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RUSHMOOR BOROUGH COUNCIL

LICENSING AND GENERAL PURPOSES COMMITTEE

at the Council Offices, Farnborough on
Monday, 27th November, 2017 at 7.00 pm

To:

Cllr A. Jackman (Chairman)
Cllr J.E. Woolley (Vice-Chairman)

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

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 - 6)

   To confirm the Minutes of the Meeting held on 25th September, 2017 (copy attached).

2. **ANNUAL AUDIT LETTER –** (Pages 7 - 28)

   To consider the Annual Audit Letter for the year ended 31st March 2017 (copy attached). Andrew Brittain (Associate Partner) and Justine Thorpe (Manager, Government & Public Sector) from Ernst & Young will be in attendance at the meeting.

3. **TREASURY MANAGEMENT OPERATIONS MID-YEAR REPORT 2017/18 –** (Pages 29 - 46)

   To consider the Head of Financial Services' Report No. FIN1736 (copy attached), which sets out the main activities of the Treasury Management Operations during the first half of 2017/18.

4. **AMENDMENT TO STANDING ORDER 8 - NOTICES OF MOTION –**

   At the request of Cllr John Woolley, to consider making an amendment to the Standing Order relating to Notices of Motion. The effect of the proposed change will be to remove the words "or which affects the Borough directly" from Standing Order 8 (6).

5. **WELLESLEY S106 AGREEMENT - RUSHMOOR BOROUGH COUNCIL APPOINTMENT TO THE ESTATE MANAGEMENT COMPANY - WELLESLEY RESIDENTS TRUST LTD –** (Pages 47 - 52)

   To consider the Solicitor to the Council's Report No. LEG1720 (copy attached) regarding the appointment of a director to Wellesley Residents Trust Ltd.

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, 25th September, 2017 at the Council Offices, Farnborough at 7.00 pm.

Voting Members

Cllr A. Jackman (Chairman)
Cllr J.E. Woolley (Vice-Chairman)

Cllr Liz Corps
Cllr S.J. Masterson
Cllr M.D. Smith
Cllr L.A. Taylor
Cllr Jacqui Vosper

Apologies for absence were submitted on behalf of Cllr Sue Carter, Cllr Sophia Choudhary, Cllr A.H. Crawford and Cllr B. Jones.

14. **MINUTES**

The Minutes of the Meeting held on 26th June, 2017 were approved and signed by the Vice-Chairman.

15. **INTERNAL AUDIT - AUDIT UPDATE**

The Committee considered the Audit Manager's Report No. AUD1705 which gave an overview of the work completed by Internal Audit during Quarter 2, an update on progress made with the expected deliverables for Quarters 2 and 3 (as had been approved by the Committee at the previous meeting) and sought endorsement of the work expected to be delivered in Quarter 4.

The Committee was advised that resources within Internal Audit currently remained the same as had been reported to the previous meeting in June 2017. The Audit Manager's post had been advertised and contractors continued to be used to provide assistance for the delivery of the internal audit plan. The resources would further change in Quarter 3, as the Internal Auditor would be commencing maternity leave. It was noted that this post would initially be covered through the use of contractors.

The Committee noted that, in Quarter 2, work had been carried out on Activation Aldershot (Capital Programme), heating payments, card payments, capital projects follow up, transparency code, purchase and sale of property and land and contract letting and tendering. In addition, it was noted that, as a requirement of the Public Sector Internal Audit Standards, an external assessment against the standards was currently in progress. The assessment was being carried out as a peer review with the Hampshire and Isle of Wight Audit Managers' Group. Each of the overall standards was being reviewed and discussed by the Group in order to identify best practice across Hampshire. The findings of the external assessment would be reported to the Committee in due course highlighting areas in which further work might be required.

It was further noted that, in Quarter 2, Internal Audit would be assisting External Audit with some of the work required around checking IT parameters on the Benefits system, which was required for the annual Housing Benefit return.

The Report set out details of the current status against audits previously agreed to be delivered in Quarter 2 and the additional audit review required.

The work expected to be delivered in Quarters 3 and 4 had been selected from the high risk areas set out in Appendix B to the Report. These were in respect of: HR (HMRC requirements/taxation requirements); Finance (NNDR Billing and Collection); HR (payroll); Finance (FMS and Bank Reconciliation); Finance (Purchase Ledger); Community (Parking machine income follow-up); Finance (Activation Aldershot follow-up); and, Finance (Capital Programme - Depot). The Committee noted that, due to resource limitations and an additional higher risk area having been identified in Quarter 2 for review in 2017/18, it was unclear at this stage if these audits could be completed in 2017/18.

RESOLVED: That

(i) audit work carried out in Quarter 1 and the update to the expected deliverables in Quarters 2 and 3, as set out in the Audit Manager's Report No. AUD1704, be noted; and

(ii) the expected deliverables for Quarter 3 be endorsed.

16. **ANNUAL GOVERNANCE STATEMENT**

The Committee considered the Solicitor to the Council's Report No. LEG1713 which sought approval of the Council's Annual Governance Statement 2016/17 in light of the adoption by the full Council on 27th July 2017 of a revised Code of Corporate Governance. The Report also sought approval to publish the Annual Governance Statement alongside the Council's Statement of Accounts, which would be considered later at the meeting.

The Committee had considered a draft of the Annual Governance Statement at the meeting on 26th June, 2017, based on a draft Code of Corporate Governance which, at the time, had yet to be adopted by the full Council. This had subsequently taken place on 27th July 2017. The Committee was advised that the Annual Governance Statement had been further amended after the Corporate Leadership Team had undertaken a review of the significant governance issues to be addressed in the forthcoming year. The principal areas of risk were now set out in the Governance Statement under 'Risk Management, the General Data Protection Regulation and the Risk of Non-delivery of Key Projects'. The Review of Policy and Review Panels, the Review of Partnership Working and other items identified in the previous version would be undertaken within service areas but were not considered to be significant governance issues. The revised Annual Governance Statement was set out in full as an Appendix to the Report. The Leader of the Council and the Chief Executive were both required to sign the Annual Governance Statement.

RESOLVED: That the Annual Governance Statement 2016/17, as set out in the Solicitor to the Council's Report No. LEG1713, be approved for publication with the Council's Statement of Accounts.

17. **STATEMENT OF ACCOUNTS AND AUDIT RESULTS**

The Committee considered the Head of Financial Services' Report No. FIN1729, which sought approval for the Council's Statement of Accounts for 2016/17 and set out the findings of the Council's external auditors, Ernst & Young, in carrying out their audit work in relation to the 2016/17 financial year.

The Committee noted that the Statement of Accounts had been prepared in line with CIPFA's Code of Practice on Local Authority Accounting' for 2016/17 under International Financial Reporting Standards (IFRS) and in accordance with the Accounts and Audit (England) Regulations 2015. The Statement of Accounts had to be published by 30th September 2017.

The Statement of Accounts consisted of the following sections, all of which were set out in Appendix A to the Report:

- Narrative Statement
- Statement of Responsibilities
- Core Financial Statements - Movement in Reserves, Comprehensive Income and Expenditure, Balance Sheet and Cash Flow
- Notes to the Core Financial Statements - including accounting policies
- Collection Fund and accompanying notes

The Council's Annual Governance Statement, which had been approved earlier at the meeting, would be published alongside the Statement of Accounts.

The Council would be providing a letter of representation to the Auditors as part of the annual audit process. This was an important factor in enabling the Auditor to form his/her opinion as to whether the Statement of Accounts provided a true and fair view of the financial position of the Council. A copy of the text of this letter was set out in Appendix C of the Audit Results Report.

The Chairman then welcomed Ms Justine Thorpe of Ernst & Young who was attending the meeting to present the Audit Results Report 2016/17, which was set out in Appendix B to the Report. Ms Thorpe stated that she anticipated that Ernst & Young would issue an unqualified opinion on the financial statements and that the Council had made proper arrangements to secure economy, efficiency and effectiveness in the use of resources. The Auditor had also made some recommendations to strengthen the Council's governance arrangements in relation to the role of the Committee, a review of the Council's risk management framework and the way the Council reviewed the advice received from experts.

The Head of Financial Services and Ms Thorpe then answered Members' questions in respect of land value and buildings on such areas of land.

RESOLVED: That

(i) the Auditor's Audit Results Report, as set out in the Head of Financial Services' Report No. FIN1729, be noted;
(ii) the Financial Statements for 2016/17 be approved
(iii) the letter of representation be approved; and
(iv) the Chairman be authorised to sign page 15 of the Statement of Accounts 2016/17 to certify the Committee's approval.

18. **ANNUAL REVIEW OF THE LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN**

The Committee considered the Solicitor to the Council's Report No. LEG1714, which updated the Committee on the annual summary of statistics on the complaints made to the Local Government and Social Care Ombudsman (LGSCO).

The Committee noted that the LGO conducted independent, impartial investigations of complaints about service failure and maladministration. Where complaints arose regarding Rushmoor Borough Council, there was a two-stage formal complaints procedure. Only after the completion of these stages, if the complainant was still dissatisfied then they had the option to complain to the Local Government Ombudsman. If the Ombudsman found maladministration causing injustice, then he would make recommendations for a remedy to redress the injustice. The LGO could also recommend changes to policy and practice to address wider systemic failures. The LGO now included 'Social Care' in its name and logo. This was in response to feedback which suggested that the original name acted as a barrier to recognition with the social care sector.

The Committee was advised that, in addition to the 2016/17 annual letter, the LGSCO had provided spreadsheets detailing additional information on the complaints and enquiries received within the period and information on the decisions made in the period. A copy of the spreadsheet was set out in the appendix to the Report.

The Committee was advised that from 5th April 2016 until 20th March 2017 the LGSCO had received a total of seven complaints against the Council. Two of these had been referred back to the Council for local resolution without further action being taken by the Ombudsman. The remaining five complaints had been generated from Environmental Health (1), Planning (3) and Revenues and Benefits (1). The complaints received against the Council had been decided as follows:

- three complaints had been closed after initial enquiries without any investigation having been undertaken.
- the remaining two complaints had not been upheld.

The LGSCO report therefore had concluded that Rushmoor Borough Council had a 0% uphold rate out of seven complaints made against it. The uphold rate was calculated in relation to the total number of detailed investigations. Members noted that this continued the uphold rate from the previous year and was indicative that the Council's complaints system was working well and that complaints had been properly addressed when they occurred.

RESOLVED: That the Solicitor to the Council's Report No. LEG1714 be noted.

The meeting closed at 7.18 pm.

CLLR A. JACKMAN (CHAIRMAN)

Rushmoor Borough Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

Building a better
working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a "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 (updated 23 February 2017)" 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 Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. 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.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Rushmoor Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▸ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
▸ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▸ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▸ Public interest report	We had no matters to report in the public interest.
▸ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▸ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 25 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 28 September 2017.

In November 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken on the 2016/17 housing benefits claim.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Andrew Brittain

Associate Partner
For and on behalf of Ernst & Young LLP

Purpose

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 25 September 2017 Licensing and General Purposes Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 30 January 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2016/17 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. 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 putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it 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 National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 25 September 2017.

Our detailed findings were reported to the 25 September 2017 Licensing and General Purposes Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
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. Because the Council is required to meet its planned budget, there is both a financial and political incentive to avoid reporting a deficit position at the year end.	Our approach focused on: ▸ reviewing and testing revenue and expenditure recognition policies, to see if they would of themselves lead to over- or understatement of amounts; ▸ reviewing and discussing with management any accounting estimates on revenue or expenditure recognition for evidence of bias. We concentrated on estimates requiring more judgement by management, e.g. accruals; ▸ developing a testing strategy to test material revenue and expenditure streams. We looked at all material streams individually and completed sample testing tailored for the individual streams (e.g. where higher risk, more testing performed); ▸ reviewing the capitalisation of PPE to ensure it was valid capital expenditure and not revenue spend; ▸ reviewing and testing revenue cut-off at the period end date to ensure that transactions were entered in the relevant year (e.g. items were not deferred into the following year to improve the financial position. We found no issues to report.

Significant Risk	Conclusion
Management override of controls A risk present on all audits is that 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. Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.	Our approach focused on: ▸ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, e.g. senior managers entering journals (we would not normally expect this), journals posted at weekends and those not netting to zero, and journals with descriptions such as 'fraud' and 'error'; ▸ reviewing accounting estimates for evidence of management bias in how they had been arrived at, e.g. understating assumptions about accruals; and ▸ evaluating the business rationale for significant unusual transactions, e.g. individual material items, anomalies in accounting treatment, transactions put through the ledger at unusual times. We found no issues to report.
Valuation of PPE The Council values a proportion of its Property, Plant and Equipment (PPE) assets every year so that all of its assets are valued on a five year cycle. Our review of the Council's draft 2016/17 financial statements showed that there was a £24.192 million upward revaluation of land and buildings compared to the Council's PPE asset opening balance of £67.455 million. Given the significant increase of some £24 million, compared to our materiality of £1.325 million, we concluded that there was a significant risk of material misstatement in the valuation of assets. Our work focused on the four PPE assets that represented the majority of the £24.192 million upward revaluation.	Our Real Estate Valuation specialists: ▸ held various discussions with the Council's surveyor and building managers; ▸ completed corroborative procedures to identify the quantum of exposure concerned; and ▸ calculated an acceptable range of property values for each of the four assets. Our specialists found that, overall, the asset values were within the EY acceptable range of valuations. This is appropriate at a financial statement level, however the Council may wish to revisit the asset values recorded for these four assets in its fixed asset register. We have discussed the detailed findings with officers. The council added a disclosure regarding PPE valuation to Note 7: Major Sources of Estimation Uncertainty.

Other Key Findings	Conclusion
Expenditure and funding analysis and comprehensive income and expenditure statement Amendments have been made to the *Code of Practice on Local Authority Accounting 2016/17* this year changing the way the financial statements are presented. 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.	We found that there were no issues with the revised Comprehensive Income and Expenditure Statement. However we identified areas where the Expenditure and Funding Analysis reported by the Council was not compliant with the Code. This was reported to management and the disclosure note has been amended and is now fully compliant.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We planned our procedures using materiality of £1,388,220. We have reassessed this based on the actual results for the financial year and have decreased this amount to £1,325,340. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Licensing and General Purposes Committee that we would report to the Committee all audit differences in excess of £66,267 (2016: £69,410).

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. Strategy applied: we agreed all disclosures in the remuneration report back to source data, and exit packages to the agreed and approved amounts.

- Related party transactions. Strategy applied: we tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

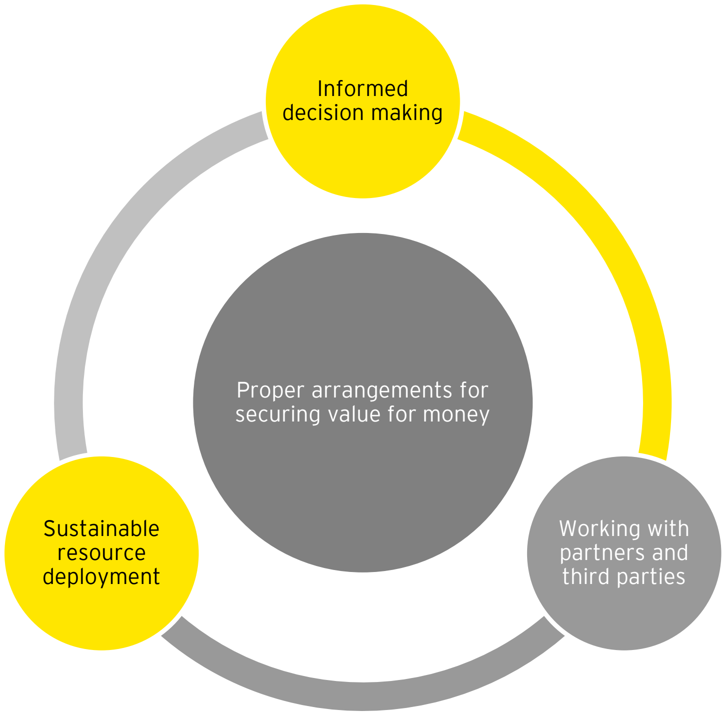
Value for Money

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. This is known as our value for money conclusion.

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.



We identified no significant risk in relation to these arrangements. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 28 September 2017.

Other Reporting Issues

Other Reporting Issues

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. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

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

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Licensing and General Purposes Committee on 25 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, 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 are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls. However, our audit did identify the following control issues to bring to the attention of the Licensing and General Purposes Committee.

Observation	Recommendation
Revised Terms of Reference and work programme for the L&GP Committee	
Following the committees restructure the L&GP Committee is responsible for carrying out the functions of an audit committee for the Council. Our review of its current Terms of Reference and output for 2016/17 showed that the Committee could be more effective if it followed CIPFA's best practice guidance for Audit Committee which includes (1) an agreed work programme for the year, (2) regular risk management updates, (3) self-assessment of its effectiveness and (4) production of an annual report of its achievements for Cabinet	The Licensing and General Purposes Committee Terms of Reference should reflect those requirements of an audit committee as specified in CIPFA's Position Statement and guidance on Audit Committees to ensure that its work programme for the year covers all best practice requirements.
Mapping and reporting of the Council's Assurance Framework	
The Council is lacking an overarching assurance framework which is a structured means of identifying and mapping the main sources of assurance, and co-ordinating them to best effect. The Council can then use this to effectively manage performance and risk through identifying and reporting on continuous improvement and areas where management need to focus their attention. A good assurance framework, if reported to the Council's L&GP Committee will provide wider assurance than controls, integrating financial, risk and performance measurements, independent assurance with VFM outcomes. It also underpins planning, performance management and risk management leading to a good understanding of how the Council achieves its objectives and addresses areas for improvement. This will be a useful investment and may reduce the amount of scrutiny committee time needed.	The Council should consider mapping its Assurance Framework, where it obtains its assurances, where there are gaps and risks to manage and actions to take. Also then agree on the reporting of this to the Licensing and General Purposes Committee, which will give members a clear view of how the Council is achieving its objectives and addressing areas for improvement

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LICENSING & GENERAL PURPOSES
27 NOVEMBER 2017

HEAD OF FINANCIAL SERVICES
REPORT NO. FIN1736

TREASURY MANAGEMENT OPERATIONS MID-YEAR REPORT 2017/18

SUMMARY AND RECOMMENDATIONS:

SUMMARY: This report sets out the main activities of the Treasury Management Operations during the first half of 2017/18.

RECOMMENDATION:

Note the contents of the report in relation to the activities carried out during the first half of 2017/18.

1 INTRODUCTION

1.1 The Treasury Management Strategy for 2017/18 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 2017/18, provides an update on the current economic conditions affecting Treasury Management decisions and a forward look for the remainder of 2017/18.

1.3 Appendix A shows the actual prudential indicators relating to capital and treasury activities for the first half of 2017/18 and compares these to the indicators set in the Annual Treasury Management Strategy for the year. This Strategy was originally approved by Council on 23rd February 2017, and subsequently further revised and approved at Council 27th July 2017.

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 Arlingclose treasury management meetings on investment security, liquidity and yield during the 6 months to 30th September 2017.

3 ECONOMIC BACKGROUND

3.1 A detailed market commentary provided by Arlingclose is provided at Appendix A to this report.

3.2 The commentary makes specific reference to the Markets in Financial Instruments Directive (MiFID II) regulatory update, for which Rushmoor meets the conditions to opt up to professional status. Arrangements to achieve this status have been made,

3.3 In addition, the last section of Appendix A discusses the CIPFA Consultation on Prudential and Treasury Management Codes. The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to Full Council, which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in the Full Council report, but other indicators may be delegated to another committee.

4. BORROWING ACTIVITY IN 2017/18

4.1 At the start of the current financial year the Council had actual external debt amounting to £14.6m, composed of £2.6m Enterprise M3 LEP monies and the remainder (£12m) borrowed short-term from two UK local authorities.

4.2 An element of the Enterprise M3 LEP amount was repaid in the first half of the year leaving £2.1m outstanding, and total borrowing at the mid-point of the financial year therefore amounted to £14.1m. Actual capital expenditure has not significantly progressed in the first half year, and £5m of the local authority borrowing has been repaid early in October 2017, just after the mid-point of the financial year 2017/18.

4.3 It should be noted that the Council enjoys an element of revenue cash buoyancy for the first ten months of each financial year. This is due to the timing of council tax and NDR income receipts matched against outgoing precepts and demands from HCC and government bodies.

4.4 The volume of capital expenditure is however likely to accelerate during the second half of the financial year, and some additional borrowing within the second half of the year to service this expenditure will be required.

4.5 The Council's Authorised Limit for external debt was increased to £50m in 2017/18 within the Annual Treasury Management Strategy revisions discussed in paragraph 1.3 of this report. This limit was set in relation to the 2017/18 approved capital programme. However, the actual amount of external borrowing at the end of the current financial year will depend largely on the overall volume of capital expenditure that will actually be incurred.

5. INVESTMENT ACTIVITY IN 2017/18

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 at Appendix B has been produced by Arlingclose and demonstrates that during the six months to 30th September 2017 the Council's returns on total investment portfolio were in excess of 2.5%. This return is down compared to the total investment returns generated during the previous financial year (2016/17 2.9%). The current half-year performance is however good when benchmarked against the average of 1.1% yield for all 135 Arlingclose local authority clients. A small number of other Councils with similar sized internal and external portfolios are marked on the graph to enable performance comparison.

5.2 **Pooled Funds**

Pooled Fund Capital Growth As these are long-term investments (3-5 year window) Finance staff monitor the capital value of these investments on a monthly basis.

Arlingclose continue to confirm, "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".

Pooled Fund Income Returns – The income returned by fund for the period to 30th September 2017 is analysed below (all percentage returns quoted below are measured at 12-month running averages):

- £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 has provided a 0.84% income return performance.

- £5 million investment with CCLAs Local Authorities' Mutual Investment Trust. The fund has provided a 4.86% income return performance.

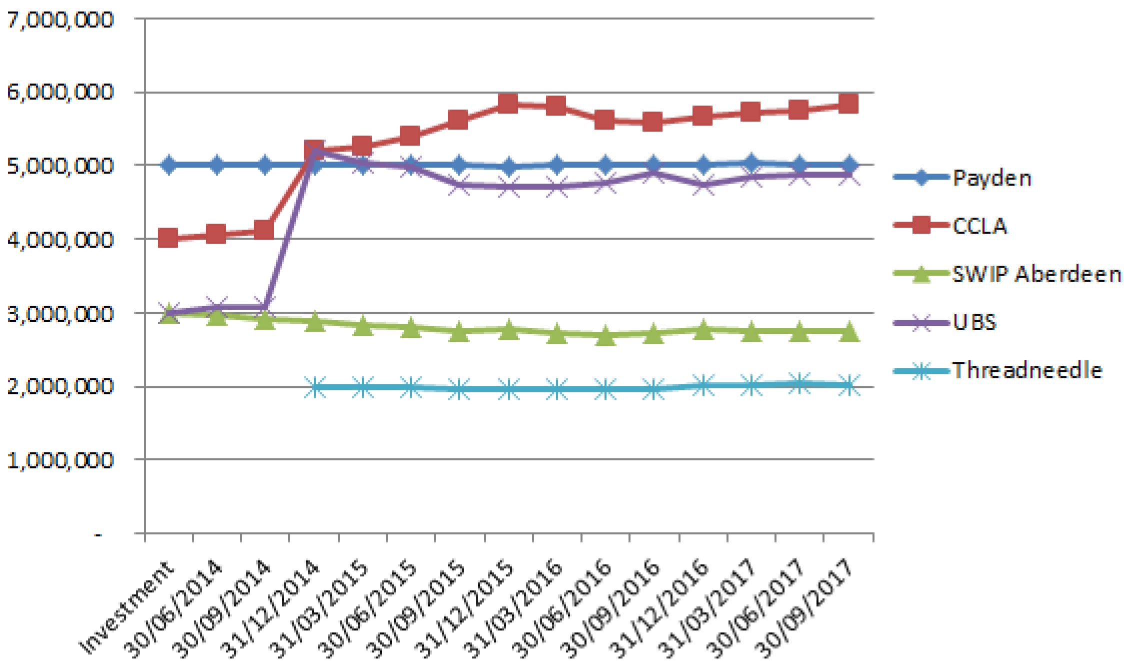
- £3 million investment with Aberdeen Asset Management Absolute Return Fund. This fund aims for a target total return of 3-5% from a combination of investment income or capital appreciation. The fund has provided a 2.23% income return performance.

- £5 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. The fund has provided a 3.72% income return performance.

- £2 million investment in the Columbia Threadneedle Strategic Bond Fund. This Fund aims to provide income and capital appreciation through investment grade and high yield bonds. The fund has provided a 4.32% income return performance.

5.3 The history of market valuations for each of the Council's pooled funds is given in the table that follows. CCLA continues to perform well. SWIP Aberdeen is under-performing.

HISTORY OF MARKET VALUATIONS FOR THE COUNCIL'S POOLED FUND INVESTMENTS Amounts in £



5.4 **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. The use of covered bonds has allowed the Council to actively move away from unsecured bank deposits, hence reducing exposure to bail-in. During the first half year 2017/18, the Council had not negotiated any additional bond investments in excess of continuation of its investment in the following covered bonds held at the commencement of the financial year. Note that the information below relates to bonds issued by building societies (listed at their nominal value):

The list of Bonds is provided on the following page.

- £1 million Yorkshire BS at a fixed rate of 1.33% (until Apr 18)
- £1 million Yorkshire BS at a fixed rate of 1.18% (until Apr 18)
- £2 million Leeds BS at a fixed rate of 1.47% (until Dec 18)
- £1 million Leeds BS at Libor + 0.27% (until Feb 18)

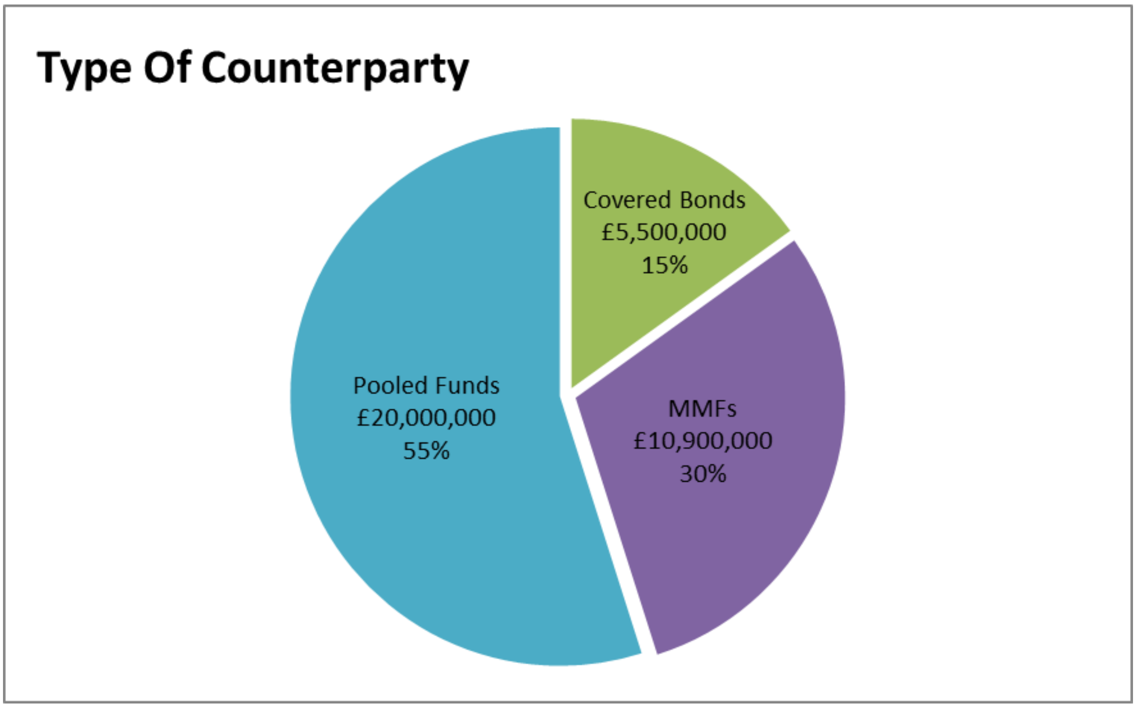
Other Investments – The Council continues to maintain some diversity in its portfolio by holding the following in institutions other than UK banks:

- 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 0.11% - 0.19% (as measured towards the end of the first half-year 2017/18). These temporary investments assist the Council to achieve essential cash liquidity on a daily basis. At the mid-point of the year 2017/18 the holding amounts to £10.9m.

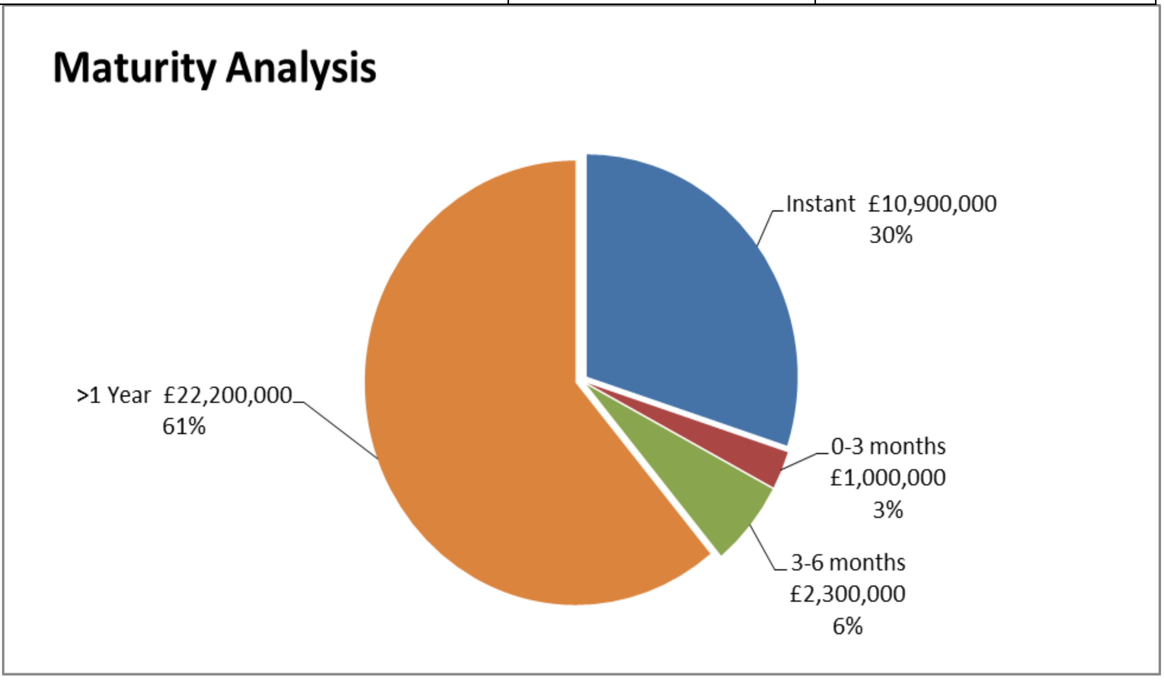
5.5 **All Investments –** The table that follows summarises deposit/investment activity during the 6-month period to 30th September 2017. Overall, there was an increase of £2.9m invested during the period.

Investment Counterparty	Balance at 01/04/17 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance at 30/09/17 £m	Avg Rate % and Avg Life (yrs)
UK Local Authorities	2.0	-	(2.0)	-	-
UK Banks and Building Societies (unsecured): Short-term Long-term	- -	- -	- -	- -	- -
Foreign Banks	-	-	-	-	-
Covered Bonds	6.5	-	(1.0)	5.5	Yields … Libor + 0.27%, 1.18%, 1.33% & 1.47%
AAA-rated Money Market Funds and short-term bank investments	5.0	Net increase in investment of 5.9	Activity in & out on a daily basis, resulting in a net increase in the period	10.9	Varies daily Average 0.16%
Pooled Funds: • Payden • CCLA • SWIP Aberdeen • UBS Multi Asset • Threadneedle	5.0 5.0 3.0 5.0 2.0	- - - - -		5.0 5.0 3.0 5.0 2.0	0.84% 4.86% 2.23% 3.72% 4.32%
TOTAL INVESTMENTS	33.5	5.9	(3.0)	36.4	

5.6 The following pie charts illustrate the spread of investments by counterparty along with a maturity analysis. These illustrate continued diversity.



Maturity Analysis for ALL INVESTMENTS as at 30th September 2017	Amount invested £	% of total investments
Instant	10,900,000	30
0-3 months	1,000,000	3
3-6 months	2,300,000	6
6-9 months	-	-
9-12 months	-	-
> 1 year	22,200,000	61
Total for all duration periods	**36,400,000**	**100**



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 2017. 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.

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
Q4 2015/16	3.02	AA	1.50	AAA
Q1 2016/17	4.74	A+	5.45	A+
Q2 2016/17	2.88	AA	1.57	AA+
Q3 2016/17	2.91	AA	1.38	AAA
Q4 2016/17	2.97	AA	1.21	AAA
Q1 2017/18	3.08	AA	1.08	AAA
Q2 2017/18	3.46	AA	1.03	AAA

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 shown in the table that follows.

At 30th September 2017 the Council's total net position on principal sums invested amounts to £36.4m (investments) offset by £14.1m (fixed rate borrowing) resulting in a (net) amount of £22.3m.

Interest Rate Exposure	2017/18 Approved Limit	End of Q2 2017/18 Actual
Upper limit on fixed interest rate exposure – represented by the maximum permitted net outstanding principal sum borrowed at fixed rate – Note that a negative indicator represents	-£16m	£2m

net investment		
Upper limit on variable interest rate exposure – represented by the maximum permitted net outstanding principal sum borrowed at variable rate – Note that a negative indicator represents net investment	-£25m	-£24m

At the mid-point of the financial year 2017/18 the upper limit on fixed rate exposure is now a positive figure, composed of fixed rate investments (£12m) net of outstanding borrowing (£14m) resulting in +£2m. As the Council still has more variable rate funds available to invest and has no variable rate borrowing the above variable rate indicators result in negative figures.

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 are given in the table below:

	Upper	Lower	End of Q2 2017/18 Actual Performance
Under 12 months	100%	0%	85%
12 months and within 24 months	100%	0%	6%
24 months and within 5 years	100%	0%	9%
5 years and within 10 years	100%	0%	-
10 years and above	100%	0%	-

At 30th September 2017, the Council's external borrowing amounts to £14.1m. The maturity duration percentages expressed in future time periods are related to the tiered repayment structure for the Enterprise M3 LEP.

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:

	2017/18 Approved Limit	End of Q2 2017/18 Actual Performance
Limit on principal invested beyond year end at any one time	£50m	£22m

7 COMPLIANCE

7.1 All treasury management activities undertaken during the first half of 2017/18 fully complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

8 FORWARD LOOK

8.1 The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Both consumer and business confidence remain subdued. Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low and real earnings growth (i.e after inflation) struggles in the face of higher inflation.

8.2 In relation to the pooled funds, Arlingclose advise that the Council should consider selling units of poor performing holdings. The resulting cash to be utilised to purchase units in another pooled fund that is judged to be producing improved returns.

8.3 The UK Bank Rate was increased to 0.50% (from 0.25%) on 2nd November 2017. The Council's advisors central case estimate is for the Bank Rate to remain at 0.5%.

8.4 Treasury management decision making is now progressively developing with regard to incurring additional external borrowing to service the Council's capital expenditure plans.

9 BUDGETED INCOME & OUTTURN

9.1 The Council's full year 2017/18 budgeted investment income interest is now estimated to be £837,000, compared to the original budget for the year of £839,000. In addition, borrowing interest costs for the current year are estimated to be £40,000, compared to a budget of £51,000 contained in the original budget for 2017/18. This information is contained in the Cabinet report "Revenue Budget Monitoring and Forecasting position at October 2017" for 14th November 2017.

10 CONCLUSIONS

10.1 The Council's treasury team continues to concentrate on the security of deposits/investments while keeping a keen regard on the income returns available. It is estimated that the Council's commitment towards capital expenditure in the current year will raise the level of external borrowing at the end of the year.

10.2 Further capital expenditure in 2018/19 and future years will require further additional borrowing. Higher yielding pooled fund investments will be retained for as long as possible, as their redemption in the future to raise cash for capital purposes will cause significant revenue effects in relation to the loss of investment income. The Council continues to seek to diversify its investments in order to maximise returns and to safeguard the Council's treasury management position.

10.3 The Treasury and Prudential indicators were originally set at Full Council on 23rd February 2017 as part of the Treasury Management Strategy. This Strategy was subsequently further revised and approved at Council 27th July 2017. The Council can confirm that it has complied with its Treasury and Prudential Indicators for 2017/18.

AMANDA FAHEY
HEAD OF FINANCIAL SERVICES

Background papers:

CIPFA Prudential Code 2011 (Printed edition 2013)

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

Loans and Investments records

Contact: Amanda Fahey, Head of Financial Services, x8440

ECONOMIC BACKGROUND - Comment provided by Arlingclose - Appendix A

External Context

Economic backdrop: Commodity prices fluctuated over the period with oil falling below $45 a barrel before inching back up to $58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

The unemployment rate fell to 4.3%, its lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of calendar 2017.

One month after the mid-point of 2017/18 and in a 7 – 2 vote, the MPC increased the Bank Rate in line with market expectations to 0.5%. Further potential movement in the Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting that inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take only a very measured approach to any monetary policy tightening, any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

Financial markets: Gilt yields displayed significant volatility over the six-month period with the appearing change in sentiment in the Bank of England's outlook for interest rates, the push-pull from expectations of tapering of Quantitative Easing (QE) in the US and Europe and from geopolitical tensions, which also had an impact. The yield on the 5-year gilts fell to 0.35% in mid-June, but then rose to 0.80% by the end of September. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%.

The FTSE 100 nevertheless powered away reaching a record high of 7548 in May but dropped back to 7377 at the end of September. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September.

Credit background: UK bank credit default swaps continued their downward trend, reaching three-year lows by the end of June. Bank share prices have not moved in any particular pattern.

There were a few credit rating changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities.

Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Authority reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.

The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

Regulatory Updates

Markets in Financial Instruments Directive (MiFID II): Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. But from 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The main additional protection for retail clients is a duty on the firm to ensure that the investment is "suitable" for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Authority has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

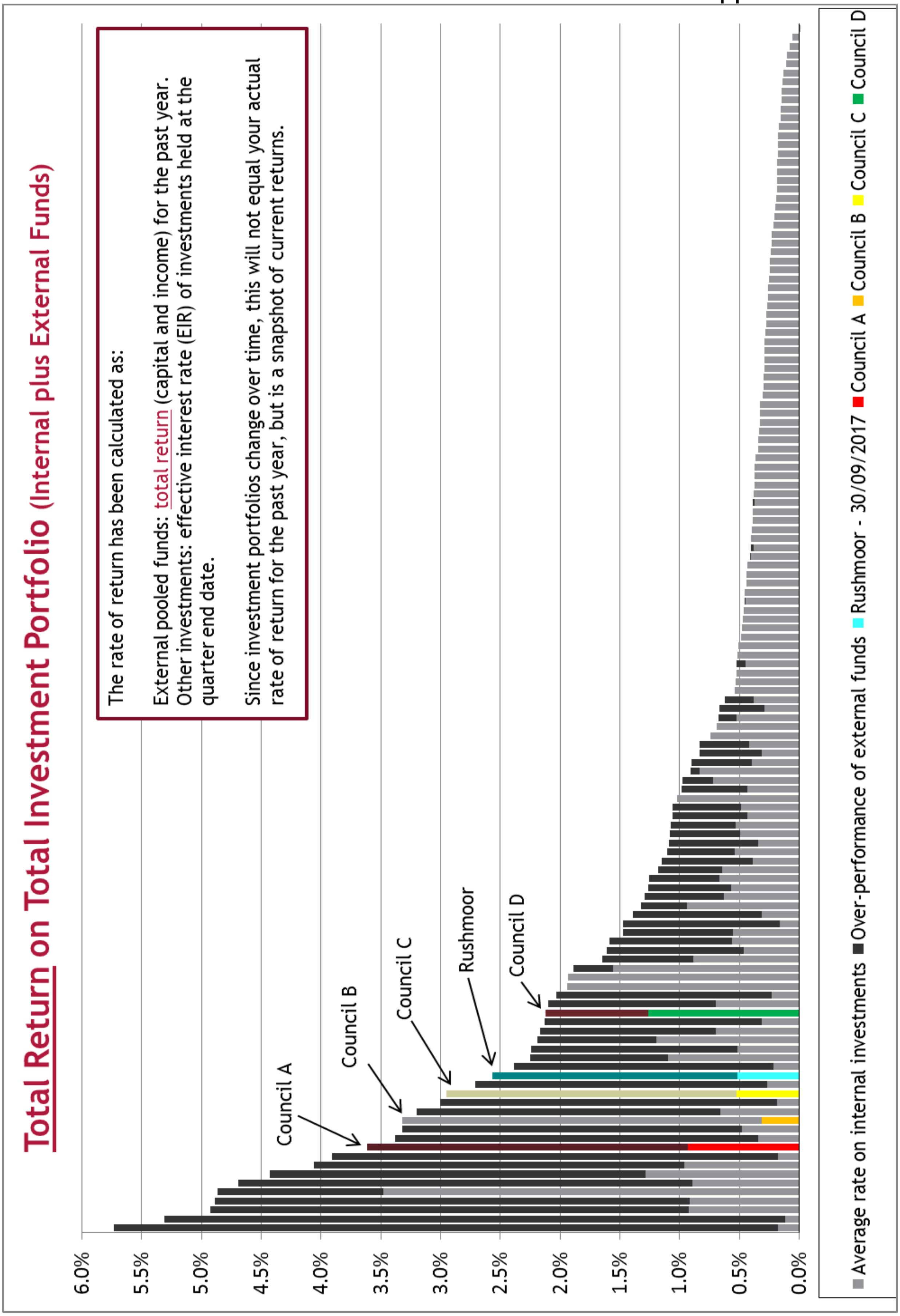
The Authority meets the conditions to opt up to professional status and has made arrangements to achieve this status in order to maintain their current MiFID status.

CIPFA Consultation on Prudential and Treasury Management Codes: In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August with a deadline for responses of 30th September 2017.

The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to Full Council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds (including the HRA) and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.

Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties in the definition of “investments” as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a Committee rather than needing approval of Full Council. There are also plans to drop or alter some of the current treasury management indicators.

CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year. The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its MRP guidance) for local authorities in England; however there have been no discussions with the devolved administrations yet.


Total Return on Total Investment Portfolio (Internal plus External Funds)
The rate of return has been calculated as:
External pooled funds: total return (capital and income) for the past year.
Other investments: effective interest rate (EIR) of investments held at the quarter end date.
Since investment portfolios change over time, this will not equal your actual rate of return for the past year, but is a snapshot of current returns.
6.0%
5.5%
5.0%
4.5%
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
Council A
Council B
Council C
Rushmoor
Council D
Average rate on internal investments
Over-performance of external funds
Rushmoor - 30/09/2017
Council A
Council B
Council C
Council D

This Appendix shows the actual prudential indicators relating to capital and treasury activities for the first half of 2017/18 and compares these to the indicators set in the Annual Treasury Management Strategy for the year. This Strategy was originally approved by Full Council on 23rd February 2017, and subsequently further revised and approved at Full Council 27th July 2017.

The amounts stated within the 2017/18 Projected column cells are the same as reported in Appendix B of the Capital Programme Monitoring Position at October 2017 at Cabinet 14th November 2017.

1.1 Prudential Indicators

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

Capital Expenditure and Financing	2017/18 Estimate £m	2017/18 Projected £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund	30.945	36.988	2.026	2.161
Total Expenditure	**30.945**	**36.988**	**2.026**	**2.161**
Capital Receipts	4.600	4.800	0.500	0.500
Capital Grants & Contributions	3.285	4.938	1.331	1.431
Revenue	-	-	-	-
Prudential Code Borrowing	23.060	27.250	0.195	0.230
Total Financing	**30.945**	**36.988**	**2.026**	**2.161**

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	31.03.18 Estimate £m	31.03.18 Projected £m	31.03.19 Estimate £m	31.03.20 Estimate £m
General Fund	29.6	33.8	33.8	33.7
Total CFR	**29.6**	**33.8**	**33.8**	**33.7**

The CFR amounts provided above are provided in relation to the TMSS for 2017/18 incorporating items within the 8-Point Plan with regard to "Invest to Save" schemes.

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	**31.03.18 Estimate £m**	**31.03.18 Projected £m**	**31.03.19 Estimate £m**	**31.03.20 Estimate £m**
Borrowing	37.0	40.0	43.0	42.0
Total Debt	**37.0**	**40.0**	**43.0**	**42.0**

During 2017/18, the Council is expecting to continued 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	**2017/18 Estimate £m**	**2017/18 Projected £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**
Borrowing	47.0	47.0	50.0	47.0
Total Debt	**47.0**	**47.0**	**50.0**	**47.0**

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	**2017/18 Estimate £m**	**2017/18 Projected £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**
Borrowing	49.0	49.0	51.0	50.0
Other long-term liabilities	1.0	1.0	1.0	1.0
Total Debt	**50.0**	**50.0**	**52.0**	**51.0**

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	**2017/18 Estimate %**	**2017/18 Projected %**	**2018/19 Estimate %**	**2019/20 Estimate %**
General Fund	-6	-6	0	4

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 £**	**2017/18 Projected £**	**2018/19 Estimate £**	**2019/20 Estimate £**
General Fund - increase in annual band D Council Tax	-6.75	-6.75	-18.31	-18.19

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LICENSING AND GENERAL PURPOSES COMMITTEE
27TH NOVEMBER 2017

SOLCITOR TO THE COUNCIL
REPORT NO. LEG1720

WELLESLEY S106 AGREEMENT – RUSHMOOR BOROUGH COUNCIL APPOINTMENT TO THE ESTATE MANAGEMENT COMPANY – WELLESLEY RESIDENTS TRUST LTD

SUMMARY
To consider the appointment of a Director to Wellesley Residents Trust Ltd

RECOMMENDATION
To appoint the Head of Communities as a director of Wellesley Residents Trust Ltd

1. INTRODUCTION

1.1 Under the terms of the S106 agreement dated 10 March 2014 for the Wellesley development, the developers Grainger plc and Grainger (Aldershot) Ltd were required to set up an Estate Management Company (EMC) as a non-profit-making entity, to maintain and manage in perpetuity the features of the development listed in Appendix 1 to this note.

1.2 A detailed Estate Management Plan setting out the maintenance and management arrangements has been approved by the Council as required by the S106 agreement.

2. BACKGROUND

2.1 The S106 agreement provides that the EMC shall have a management board comprised of stakeholders in the development including (inter alia) the Minister of State for Defence and/or the developers, this Council, the County Council, any registered provider of social housing on the site and occupiers of the residential units and commercial units on the site (para 9.3 of Schedule 1 to S106 agreement).

2.2 The structure and voting rights of the EMC were approved by the Council prior to its formation as required by the provisions of the S106 agreement. The maintenance and management costs of the EMC are funded by an annual service charge levied on the residential units in the development in accordance with obligations contained in the S106 agreement.

3. DETAILS OF THE PROPOSAL

3.1 The EMC was incorporated as a company limited by guarantee on 19 May 2014 and the Articles of Association of the company were adopted on 10 October 2014. They provide that the following shall be entitled to nominate one person to be appointed as a director of the company (and can require the removal of such person as a director of the company and nominate another person in his/her place):

- Grainger (Aldershot) Limited (the Second Developer).
- Grainger Trust Limited (the registered provider of housing).
- The Land Restoration Trust (who have been granted a 999 year underlease of the SANGS by Grainger (Aldershot) Ltd and will manage -and maintain the SANGS).
- Hampshire County Council.
- Rushmoor Borough Council.
- The Minister of State for Defence.
- The Residents Management Committee (one representative following occupation of more than 30% of the Residential Units proposed to be comprised in the development and two representatives following occupation of more than 60% of the Residential Units).
- Additionally the directors may nominate one or more additional persons for appointment which may include a representative of the owners/occupiers of the commercial units on the site.

3.2 Also each of

- Grainger (Aldershot) Limited
- Grainger Trust Limited
- The Land Restoration Trust
- Hampshire County Council.
- Rushmoor Borough Council.
- The Minister of State for Defence.
- The owners of individual residential or commercial units.
- The owners of Affordable Housing Units (i.e. the registered providers of social housing);

shall be entitled to be registered as a member of the company.

3.3 Representation of the various stakeholders on the EMC is intended to ensure that the stakeholders are able to influence and monitor the management and maintenance of the common features by the EMC. It is considered that the Council should take up its right to become a member of the company, and nominate a representative as a director of the company, given the wide scope of the EMC's responsibilities, the length of the development of the site and the need to ensure that the obligations of the EMC are fulfilled in accordance with the approved Estate Management Plan.

3.4 We have approached Hampshire County Council concerning their appointments and they have advised that as it is not a requirement to take up their appointments, they have decided not to do so. They consider that as the Estate Management Plan sets out a framework for the management/maintenance of the maintained property, including the structure and funding of the maintained property, that they do not need to be a member of the EMC as the roads, streets, footpath, cycle-way, street furniture, sustainable drainage are all intended to become publically adopted (albeit that they will be covered until such time as they are adopted). HCC's interest in the management functions of the EMC is more limited than this Council's.

3.5 A decision now needs to be made regarding the appointments on behalf of this Council. The Council will become a member of the ECM and this can be done by our formally notifying the developer that we wish to be entered on the register of members of the EMC. Committee is however, asked to consider who should be nominated as the director from the Council. It is considered that during the build out period, the appointee should be an officer of the Council rather than an elected member. The Head of Community has an in depth understanding of the estate management obligations of the EMC and the terms of the S106 agreement and is therefore recommended. The duties will be those of a director of any company and will involve attendance at board and general meetings of the company.

Alternative Options

3.6 To appoint a member to the EMC. An officer appointment is preferable whilst the EMC is being established and setting up the arrangements for the management of the estate. The Head of Communities is the most logical appointment given the relationship of the development with the public realm.

Consultation

3.7 The appointment has been considered by CLT and the Head of Communities selected.

4. IMPLICATIONS (of proposed course of action)

Risks

4.1 It is important to make an appointment so that the Council can influence the estate arrangements for the development to ensure that the development is properly funded and maintained so that later issues are not experienced by residents.

Legal Implications

4.2 The appointment is provided for by the section 106 agreement

Financial and Resource Implications

4.3 none

Equalities Impact Implications

4.4 None

Other

4.5 None

5. CONCLUSIONS

5.1 The appointment will discharge the Council's obligation under the section 106 agreement to provide appropriate representation on the EMC board and ensure that this important development and the infrastructure set out in the appendix is appropriately managed and maintained to a high standard without being a drain upon Council resources.

ANN GREAVES
SOLICITOR TO THE COUNCIL

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APPENDIX 1

Features to be maintained and managed by the Estate Management Company in Perpetuity in accordance with the Estate Management Plan

(i) Open Space; in accordance with the Council's standard management and maintenance requirements for Open Space attached as Schedule 14 (as may be amended from time to time by the Council with the agreement of the Owner and/or Developer);

(ii) Play Areas; in accordance with the Council's standard inspection management and maintenance requirements for Play Areas attached as Schedule 12 (as may be amended from time to time by the Council with the agreement of the Owner and/or the Developer) including where necessary replacing Play Area 1 and Play Area 2;

(iii) LLAPs; in accordance with the Council's standard inspection management and maintenance requirements for LLAPs attached as Schedule 12 (as may be amended from time to time by the Council with the agreement of the Owner and/or Developer);

(iv) Woodland; in accordance with the condition and maintenance plan for the Woodland approved by the Council pursuant to paragraph 6 of this Schedule;

(v) Public Art; including insuring (and where appropriate in agreement with the Council) repairing or replacing the Public Art if stolen or damaged;

(vi) Monuments and Memorials; including (and where appropriate in agreement with the Council) repairing or replacing any Monument and Memorial if stolen or damaged;

(vii) Roads streets footpaths cycleways and associated landscaping until adoption;

(viii) Street lighting and signage until adoption;

(ix) Street furniture until adoption;

(x) Water features forming part of the public realm;

(xi) SuDs (in the event any SuDs are provided by the Owner and/or Developer as part of the drainage requirements for the Development) and any other drainage systems until adoption;

(xii) any other land that does not form part of the Residential Units or Commercial Units and has not been publicly adopted;

(xiii) SANGS; which shall be managed and maintained in perpetuity in accordance with paragraph 10 of this Schedule;

(xiv) Trees; which shall be managed and maintained in accordance with the Arboricultural Constraints Assessment Report;

(xv) Allotments;

(xvi) Private footpaths;

(xvii) Stanhope Lines; and

(xviii) Heritage Trail;