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RUSHMOOR BOROUGH COUNCIL

LICENSING AND GENERAL PURPOSES COMMITTEE

at the Council Offices, Farnborough on
Monday, 30th November, 2015 at 7.00 pm

To:

Cllr A.M. Ferrier (Chairman)
Cllr S.J. Masterson (Vice-Chairman)

Cllr R. Cooper
Cllr Liz Corps
Cllr A.H. Crawford
Cllr Barbara Hurst
Cllr B. Jones
Cllr A.R. Newell
Cllr M.D. Smith
Cllr L.A. Taylor
Cllr Jacqui Vosper

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 - 2)

   To confirm the Minutes of the Meeting held on 28th September, 2015 (copy attached).

2. **2014/15 ANNUAL AUDIT LETTER –** (Pages 3 - 16)

   To receive the Head of Financial Services' Report No. FIN1519 (copy attached), which introduces the Annual Audit Letter for the year ended 31st March, 2015, prepared by the Council's auditors, Ernst & Young. Mr. Paul King, Executive Director, Ernst & Young will be at the meeting

3. **EXTERNAL AUDIT UPDATES –** (Pages 17 - 18)

   To consider the Head of Financial Services' Report No. FIN1523, which sets out the latest sector update from Ernst & Young.

4. **TREASURY MANAGEMENT OPERATIONS – MID-YEAR REPORT 2015/16 –** (Pages 19 - 34)

   To consider the Head of Financial Services' Report No. FIN1522 (copy attached), which provides details of the Treasury Management Operations during the first half of 2015/16.

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.

LICENSING AND GENERAL PURPOSES COMMITTEE

Meeting held on Monday, 28 September 2015 at the Council Offices, Farnborough at 7.00 pm.

Voting Members

Cllr S.J. Masterson (Vice-Chairman) (In the Chair)

Cllr R. Cooper
Cllr Liz Corps
Cllr Barbara Hurst
Cllr A.R. Newell
Cllr L.A. Taylor
Cllr Jacqui Vosper

Apologies for absence were submitted on behalf of Councillor Alex Crawford JP, Councillor Alan Ferrier, Councillor Barry Jones and Councillor Mike Smith.

In the absence of the Chairman, the Vice-Chairman (Cr. S.J. Masterson) took the Chair.

9. **MINUTES**

The Minutes of the Meeting held on 29th June, 2015 were approved and signed by the Chairman.

10. **STATEMENT OF ACCOUNTS AND AUDIT RESULTS REPORT 2014/15**

The Committee welcomed to the meeting Messrs. Paul King and Alan Gregory from Ernst & Young who were attending the meeting to present the Company's findings as Council's auditors, in carrying out its audit work in relation to the 2014/15 financial year.

Before considering the Head of Financial Services' Report No. FIN1517, the Committee's attention was drawn to a draft letter of representation from the Council to Ernst & Young which had been prepared in respect of Financial Statements and Financial Records, Fraud, Compliance with Laws and Regulations, Information Provided and Completeness of Information and Transactions, Liabilities and Contingencies, Subsequent Events, Accounting Estimates, Retirement Benefits and Use of the Work of an Expert. Having considered the draft letter of representation, the Committee was satisfied with the content and approved the letter for signature by the Chairman and the Head of Financial Services.

The Committee considered the Head of Financial Services' Report No. FIN1517, which advised that the Statement of Accounts for 2014/15 had been prepared in line with CIPFA's Code of Practice on Local Authority Accounting for 2014/15, under

International Financial Reporting Standards (IFRS) and in accordance with the Accounts and Audit (England) Regulations 2011.

The Council’s Annual Governance Statement, which had been approved by the Standards and Audit Committee on 2nd July and by the Cabinet on 28th July, 2015, was required to be published alongside the Statement of Accounts and was included as Appendix A to the Report.

The Committee was advised that the auditors had completed their audit for the 2014/15 financial year and their conclusions were summarised in the Audit Results Report which was attached as Appendix B to the Head of Financial Services’ Report. A summary of the key findings from Ernst & Young was set out in the Report and the draft audit opinion was set out on page 66 of the Statement of Accounts. Ernst & Young had reported that it planned to issue an unqualified opinion on the financial statements and that the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Mr. Paul King of Ernst & Young then addressed the Committee on the content of the Audit Results Report, summarising the Company’s preliminary audit conclusion in relation to the Council’s financial position and results of operations for the year ended 31st March, 2015.

Mr. King and the Head of Financial Services then answered Members’ questions concerning the Business Rates Retention Scheme, National Non-Domestic Rates and the New Homes Bonus. Members also expressed their appreciation of the work of the Financial Services team in preparing the Statement of Accounts.

RESOLVED that

(i) the Auditor’s Audit Results Report be noted;

(ii) approval be given to the Financial Statements set out in the Head of Financial Services’ Report No. FIN1517;

(iii) the letter of representation to the auditors, Ernst & Young, be approved; and

(iv) the Chairman be authorised to sign the Statement of Responsibilities.

The meeting closed at 7.35 pm.

CLLR S.J. MASTERSON (VICE-CHAIRMAN)

Rushmoor Borough Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP

Building a better working world

Building a better
working world

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Members of Rushmoor Borough Council
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Council Offices
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14 October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this Annual Audit Letter is to communicate to the members of Rushmoor Borough Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to the Licensing & General Purposes Committee in our Audit Results Report presentation given on 28 September 2015.

The matters reported here are the most significant for the Council.

This is the last year that I will audit Rushmoor Borough Council and my successor for the 2015/16 audit will be Andrew Brittain. I would like to take this opportunity to thank officers for their assistance during the course of our work both this year and in the time I have been the auditor of the Council.

Yours faithfully

Paul King
For and behalf of Ernst & Young LLP
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Contents

1. Executive summary

Our 2014/15 audit work was undertaken in accordance with the Audit Plan issued on 30 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements and on the consistency of other information published with them;
- reviewing and reporting by exception on the Council's AGS;
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Rushmoor Borough Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 28 September 2015 we issued an unqualified audit opinion on the Council's financial statements
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources	On 28 September 2015 we issued an unqualified value for money conclusion
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts	We reported our findings to the National Audit Office on 28 September 2015
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	No issues to report
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	No issues to report

As a result of the above we have also:	
Issued a report to those charged with governance of the Council with the significant findings from our audit.	Our Audit Results Report was presented on 28 September 2015 to the Licensing & General Purposes Committee
Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	Issued on 28 September 2015

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 28 September 2015.

Our detailed findings were reported to the Licensing & General Purposes Committee on 28 September 2015.

Significant Risk: Risk of management override

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place 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.

We identified no material misstatements, evidence of material fraud or other significant matters to report.

Other key findings: Valuation of Council Offices

As identified during the 2013/14 audit the valuation of Council Office was valued incorrectly due to splitting the property between investment and operational activity.

Our approach focused on:

- ► Enquiries of management about the arrangements in place for instructing valuers and reviewing the instructions provided to valuers.
- ► Review of the valuation methodology used by valuer
- ► Test a sample of re-valued assets to ensure correct valuation in line with the valuation methodology and accounting policies

Our review did not identify any issues that we needed to report.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ► securing financial resilience, and
- ► challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 28 September 2015. A summary of the key findings from our work to support our conclusion is set out below.

Financial Resilience – Significant risk – Low level of reserves

The forecast level of future reserves

A number of factors affected the Council's reserves position in 2014/15, including the Council's NDR position moving from a safety net position to a levy position (£1.8 million); reduction in car parking income (£0.6 million); and NDR safety net grant 2013/14 (£3.6 million). The impact of these factors has been to reduce the Council's General Fund balance to £1.6 million and reduce the level of earmarked reserves to £3.6 million. The Council had been building up its useable reserves prior to 2014/15 by establishing a Stability and Resilience Reserve. The Council plans to use a forecast NDR surplus in 2015/16 of £4.6 million to increase the Stability and Resilience Reserve during 2015/16. The Council's current reserve strategy is to review usable reserves on an ongoing basis through the Medium Term Financial Strategy (MTFS). The Council's reserve plans need to be more robust to restore reserves over the medium term. Without a robust plan there is a risk the Council would substantially decrease its reserves by the end of 2017/18, for example if there was a reduction in NHB grant. The Council is taking action to revise its MTFS that will include a separate review of reserves in 2015/16.

The Council's historical financial performance

Historically the Council has a good track record of delivering its financial plans including its Value for Money improvement targets. However, the levels of savings required from 2016/17 onwards are substantially more than the levels the Council has had to achieve in the past three financial years. The Council has achieved savings to meet the savings requirement for 2014/15 which provides some assurance about the Council's ability to meet savings targets. Year on year savings become harder to achieve as initial savings have already been made in the first round of savings during 2010/11.

The Council's current financial standing

The Council's financial position remains sound at the end of 2014/15, but the overall level of usable reserves available to support spending is reduced significantly during 2014/15. The minimum level of General Fund balance is set at £1 million, and the balance at the end of 2014/15 of £1.6 million is above the minimum level. However, the Council needs to consider the appropriateness of setting a minimum level at the figure of £1 million given the uncertain future financial pressures.

The Council's processes for setting its budget, and the nature of the budget assumptions

The Council has established effective processes for setting its budget. In setting its General Fund budget, the Council has been prudent in the assumptions it has made. This reduces the possibility of an unexpected overspend.

Reviewing the link between the Council's 8 Point Plan and the MTFS

The Council's 8 Point Plan is shaping the way the Council operates on a strategic and practical level, and includes a number of elements including reviewing what the Council does against its priorities; efficiency and transformation; income generation and investment opportunities; and better procurement. Whilst the 8 Point plan is driving change at the Council, it is less clear how the plan is delivering quantifiable outcomes.

The 8 Point Plan is being monitored by the 8 Point Plan Group, performance DMB and Members. Progress on projects are produced to date from the 8 Point Plan and reported with quarterly monitoring reports. A number of major projects that are currently in the scoping and feasibility stage of development and have yet to have their potential savings identified. Saving that have been realised for example market income of £0.017 million in 2015/16 will be incorporated into the next round of MTFS development.

In considering the Council's arrangements for securing financial resilience, and for challenging how it secures economy, efficiency and effectiveness we identified:

- The Council forecasts a budget gap of approximately £2.5 million in its Medium Term Financial Strategy over the three years 2015/16 to 2017/18
- Unless the budget gap forecast in the MTFS is closed the Council would be at risk of substantially decreasing its usable Earmarked reserves by the end of 2017/18 assuming no increases in council tax and NHB.

Economy, efficiency and effectiveness

The potential cumulative savings requirement in the Council's MTFS is £2.5 million to 2017/18. To date the level of 'achieved and in budget' savings figure of £2.1 million in total to 2017/18 (equivalent to £0.7 million annually). This is consistent with the previous level of achieved savings. We recognise the Council has a history of being prudent when forecasting savings. There is significant potential for the remaining categories of savings to deliver the remainder of the required savings to close the budget gap, with estimated higher range of cumulative savings of £3.3 million to 2017/18.

In our view, the Council has made sufficient progress in identifying the actions necessary to demonstrate its ability to secure a stable financial position over the medium term.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We had no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the Public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Licensing & General Purposes Committee on 28 September 2015. In our professional judgement the firm is independent and the objectivity of the Audit Director and audit staff has not been compromised within the meaning of regulatory and professional requirements

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we communicate to those charged with governance at the Council, as required, significant deficiencies in internal control.

We have not identified any significant weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

4. Looking ahead

Description	Impact
Highways Network Asset (formerly Transport Infrastructure Assets): The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016. This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets. This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures. Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.	The Council will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways authority, the requirements may still impact if it is responsible for assets such as: • Unadopted roads on industrial estates • Footways • Cycleways • Street Furniture The Council's officers have begun to assess the impact of this change on its financial statements and expect there to be a minimal impact.
Earlier deadline for production and audit of the financial statements from 2017-18 The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017-18 financial year the timetable for the preparation and approval of accounts will be brought forward. As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.	These changes provide challenges for both the preparers and the auditors of the financial statements. The Council is aware of this challenge and the need to start planning for the impact of these changes. This will necessarily include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes. The Council needs to consider and start to implement the detailed steps it needs to take to allow it to close down the general ledger and produce the financial statements more quickly in readiness for the deadline changes in 2017/18.

5. Fees

Our fee for 2014/15 is in line with the planned fee and the scale fee set by the Audit Commission and reported in our Audit Plan and Audit Results Report. We carried out no non-audit work in 2014-15 (none in 2013-14).

	Final fee 2014/15	Planned fee 2014/15	Scale fee 2014/15
Total Audit Fee – Code work	£66,450	£66,450	£66,450
Total Audit Fee – Certification of claims and returns*	£7,960	£7,960	£7,960

*Our fee for certification of grants and claims is yet to be finalised for 2014/15 and will be reported to those charged with governance in early 2016 within the Annual Certification Report for 2014/15.

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Ernst & Young LLP

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AGENDA ITEM NO. 3

LICENSING & GENERAL PURPOSES COMMITTEE
30TH NOVEMBER 2015

HEAD OF FINANCIAL SERVICES
REPORT NO. FIN1523

EXTERNAL AUDIT UPDATES

1 INTRODUCTION

1.1 Ernst & Young, the Council's appointed auditors, periodically produce briefings for local government committees with responsibilities for governance and accounting issues.

1.2 The briefings cover issues affecting local government as a whole, not solely in relation to Rushmoor, as well as a wider look at the public sector and the context in which Ernst & Young undertakes its audits. Therefore, some elements of the update will be more relevant to Rushmoor than others.

1.3 The latest briefing is attached and Paul King, Executive Director, Ernst & Young, will be on hand to present the briefing. In addition, the Head of Financial Services will be available to answer questions regarding the impact on Rushmoor of any of the issues raised.

2 RECOMMENDATION

2.1 Members are requested to note the contents of the attached update from Ernst & Young and to consider whether there are any issues that they wish to see reported back to Committee at future meetings.

AMANDA FAHEY
HEAD OF FINANCIAL SERVICES

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AGENDA ITEM NO. 4

LICENSING & GENERAL PURPOSES COMMITTEE
30TH NOVEMBER 2015

HEAD OF FINANCIAL SERVICES
REPORT NO. FIN1522

TREASURY MANAGEMENT OPERATIONS MID-YEAR REPORT 2015/16

1 INTRODUCTION

1.1 The Treasury Management Strategy for 2015/16 is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

1.2 This report sets out the main activities of the Treasury Management Operations during the first half of 2015/16, provides an update on the current economic conditions affecting Treasury Management decisions and a forward look for the remainder of 2015/16.

- Appendix A shows the actual prudential indicators relating to capital and treasury activities for the first half of 2015/16 and compares these to the indicators set in the Annual Treasury Management Strategy for the year, which was approved by Council in February 2015.

2 TREASURY MANAGEMENT ADVICE

2.1 The Council receives independent treasury advisory services from Arlingclose Ltd. Arlingclose provide treasury advice to 25% of UK local authorities including technical advice on debt and investment management, and long-term capital financing. They advise on investment trends, developments and opportunities consistent with the Council's Treasury Management Strategy.

2.2 With the exception of pooled funds all investment activity is carried out by the Council's own treasury team with advice from Arlingclose Ltd, as outlined in paragraph 2.1 above, and having due regard to information from other sources such as the financial press and credit-rating agencies.

2.3 Pooled funds are managed at the discretion of the external fund managers associated with each fund. It should however be noted that whilst the funds are externally managed, the decision as to whether to invest lies solely with the Council in accordance with its Treasury Management Strategy.

2.4 Officers involved in treasury activities have attended Credit Risk, Treasury Management Practices and Decision Making workshops and a Treasurers' Investment Forum during the 6 months to 30th September 2015.

3 ECONOMIC BACKGROUND

3.1 **UK Economy:** The economy has remained resilient over the last six months. GDP has now increased for ten consecutive quarters, breaking a pattern of slow and erratic growth from 2009. The annual rate for consumer price inflation (CPI) briefly turned negative in April, falling to -0.1%, before fluctuating between 0.0% and 0.1% over the next few months. In the August Quarterly Inflation Report, the Bank of England projected that GDP growth will continue around its average rate since 2013. The Bank of England's current projections for inflation anticipate inflation to gradually increase to around 2% over the next 18 months and then remain there in the near future. Further improvement in the labour market saw the ILO unemployment rate for the three months to July fall to 5.5%. In the September report, average earnings excluding bonuses for the three months to July rose 2.9% year/year.

3.4 **Global**: Economic data has been largely overshadowed by events in Greece. On 12th July, following a weekend European Union Summit, it was announced that the terms for a third bailout of Greece had been reached. The deal amounting to €86 billion was agreed under the terms that Greece would see tax increases, pension reforms and privatisations.

The summer also saw attention shift towards China as the Shanghai composite index (representing China's main stock market), which had risen a staggering 50%+ since the beginning of 2015, dropped by 43% in less than three months with a reported $3.2 trillion loss to investors. On 24th August, Chinese stocks suffered their steepest one-day fall on record, driving down other equity markets around the world and soon becoming known as another 'Black Monday'. Chinese stocks have recovered marginally since and are trading around the same level as the start of the year. Concerns remain about slowing growth and potential deflationary effects.

The US economy slowed to 0.6% in Q1 2015 due to bad weather, spending cuts by energy firms and the effects of a strong dollar. However, Q2 GDP showed a large improvement at 3.9% (annualised). This was largely due to a broad recovery in corporate investment alsongside a stronger performance from consumer and government spending and construction and exports.

3.5 **Market reaction:** Equity markets initially reacted positively to the pickup in the expectations of global economic conditions, but were tempered by the breakdown of creditor negotiations in Greece. China led stock market turmoil around the globe in August, with the FTSE 100 falling by around 8% overnight on "Black Monday". Indices have not recovered to their previous levels but some improvement has been seen.

3.6 **Interest Rate Forecast**: Arlingclose's expectation for the first rise in the Bank base rate remains the third calendar quarter of 2016. The pace of interest rate rises will be gradual and the extent of rises limited.

4. BORROWING ACTIVITY IN 2015/16

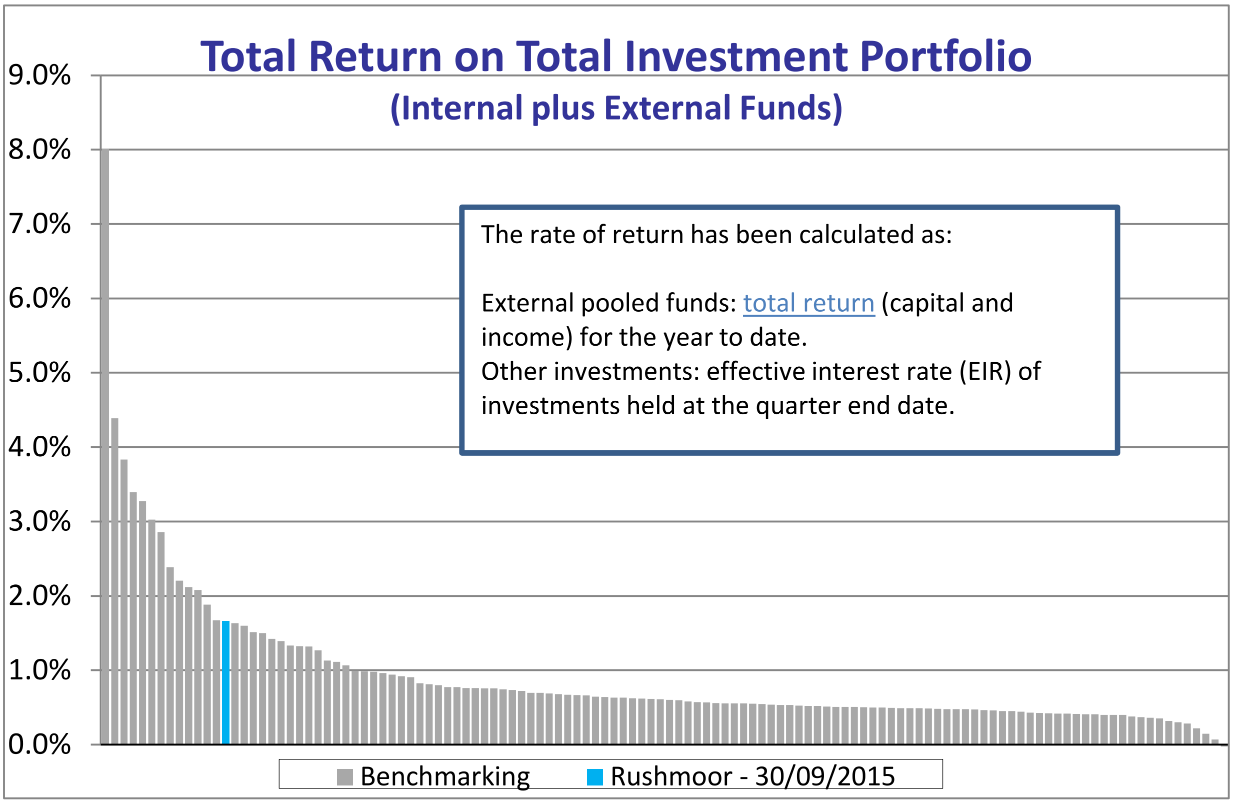
4.1 The Council does not expect to borrow in 2015/16 but is making use of a revolving infrastructure fund from the Local Enterprise Partnership by borrowing £3 million to progress the Aldershot regeneration schemes, and £1.7 million for Ball Hill SANG.

4.2 As part of the Council's plans for financial sustainability we are reviewing various income generation and investment opportunities, which include various property investment and housing initiatives. Potential future borrowing requirements may be explored as part of the financial appraisal process of any capital investment schemes identified.

5. INVESTMENT ACTIVITY IN 2015/16

5.1 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. The graph below has been produced by Arlingclose and demonstrates that during the six months to 30th September 2015 the Council's returns on total investment portfolio at 1.7%. Whilst this represents a decline against the returns generated during 2014/15 (2.9%) this is amongst the highest when benchmarked against the average of 0.87% of 122 local authority clients.

As this is a total rate of return it includes movements on the capital value of pooled funds. As outlined below (para 5.2) economic events in China and Greece have impacted upon the value of equities. The reduction in capital value has reduced the total return on total investment portfolio for all authorities with this type of investment.

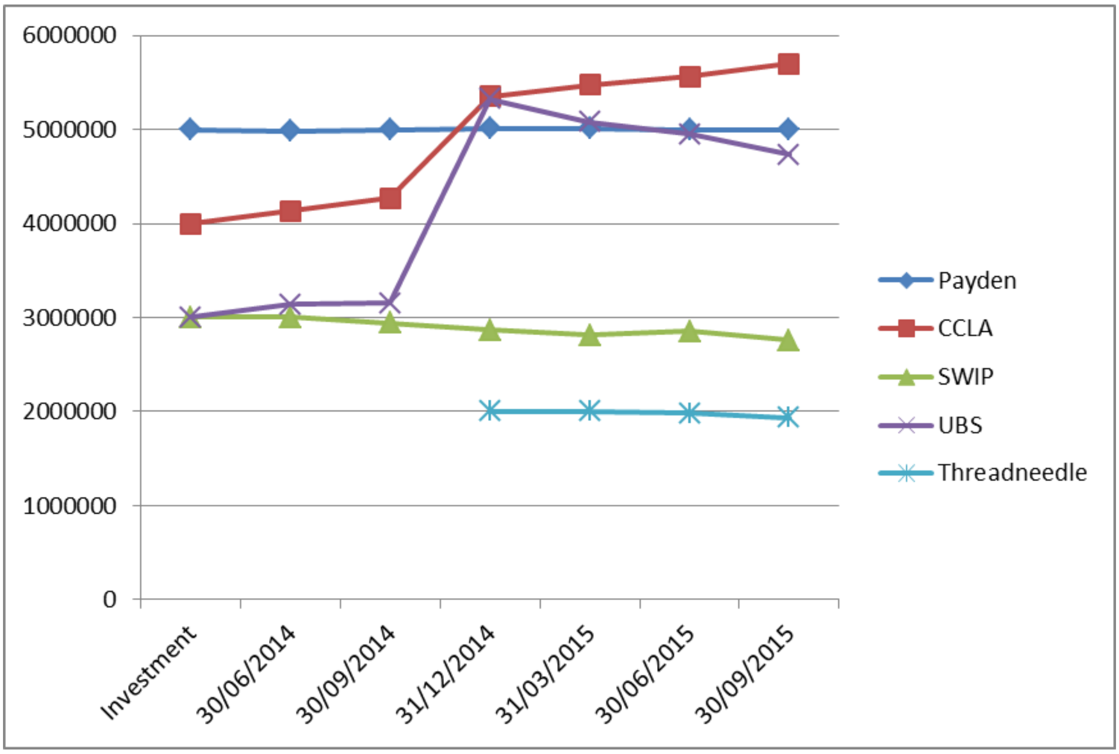


5.2 **Pooled Funds** - the Council's pooled funds are performing well and are continuing to generate good returns (as outlined below).

Pooled Fund Capital Growth - The chart below plots the growth in initial capital investment per fund to 30th September 2015. With the exception of SWIP and UBS all funds have either returned growth or a break even position on the initial capital investment. We have discussed this with Arlingclose who have confirmed that the situation China and Greece has affected equity markets. This is usual with pooled funds, which on average and over the long-term pay higher returns (income plus capital gains) than lower risk alternatives.

Arlingclose have confirmed that "we review all our advised funds regularly, and if we think the fund manager is under performing, or the fund holdings are no longer suitable for clients, then we will advise you to sell". The most recent news from Greece should benefit the equity and multi-asset funds.

As these are long term investments (3-5 year window) we monitor the capital value of these investments on a monthly basis. At this stage the dip in value of the funds does not give cause for concern however, we will continue to monitor all funds closely.



Pooled Fund Income Returns – The income returned by fund for the period to 30th September 2015 is analysed below:

- £5 million investment with Payden & Rygel's Sterling Reserve Fund. The Fund seeks to provide capital security, liquidity and income through investment in Sterling denominated investment-grade debt securities. The fund's performance for the 6 months to 30th September 2015 is 0.99% income return.

- CCLAs Local Authorities' Mutual Investment Trust. The Council's total investment in this UK property fund is £5 million. The fund has generated an impressive 5.23% income return during the 6 months to 30th September 2015.

- £3 million investment with Aberdeen Asset Management Absolute Return Fund. This fund aims for a target total return of 3-5% from a combination of investment income or capital appreciation. The fund's performance for the 6 months to 30th June 2015 is a 2.67% income return.

- £3 million investment in the UBS Multi-Asset Income Fund. This Fund follows a strategy of reducing volatility exposure levels by spreading investments across a diversified range of asset classes. This fund has generated a 3.8% income return during the 6 months to 30th September 2015.

- £2 million investment in the Threadneedle Strategic Bond Fund. This Fund aims to provide income and capital appreciation through investment grade and high yield bonds. This fund has generated a 4.29% income return during the 6 months to 30th September 2015.

5.3 **Bonds** – debt instruments in which an investor lends money for a specified period of time at a fixed rate of interest. **Covered Bonds** are conventional bonds that are backed by a separate group of loans (usually prime residential mortgages). When the covered bond is issued, it is over collateralised, with the pool of assets being greater than the value of the bond. During the year we invested in the following covered bonds over periods ranging between 15 months to 3 years 5 month:

- £1 million Bank of Scotland at fixed rate of 0.96% (15 mths)
- £1 million Yorkshire BS at a fixed rate of 1.33% (2 yrs 9 mths)
- £2 million Leeds BS at a fixed rate of 1.47% (3 yrs 5mths)

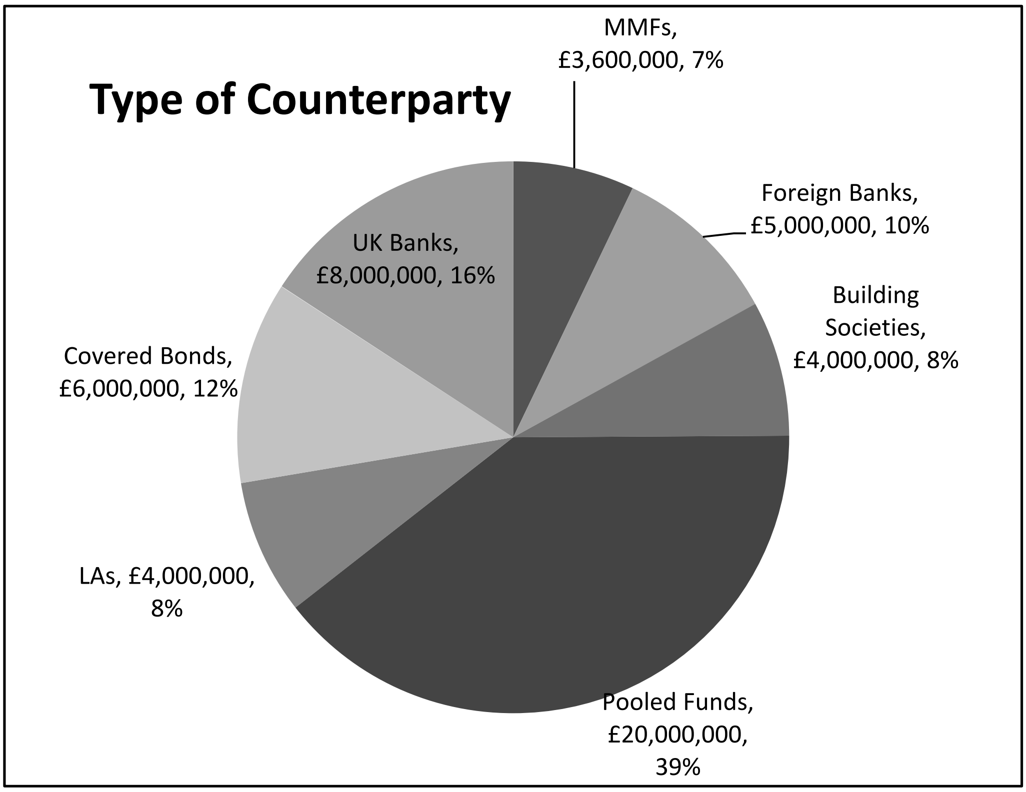
Other Investments – During the 6 months to 30th September 2015 we have further diversified our portfolio by investing the following in institutions other than UK banks:

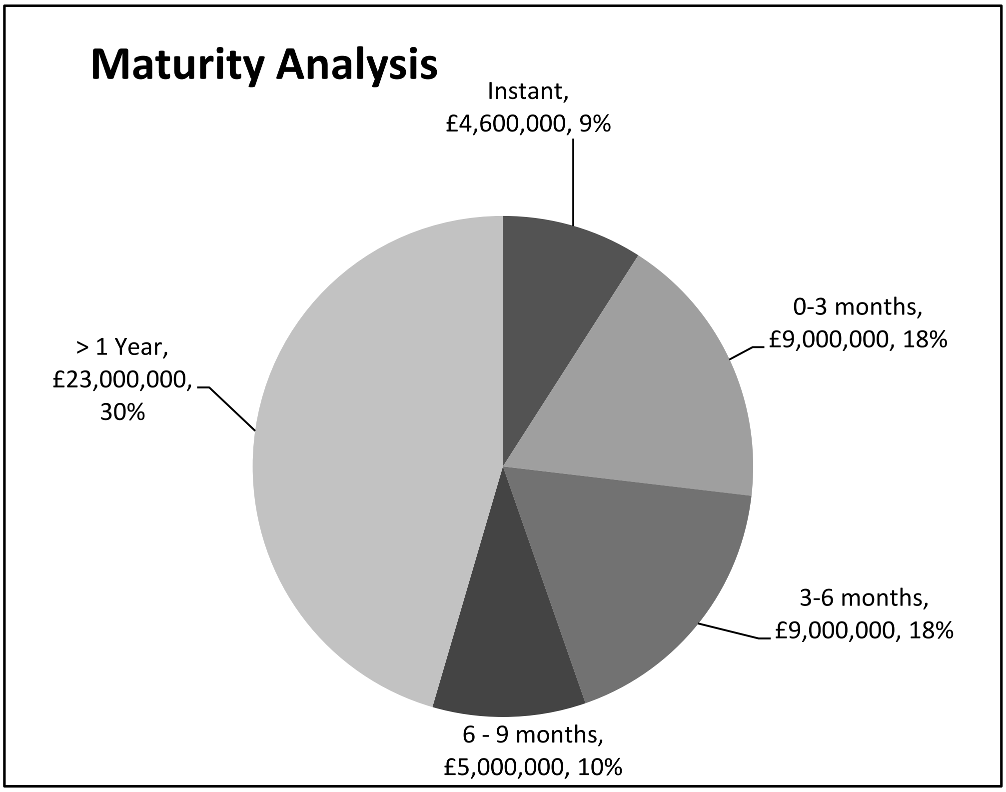
- £2 million at a fixed rate of 1% for 2 years with Dumfries and Galloway Council.
- Various temporary investments across a range of approved unsecured banks and building society counterparties all for durations of 6 months or less at rates ranging between 0.51% - 0.70%.

5.4 The table below summarises deposit/investment activity during the 6-month period to 30th September 2015. Overall, there was a net increase of £3.4m invested during the period. The additional funds available for investment during 2015/16 have been generated from additional (short term) NNDR receipts, which Rushmoor will pay over to precepting authorities.

Investment Counterparty	Balance on 01/04/15 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/09/15 £m	Avg Rate % and Avg Life (yrs)
UK Local Authorities	2.0	2.0	0.0	4.0	1%- 18mths/2 Yrs
UK Banks and Building Societies (unsecured): Short-term Long-term	 12.0 3.0	 12.0	 12.0 3.0	 12.0 0.0	0.51%-0.80% (100 days – 6 mths)
Foreign Banks	4.3	4.0	3.3	5.0	0.4% call account
Covered Bonds	2.0	4.0		6.0	0.96% - 1.47% (15mths– 3 Yrs 5 mths)
AAA-rated Money Market Funds	3.9		0.3	3.6	Varies daily <0.45%
Pooled Funds: • Payden • CCLA • SWIP Absolute • UBS Multi Asset • Threadneedle	 5.0 5.0 3.0 5.0 2.0			 5.0 5.0 3.0 5.0 2.0	 0.99 5.23 2.67 3.80 4.29
TOTAL INVESTMENTS	47.2	22.0	18.6	50.6	
Increase/ (Decrease) in Investments £m				3.4	

5.5 The following pie charts illustrate the spread of investments by counterparty along with a maturity analysis. These illustrate continued diversity and move towards longer term investments within our portfolio.


Type of Counterparty
MMFs, £3,600,000, 7%
Foreign Banks, £5,000,000, 10%
Building Societies, £4,000,000, 8%
Pooled Funds, £20,000,000, 39%
LAs, £4,000,000, 8%
Covered Bonds, £6,000,000, 12%
UK Banks, £8,000,000, 16%


Maturity Analysis
Instant, £4,600,000, 9%
0-3 months, £9,000,000, 18%
3-6 months, £9,000,000, 18%
6 - 9 months, £5,000,000, 10%
> 1 Year, £23,000,000, 30%

6 CREDIT RISK (Credit Score Analysis)

6.1 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.

6.2 The advice from Arlingclose is to aim for an A-, or higher, average credit rating, with an average score of 7 or lower. This reflects the current investment approach with its focus on security. The scores are weighted according to the size of our deposits (value-weighted average) and the maturity of the deposits (time-weighted average).

6.3 The table below summarises the Council's internal investment credit score for deposits during the 6-month period to 30th September 2015. The Council's scores fall comfortably within the suggested credit parameters. This represents good credit quality deposits on the grounds of both size and maturity. When comparing performance between quarters, quarter 2 reflects an improved credit risk score from the position in quarter 1. This is due to the increased security associated with some of the recent investments (eg covered bonds & local authorities) combined with the increasing diversity within the Council's investment portfolio (as outlined above).

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
Q4 2014/15	4.68	A+	2.77	AA
Q1 2015/16	4.57	A+	2.28	AA+
Q2 2015/16	4.03	AA-	1.78	AA+

6.4 **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:

	2015/16 Approved Limit	2014/15 Actual Minimum
Upper limit on fixed interest rate exposure	-£27m	-£16m
Upper limit on variable interest rate exposure	-£19m	-£23m

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.

6.5 **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%

As Rushmoor has no current borrowing requirement the performance against this indicator remains at 0%.

6.6 **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. Performance against the limits on the total principal sum invested to final maturities beyond the period end is:

	2015/16 Approved Limit	2015/16 Actual Performance
Limit on principal invested beyond year end at any one time	£50m	£29m

7 COUNTERPARTY UPDATE

7.1 All three credit ratings agencies have reviewed their ratings in the six months to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions have seen upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

7.2 At the end of July, the Council's treasury advisors Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September and certain non-rated UK building societies also being extended. The Council continues to only invest in counterparties as recommended by Arlingclose.

8 FORWARD LOOK

8.1 The latest advice from Arlingclose indicates that the Council should:

- Continue to focus on diversification of risk, spreading smaller amounts over an increasing number of counterparties. The Council currently uses 24 different counterparties compared with an average of 14 used by Arlingclose's 122 local authority clients.

- Aim to invest longer term with counterparties other than banks.

Overall, this should counteract the increasing risk of bank bail-ins and generate better returns as current long-term interest rates remain low.

8.2 In addition to continuing to spread risk by investing in a diverse range of counterparties, the Council's in-house team is also currently evaluating a number of future investment options if sufficient cash is available. These options are all in accordance with the current Treasury Management Strategy. These include the following:

Housing Associations (RSLs) – offer a strong asset base (residential property), inflation linked rents and relatively high credit ratings. We are currently exploring the option of a fixed term investment with an RSL. The investment would be in the form of a loan of approximately £2.5 million over a 3-5 year term. The anticipated return is approximately 3.25 - 3.5% (1.5% - 1.75% over benchmark gilt yield (Sept)).

Reverse Repurchase Agreements (repos) – are agreements (usually short term) to buy securities e.g. bonds, gilts, or other government securities with an agreement to sell them back at a specified date and price (the difference in price being the return on investment). Repos provide additional security as the investor receives extra protection through the ownership of collateral. If the bank counterparty defaults, the investor can sell the collateralised security. It has previously been agreed that the Council will not enter into any REPO arrangements without the prior agreement of the Portfolio holder.

9 BUDGETED INCOME & OUTTURN

9.1 The Council's budgeted investment income for the year was estimated at £800,000. The UK Bank Rate has been maintained at 0.5% since March 2009 and is not expected to rise until June 2016. The Council anticipates an investment outturn of £849,000 for the year. The position has resulted from enhanced returns generated from existing pooled fund investments, additional (short term NNDR) cash available to invest during 2015/16 together with increased diversification within the Council's investments portfolio.

10 CONCLUSIONS

10.1 2015/16 continues to be a challenging time for treasury management. The Council's treasury team has concentrated as always on the security of deposits/investments while having regard to the returns available. Estimated interest receipts currently stand at £849,000 for the year 2015/16, compared to the original budget estimate of £800,000.

10.2 The Council continues to seek to diversify its investments in order to maximise returns and to safeguard the Council's deposits/investments.

10.3 The Council can confirm that it has complied with its Treasury and Prudential Indicators for 2015/16, which were set in February 2015 as part of the Council's Treasury Management Strategy.

11 RECOMMENDATION

11.1 Members are requested to ote the contents of the report in relation to the activities carried out during the first half of 2015/16.

AMANDA FAHEY
HEAD OF FINANCIAL SERVICES

Background papers:

CIPFA Code of Practice -'Treasury Management in the Public Services'

Loans and Investments records

Contact: Amanda Fahey, Head of Financial Services, x8440

1.1 **Prudential Indicators**

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

Capital Expenditure and Financing	2015/16 Estimate £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m
General Fund	7.332	9.339	9.461	1.455
Total Expenditure	**7.332**	**9.339**	**9.461**	**1.455**
Capital Receipts	2.552	6.139	6.156	0.888
Capital Grants & Contributions	4.080	2.401	2.455	0.497
Reserves	0	0.099	0	0
Revenue	0.700	0.700	0.850	0.900
Total Financing	**7.332**	**9.339**	**9.461**	**1.455**

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

Capital Financing Requirement	31.03.16 Estimate £m	31.03.16 Revised £m	31.03.17 Estimate £m	31.03.18 Estimate £m
General Fund	0	0	0	0
Finance lease (MRP)	0	0	0	0
Total CFR	**0**	**0**	**0**	**0**

As shown in indicator 1 above, Rushmoor is able to finance all of its capital expenditure without the need to borrow, however CFR now includes embedded leases brought onto the balance sheet under International Financial Reporting Standards (IFRS). The MRP above includes the finance lease annual principal payments.

This is purely an accounting adjustment and does not indicate any requirement to borrow hence this indicator is zero. This prudential indicator will remain at zero for as long as Rushmoor remains debt free.

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.

Debt	31.03.16 Estimate £m	31.03.16 Revised £m	31.03.17 Estimate £m	31.03.18 Estimate £m
Borrowing	3.00	4.70	4.70	4.70
Finance leases	0.00	0.00	0.00	0.00
Total Debt	**3.00**	**4.70**	**4.70**	**4.70**

During 2015/16, the Council is expecting to make use of a revolving infrastructure fund from the Local Enterprise Partnership (M3 LEP).

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 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 lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2015/16 Estimate £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m
Borrowing	5.0	5.0	5.0	5.0
Other long-term liabilities	0.0	0.0	0.0	0.0
Total Debt	**5.0**	**5.0**	**5.0**	**5.0**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2015/16 Estimate £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m
Borrowing	10.0	10.0	10.0	10.0
Other long-term liabilities	0.0	0.0	0.0	0.0
Total Debt	**10.0**	**10.0**	**10.0**	**10.0**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed 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	2015/16 Estimate %	2015/16 Revised %	2016/17 Estimate %	2017/18 Estimate %
General Fund	-7.1	-7.5	-7.5	-8.2

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	2015/16 Estimate £	2015/16 Revised £	2016/17 Estimate £	2017/18 Estimate £
General Fund - increase in annual band D Council Tax	1.10	1.10	2.53	3.92

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