reporting Standards (IFRS) has meant that the accounting treatment for assets used within major contracts may result in embedded finance leases appearing on the Balance Sheet, leading to a requirement for MRP. This is purely an accounting requirement and does not give rise to any requirement to borrow to fund these assets. For 2017/18 no such embedded finance leases are envisaged.

AGENDA ITEM NO. 9

LICENSING AND GENERAL PURPOSES COMMITTEE
30 JANUARY 2017

HEAD OF FINANCIAL SERVICES
REPORT NO: FIN1704

FOLLOW UP FROM AUDIT RESULTS REPORT

SUMMARY AND RECOMMENDATIONS:

SUMMARY: This report sets out the Council's response to an issue raised by Ernst & Young in their annual Audit Results Report, previously reported to the Licensing & General Purposes Committee on 26th September 2016.

RECOMMENDATION: To note the action proposed in response to the Audit Results Report.

1 INTRODUCTION

1.1 Ernst and Young LLP, the Council's appointed auditor, presented their Audit Results Report to the Licencing & General Purposes Committee on 26 September 2016. An unqualified audit opinion was subsequently issued in respect of the Council's Annual Statement of Accounts and concluded that the Council has in place proper arrangements to secure value for money in its use of resources.

1.2 The Audit Report is scrutinised by the Licensing and General Purposes Committee as part of their role as 'those charged with governance' i.e. the Committee of the Council that has responsibility for matters such as the Annual Governance Report and approval of the Council's financial statements.

1.3 The Audit Report did identify an uncorrected error in the accounts and the proposed treatment of this was set out in the Letter of Representation from Management which was discussed and approved by the Committee at the September meeting.

1.4 In the Letter of Representation, a commitment was made to review the entire population of debtors and to correct any errors subsequently identified, prior to the submission of the accounts for 2016/17, and to adopt necessary procedures to ensure that all debtor balances are adequately evidenced and provided against where necessary. This report updates the committee on this work.

2 UNCORRECTED ERROR - EXISTENCE TESTING

2.1 One aspect of the audit is to verify the existence of assets on the Council's Balance Sheet. This is generally done by selecting a sample of the asset type and, in the case or Property, Plant or Equipment, verifying its physical existence by the auditor actually visiting or being shown the selected asset.

Assets such as investments are verified by the auditor seeking direct confirmation with the institutions (Banks, other Local Authorities or Fund Managers, for example) with whom the Council has invested.

2.2 Assets on the Balance Sheet also include Debtors i.e. monies owed to the Council and the existence of these debts are supported by Sundry Debt invoices, Council Tax, Business Rates and Housing Benefit systems, Rent deposit records and other supporting paperwork. Debtors are assessed for the likelihood of recovery and provisions are held against potential non-recovery – these provisions for bad and doubtful debts are offset against the asset in the Balance Sheet. The net value of Debtors in the 2015/16 accounts was £4.95million.

2.3 The sample testing by the auditor identified one entry where full supporting paperwork was unobtainable. This related to an historical debtor, which had been held within the accounts prior to the current financial system being installed in 1999/2000. The supporting paperwork has not been retained. The entry should have been written out of the Balance Sheet at the time when it became clear that the Debtor was no longer substantiated. The limited information that is currently available suggests that this was one of the remaining issues carried forward from the Large Scale Voluntary Transfer (LSVT) of Rushmoor's housing stock in 1995 and would have been a tiny fraction of the sums involved in the transfer. The value of the debtor is £76,405.

2.4 Extended testing was then carried out and no further errors were identified.

3 FOLLOW UP ACTION

3.1 The Accountancy team within Financial Services have now carried out a complete exercise on all Debtors that fall outside of the verifiable systems (i.e. Sundry Debtors, Council Tax, Business Rates, Housing Benefit, Purchase Ledger) to identify all accounts where there was no movement during 2015/16. These have each then been reviewed for supporting evidence.

3.2 This exercise has identified four other balances where sufficient supporting evidence of a collectable debt is no longer available.

3.3 Two amounts have been written off under delegated authority by the Head of Financial Services in accordance with the Council's financial regulations. These were for £360.00 Bifrons Estate and £1,440.27 HMRC. No further detail is available.

3.4 Two further debtors without the necessary supporting documents were also identified for consideration under delegated powers by the Cabinet member for Corporate Services. These are £3,690.26 Prospect Estate footpath 96/97 and £9,981.47 Oak Farm housing units. Again, no further details are available although it is possible that these two amounts also relate to the LSVT and as mentioned in paragraph 2.3 would have been a tiny fraction of the large sums involved in that major transaction.

3.5 The debtor for £76,405 was considered by cabinet at its meeting of 10 January 2017 where approval was given that the debtor be written back to the General Fund Revenue Account and removed from the assets on the Balance Sheet, in accordance with current accounting rules and Rushmoor's own accounting policies.

3.6 The total amount therefore written back to the General Fund will be £91,877. This represents just 1.85% of total Debtors.

3.7 This process will be built into the annual accounts timetable moving forward so that information relating to debtors is adequately maintained and an assessment will be made for any provision against bad and doubtful debt. It should be noted that the Debtors that fall outside of these main systems are just a small fraction of the total Debtors category (17%) and are largely Highways-related (where works are recharged to others such as Hampshire County Council) or are in respect of Rent deposits or car loans, for example, all of which are well-recorded within services.

3.8 A working paper has been prepared to share with the auditors to demonstrate compliance with best practise and with the proposals set out in the Letter of Representation.

4 CONCLUSIONS

4.1 Ernst and Young's Audit Results Report 2015/16, presented to the Licensing and General Purposes Committee on 26th September 2016, highlighted one area of difference in their audit of the financial statements. This related to existence testing for Debtors. This had no effect on the overall opinion on the Council's financial statements or on the auditor's conclusion on value for money in the use of resources.

4.2 However, it would be best practice to ensure that a robust process is put in place to regularly review the recoverability of all debtors on the balance sheet and to meet the existence testing criteria of the auditors.

4.3 In total, five balances have been identified which do not meet the criteria and should be written back to revenue.

4.4 The resulting variance in the Revenue account was reported to Cabinet as part of the October budget monitoring report (FIN1622) and therefore has already been taken into account when estimating the outturn position for 2016/17.

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AGENDA ITEM NO. 10

LICENSING AND GENERAL PURPOSES COMMITTEE
30TH JANUARY 2017

CORPORATE DIRECTOR
REPORT NO. CD1701

PAY POLICY STATEMENT

1. INTRODUCTION

1.1 A pay policy statement must be published every year under the requirements contained within the Localism Act.

1.2 The purpose is to compare the remuneration of the highest and lowest paid employees of the Council.

1.3 The format of this report follows the approach which has been taken in all of the previous years that this data has been collated and published.

2. SCOPE

2.1 The Pay Policy Statement contains two main components. It sets out the framework within which pay is determined in Rushmoor Borough Council and it provides an analysis comparing the remuneration of the Chief Executive with others employed by the authority.

2.2 The comparisons included within the paper, look at the ratio between the Chief Executive and the full time equivalent salary for a permanent member of staff employed in the lowest grade within our structure. The ratio is 7.1:1 which is lower than when the exercise was undertaken last year, when it was 7.5:1.

2.3 A second ratio is included within the analysis and this looks at the median remuneration of staff compared to the Chief Executive. There has been NO CHANGE to this ratio of the last 12 months

3. RECOMMENDATIONS

3.1 The Committee is requested to recommend to the Pay Policy Statement 2017/18 to the Council.

KAREN EDWARDS
CORPORATE DIRECTOR

Background papers: Pay Policy Statement 2017/18

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Rushmoor Borough Council Pay Policy Statement – Financial Year 2017-18

Purpose

The purpose of this pay policy statement is to set out Rushmoor Borough Council's (RBC's) policies relating to the pay of its workforce for the financial year 2017-18, in particular: -

a) the remuneration of its Chief Officers
b) the remuneration of its "lowest paid employees"
c) the relationship between
    - the remuneration of its Chief Officers
    - the remuneration of its employees who are not Chief Officers

Definitions

For the purpose of this pay policy statement, the following definitions will apply: -

"**Chief Officer**" refers to the following roles within RBC: -

- Chief Executive, as Head of Paid Services
- Corporate Directors
- Heads of Service

The "**lowest paid employees**" refers to permanent or fixed-term staff employed at Grade 1 of the pay scale. Grade 1 is the lowest grade.

An "**employee who is not a Chief Officer**" refers to all permanent or fixed-term staff who are not within the "Chief Officer" group above, including the "lowest paid permanent employees" i.e. staff on Grade 1.

Remuneration of the "lowest paid employees" and "all other employees who are not Chief Officers"

Pay framework

Pay for the "lowest paid employees" and "all other employees who are not Chief Officers" is determined by the National Joint Council for Local Government Services and in line with the council's Pay and Reward Policy.

Not included in the definitions referred to above, there is a small and fluctuating number of 'casual' staff, some of whom receive lower salaries in accordance with minimum wage legislation.

The employment of casual staff recognises the need to have a small team of trained and available workers who can be deployed at short notice to assist with seasonal and emergency requirements. This approach enables the organisation to have an efficient and economic response to workload demands but without the need to incur unnecessary costs or to rely upon employment agencies. The use of casual contracts is regularly reviewed and staff engaged in this way are encouraged to apply for permanent roles when they become available.

The only other group employed by the Council who are excluded from the pay comparison data are apprentices. The apprentices are employed for a designated period during which time they are provided with on and off job training alongside the opportunity to gain valuable experience within a working environment. For this reason, the salary comparison would not be relevant.

The Pay and Reward Policy was implemented in April 2007 in line with National guidance, with the grade for each role being determined by a consistent job evaluation process. This followed a national requirement for all Local Authorities, and a number of other public sector employers, to review their pay and grading frameworks to ensure fair and consistent practice for different groups of workers with the same employer. The NJC framework for Job Evaluation was up-dated during 2013 and the Directors Management Board have recently approved an alternative approach to the procedure for collecting data for evaluation to streamline the process and assist with pay comparability within Rushmoor Borough Council.

Equal pay audits are regularly undertaken and the most recent exercise, completed in November 2016 revealed that there are no gender pay issues to be addressed.

The Council’s grading structure is based on the NJC terms and conditions using the national spinal column points with the addition of a number of spinal column points at the top of the scale. There are 10 grades (1 – 7, Head of Service, Director and Chief Executive) in the pay framework, grade 1 being the lowest and grade 7 the highest (for those below Chief Officer). Each employee will be on one of the 10 grades based on the job evaluation of their role and the grading structure has been in place since 1998.

Each grade has a number of incremental steps and employees can progress along the salary range to the maximum of their grade, subject to assessment of their performance.

Pay awards for those staff up to and including grade G7, are drawn directly from the negotiations held between the Local Government Employers and the recognised Trades Unions. Since the implementation of the Council’s pay framework, the same percentage has been applied to Chief Officers.

It should be noted that on 3rd September 2013, Cabinet made a decision to adopt the Foundation Living Wage Scheme. Since April 2016, with the introduction of the National Living Wage there is a requirement to consider whether and to what extent there will need to be an alternative approach to pay rates for permanently appointed staff at the lower points in the salary scale. This matter will be the subject of a further paper during 2017. The analysis used for this report draws upon the pay rates published by the Living Wage Foundation and pay in November for Rushmoor staff.

The remuneration of the “lowest paid employees” includes the following elements: -

- Salary
- Any allowance or other contractual payments in connection with their role

See below for comments on each element

Salary

Each “lowest paid permanent employee” is paid within the salary range for grade 1.

Details of the Council’s salary ranges are available on the website.

The normal starting salary for new employees will be at the entry point for the grade. However, in exceptional circumstances employees may start at a higher point.

Charges, fees or allowances

Any allowance or other payments will only be made to staff in connection with their role or the patterns of hours they work and must be in accordance with the Pay and Reward policy.

Further details of such allowances and payments are available on request.

Progression within the salary scale

The Council has a performance management and development review scheme in place. These embrace a number of elements including a joint review of performance, sharing organisational/team goals and agreeing future plans. Progression through the incremental scale appropriate to the grade is dependent upon performance being judged as satisfactory or higher throughout the year.

Pension

All Rushmoor Borough Council staff are eligible to join the Local Government Pension Scheme. There is now an automatic enrolment procedure in place to encourage membership of the scheme.

There are no increases or enhancement to pension entitlements because of a resolution of the authority.

Severance Payments

Any severance payments will be in line with the Council's policy for Organisational Change and further details are available on request.

Remuneration of Chief Officers

Pay framework

"Chief Officers" are members of the Directors Management Board and Heads of Service.

This group of "Chief Officers" are paid within the Council's pay framework, which applies to all other employees. Their pay scales were created by extending the NJC spinal column points.

Since the implementation of the pay and reward policy, these Chief Officers have received the same percentage pay award as all other employees within the Council.

Salary

Each Chief Officer is paid within the salary range for the grade of their post, Head of Service, Director or Chief Executive.

Publication of remuneration for Chief Officers – this information is available on the council's website.

The normal starting salary for new employees will be at the entry point for the grade. However, in exceptional circumstances employees may start at a higher point.

Charges, fees or allowances

Any allowance or other payments will only be made to staff in connection with their role or the patterns of hours they work and must be in accordance with the Council's Pay and Reward policy.

The Chief Executive is appointed by the Council to act as the Returning Officer at the election of councillors for the Borough and as acting Returning Officer at Parliamentary Elections. The additional fees associated with these functions will be paid in accordance with those set nationally or locally through the Hampshire and Isle of Wight Elections Fees Working Party.

Within the fees structure for elections, provision is made for payments to staff for specific duties. These payments are also made in accordance with nationally set rates or locally through the Hampshire and Isle of Wight Election Fees Working Party. Details are available on request.

Further details of such allowances and payments are available on request.

Progression within the salary scale

Progression through the incremental scale appropriate to the grade is dependent upon the performance being judged as satisfactory or higher as satisfactory or higher throughout the year.

Pension

All employees are eligible to join the Local Government Pension Scheme but the value of these benefits has been excluded from the figures used for pay comparison purposes.

There are no increases or enhancement to pension entitlements because of a resolution of the authority.

Severance Payments

Any severance payments will be in line with the Council's policy for Organisational Change and further details are available on request.

The relationship between remuneration of highest and lowest paid employees of the council.

There are a number of different ways of presenting this information to provide a rounded picture of pay comparisons within the organisation.

By simply taking the salary of those permanently appointed employees paid on the lowest grade of the council's pay structure and comparing this with the Chief Executive a pay ratio of **7.1: 1** emerges. This is a reduction to the ratio of 7.5:1 measured last year and is caused by the increase to the pay recommended by the Living Wage Foundation.

It was the Hutton Report (2010) looking at the relationship between pay levels in the public sector that suggested organisations should comply with, or explain why, they did not comply with a maximum pay multiple of **1:20**.

An alternative approach would be to compare against the median salary, which has been calculated as £30,480, which equates to a ratio of **3.8: 1**. This is the same ratio as last year. If we excluded the Chief Officer group from the comparison, it does not make any change to the median figure on this occasion.

There has been no significant movement over the last 12 months. These results indicate that there is no cause for concern regarding the ratio between the pay rates for staff and the Chief Executive.