Public Document Pack

COUNCIL MEETING

Wednesday, 11th February, 2015
at 2.00 pm

Council Chamber - Civic Centre

This meeting is open to the public

Members of the Council

The Mayor – Chair

The Sheriff – Vice-chair

Leader of the Council

Members of the Council (See overleaf)

Contacts

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WARD	COUNCILLOR	WARD	COUNCILLOR
Bargate	Bogle Noon Tucker	**Millbrook**	Denness Galton Thorpe
Bassett	Hannides B Harris L Harris	**Peartree**	Keogh Lewzey Dr Paffey
Bevois	Barnes-Andrews Burke Rayment	**Portswood**	Norris Claisse O'Neill
Bitterne	Letts Lloyd Stevens	**Redbridge**	McEwing Pope Whitbread
Bitterne Park	Baillie Inglis White	**Shirley**	Chaloner Coombs Kaur
Coxford	Morrell Spicer Thomas	**Sholing**	Mrs Blatchford Hecks Jeffery
Freemantle	Moulton Parnell Shields	**Swaythling**	Mintoff Painton Vassiliou
Harefield	Daunt Fitzhenry Smith	**Woolston**	Chamberlain Hammond Payne

PUBLIC INFORMATION

Role of the Council

The Council comprises all 48 Councillors. The Council normally meets six times a year including the annual meeting, at which the Mayor and the Council Leader are elected and committees and sub-committees are appointed, and the budget meeting, at which the Council Tax is set for the following year.

The Council approves the policy framework, which is a series of plans and strategies recommended by the Executive, which set out the key policies and programmes for the main services provided by the Council. It receives a summary report of decisions made by the Executive, and reports on specific issues raised by the Overview and Scrutiny Management Committee. The Council also considers questions and motions submitted by Council Members on matters for which the Council has a responsibility or which affect the City.

PUBLIC INVOLVEMENT

Questions:- People who live or work in the City may ask questions of the Mayor, Chairs of Committees and Members of the Executive. (See the Council's Constitution ref Part 4 Council Procedure Rules 10.8)

Petitions:- At a meeting of the Council any Member or member of the public may present a petition which is submitted in accordance with the Council's scheme for handling petitions. Petitions containing more than 1,500 signatures (qualifying) will be debated at a Council meeting. (See the Council's Constitution ref Part 4 Council Procedure Rules 10.1)

Representations:- At the discretion of the Mayor, members of the public may address the Council on any report included on the agenda in which they have a relevant interest. Any member of the public wishing to address the meeting should advise the Democratic Support Officer (DSO) whose contact details are on the front sheet of the agenda.

Deputations:-A deputation of up to three people can apply to address the Council. A deputation may include the presentation of a petition. (See the Council's Constitution ref Part 4 Council Procedure Rules 10.7)

MEETING INFORMATION

Use of Social Media:- The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting

Mobile Telephones – Please switch your mobile telephones to silent whilst in the meeting.

Fire Procedure – In the event of a fire or other emergency, a continuous alarm will sound and you will be advised by Council officers what action to take.

Southampton City Council's Priorities:

- Jobs for local people
- Prevention and early intervention
- Protecting vulnerable people
- Affordable housing
- Services for all
- City pride
- A sustainable Council

Access – Access is available for disabled people. Please contact the Council Administrator who will help to make any necessary arrangements

Smoking policy – The Council operates a no-smoking policy in all civic buildings

2014	2015
16 July	11 February (Budget)
17 September	18 March
19 November	20 May (AGM)"

CONDUCT OF MEETING

FUNCTIONS OF THE COUNCIL

The functions of the Council are set out in Article 4 of Part 2 of the Constitution

BUSINESS TO BE DISCUSSED

Only those items listed on the attached agenda may be considered at this meeting.

RULES OF PROCEDURE

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

QUORUM

The minimum number of appointed Members required to be in attendance to hold the meeting is 16.

DISCLOSURE OF INTERESTS

Members are required to disclose, in accordance with the Members' Code of Conduct, ***both*** the existence ***and*** nature of any "Disclosable Pecuniary Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

DISCLOSABLE PECUNIARY INTERESTS

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

(i) Any employment, office, trade, profession or vocation carried on for profit or gain.

(ii) Sponsorship: Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests

A Member must regard himself or herself as having an, 'Other Interest' in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

Principles of Decision Making

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

Director of Corporate Services
M R HEATH
Civic Centre, Southampton, SO14 7LY

Tuesday, 3 February 2015

TO: ALL MEMBERS OF THE SOUTHAMPTON CITY COUNCIL

You are hereby summoned to attend a meeting of the COUNCIL to be held on WEDNESDAY, 11TH FEBRUARY, 2015 in the COUNCIL CHAMBER CIVIC CENTRE at 2:00pm. when the following business is proposed to be transacted:-

1 APOLOGIES

To receive any apologies.

2 ANNOUNCEMENTS FROM THE MAYOR AND LEADER

Matters especially brought forward by the Mayor and the Leader.

3 DEPUTATIONS, PETITIONS AND PUBLIC QUESTIONS

To receive any requests for Deputations, Presentation of Petitions or Public Questions.

4 COUNCIL TAX SETTING AND RELATED MATTERS

5 EXCLUSION OF THE PRESS AND PUBLIC - CONFIDENTIAL PAPERS INCLUDED IN AGENDA ITEM 5A

To move that in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of any consideration of the confidential appendix to Agenda Item 5a.

Appendix 5 is confidential, the confidentiality of which is based on category 3 of paragraph 10.4 of Councils Access to Information Procedure Rules. It is not in the public interest to disclose this because doing so would prejudice the authority's ability to achieve best consideration for the disposal of land (the identify of preferred developer and the figures associated with the land transaction are commercially sensitive).

a General Fund Capital Programme 2014/15 TO 2017/18 (Pages 1 - 64)

Report of the Cabinet Member for Resources seeking to set out the latest estimated overall financial position on the General Fund Capital Programme for 2014/15 to 2017/18, attached.

b General Fund Revenue Budget 2015/16 to 2017/18 (Pages 65 - 234)

Report of the Cabinet Member for Resources, seeking to set out the latest estimated overall financial position on the General Fund Revenue Budget for 2015/16 to 2017/18 and to outline the main issues that need to be addressed in considering the Cabinet's budget and council tax proposals to Council on 11 February 2015, attached.

6 HOUSING REVENUE ACCOUNT BUDGET REPORT AND BUSINESS PLAN
(Pages 235 - 264)

Report of the Cabinet Member for Housing and Sustainability seeking approval for the Housing Revenue Account budget proposals and long term business plan to be recommended to the budget setting Council meeting on 11 February 2015, attached.

7 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2015/16 TO 2017/18
(Pages 265 - 304)

Report of the Chief Financial Officer regarding the Council's proposed treasury management strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the numerous risks related to this activity, attached.

8 IMPLEMENTING THE COUNCIL STRATEGY 2014-2017: TRANSFORMATION PROGRAMME UPDATE
(Pages 305 - 352)

To consider the report of the Cabinet Member for Education and Change and the Cabinet Member for Resources and Leisure detailing the progress made in implementing the transformation programme, attached.

9 SAFE CITY AND YOUTH JUSTICE STRATEGIES
(Pages 353 - 354)

Report on the urgent decision made by the Chief Executive on 30th November 2014 to approve the Safe City and Youth Justice Strategies, attached.

NOTE: There will be prayers by the Mayor's Chaplain, David Adcock, in the Mayor's Reception Room at 1.45 pm for Members of the Council and Officers who wish to attend.

M R HEATH
Director of Corporate Services

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DECISION-MAKER:	CABINET COUNCIL			
SUBJECT:	THE GENERAL FUND CAPITAL PROGRAMME 2014/15 TO 2017/18			
DATE OF DECISION:	10 FEBRUARY 2015 11 FEBRUARY 2015			
REPORT OF:	CABINET MEMBER FOR RESOURCES AND LEISURE			
CONTACT DETAILS				
AUTHOR:	**Name:**	Mel Creighton	**Tel:**	023 8083 4897
	E-mail:	Mel.creighton@southampton.gov.uk		
Director	**Name:**	Andrew Lowe	**Tel:**	023 8083 2049
	E-mail:	Andrew.Lowe@southampton.gov.uk		
STATEMENT OF CONFIDENTIALITY				
Appendix 5 is confidential, the confidentiality of which is based on category 3 of paragraph 10.4 of Councils Access to Information Procedure Rules. It is not in the public interest to disclose this because doing so would prejudice the authority's ability to achieve best consideration for the disposal of land (the identify of preferred developer and the figures associated with the land transaction are commercially sensitive).				

BRIEF SUMMARY

The purpose of this report is to inform Council of any major changes in the overall General Fund Capital Programme since it was last reported on 17 September 2014. This report also outlines the way in which the revised programme has been funded, reflecting the changes in availability and usage of capital resources.

The net result of the changes in this report is that the current overall programme has increased by £4,774k. The capital programme is fully funded based on the latest forecast of available resources although the forecast can be subject to change; most notably with regard to the value and timing of anticipated capital receipts.

RECOMMENDATIONS:

CABINET

Recommends that Full Council

i) Approve the changes to the General Fund Capital Programme as set out in Council recommendations i- xii.

COUNCIL

It is recommended that Council:

i) Approve the revised General Fund Capital Programme, which totals £101,932k (as detailed in paragraph 4) and the associated use of resources.

ii) Note the changes to the programme as summarised in Appendix 2 and described in detail in Appendix 3.

iii) Note the slippage and re-phasing as described in detail in Appendix 3.

iv) Note that the revised General Fund Capital Programme is based on prudent assumptions of future Government Grants to be received, and that announcements made as part of the Comprehensive Spending Review for 2015/16 and the provisional local government finance settlement have been appropriately reflected in the proposed programme presented for approval.

v) Note that additional temporary borrowing taken out in 2010/11 and 2011/12 due to cash flow issues, now totalling £3,650k is expected to be repaid by the end of 2016/17 when anticipated capital receipts are finally forecast to be received.

vi) Add a sum of £6,704k to the Environment & Transport capital programme in 2015/16 for the Highways & Bridges Programme to be funded from Council Resources (£2,600k capital receipts), Local Highways Maintenance grant (£1,704k), Borrowing (£1,900k) and Revenue (£500k from the On-Street reserve).

vii) Add a sum of £1,669k to the Environment & Transport capital programme in 2015/16 for the Integrated Transport Programme to be funded from Integrated Transport Block grant.

viii) Add a sum of £2,300k to the Leader's capital programme in 2015/16 for the scheme set out in confidential Appendix 5

ix) Add a sum of £240k to the Resources and Leisure (Leisure) capital programme in 2015/16 for the Bargate Monument repairs scheme to be funded from Council Resources (capital receipts). To give approval to spend up to this sum in 2015/16.

x) To note the current position regarding the Council's Disposal programme as detailed in paragraph 21.

xi) Note the financial and project issues which are set out in paragraphs 28 to 33 and detailed in Appendix 3 for each Portfolio.

xii) Note that a review of the Council's capital strategy has been undertaken as detailed in Appendix 6.

REASONS FOR REPORT RECOMMENDATIONS

1. The update of the Capital Programme is undertaken twice a year in accordance with Council Policy and is required to enable schemes in the programme to proceed and to approve additions and changes to the programme.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. The update of the Capital Programme is undertaken within the resource constraints imposed on it. No new schemes can be added unless specific additional resources are identified. Alternative options for new capital spending are considered as part of the budget setting process in the light of the funding available and the overall financial position.

DETAIL (Including consultation carried out)

CONSULTATION

3. The General Fund Capital Programme update summarises additions to the capital programme since September 2014. Each addition to the capital programme has been subject to the relevant consultation process which now reflects the role played by Capital Boards and the use of the Councils project management system Sharepoint. The content of this report has been subject to consultation with Finance Officers from each portfolio.

THE FORWARD CAPITAL PROGRAMME

4. The following table shows a comparison of the total planned expenditure for each year with the sums previously approved:

Table 1 – Comparison of total planned expenditure by year

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	Later Years £000	Total £000
Latest Programme	48,967	46,781	5,551	533	100	101,932
Sep 2014 Programme	62,555	29,028	4,362	0	1,213	97,158
Variance	**(13,588)**	**17,753**	**1,189**	**533**	**(1,113)**	**4,774**

5. The above table shows that the General Fund Capital Programme has increased by £4,774K.

   With the exception of changes requiring approval detailed in the recommendations within this report, all other changes have been previously approved by Council, Cabinet or made under delegated authority. Details of each portfolio's programme are shown in Appendix 1.

6. The change in individual portfolios' capital programmes is shown in the following table and a summary of the major variations, together with the source of funding and the priorities to which they contribute, is detailed in Appendix 2:

Table 2 – Change in individual portfolio capital programmes

	Latest Programme £000	Previous Programme £000	Total Change £000
Children's Services	17,512	17,402	110
Environment & Transport (E&T)	41,576	32,584	8,992
Environment & Transport (City Services)	1,008	998	10
Health & Adult Social Care	959	1,035	(76)
Housing & Sustainability	5,547	12,159	(6,612)
Leaders	26,441	24,097	2,344
Resources & Leisure (Resources)	4,925	5,470	(545)
Resources & Leisure (Leisure)	3,964	3,413	551
Total GF Capital Programme	**101,932**	**97,158**	**4,774**

7. Further detail of the changes to each portfolio capital programme is contained in Appendix 3 which sets out both additions and slippage and re-phasing for schemes.

CAPITAL RESOURCES

8. The resources which can be used to fund the capital programme are as follows:
   - Unsupported Borrowing
   - Capital Receipts from the sale of HRA assets
   - Capital Receipts from the sale of General Fund assets
   - Contributions from third parties
   - Central Government Grants and from other bodies
   - Direct Revenue Financing (DRF)

9. Capital Receipts from the sale of Right to Buy (RTB) properties are passed to the General Fund capital programme to support the Housing Association schemes within the Housing Portfolio.

CHANGES IN AVAILABLE RESOURCES

10. The additional spending within the Capital programme must be met from additional sources of finance. The following table shows the resource changes that have taken place since September 2014:

Table 3 – Resource Changes since September 2014

	£000
Unsupported Borrowing	1,355
Capital Receipts	5,352
Contributions	(6,565)
Capital Grants	4,022
Direct Revenue Financing (Portfolios)	610
Total Change in Available Resources	**4, 774**

11. The main reasons for the resource changes are detailed in Appendix 4. It should be noted that the revised General Fund Capital Programme is based on prudent assumptions of future Government Grants to be received, and that announcements made as part of the Comprehensive Spending Review for 2015/16 and the provisional local government finance settlement have been appropriately reflected in the proposed programme presented for approval. This affects areas such as the schools programme within the Children's Services Capital Programme which is heavily reliant on grant funding from government each year.

12. The largest increases in available resources relate to Government capital grants and contributions.

OVERALL USE OF RESOURCES

13. The following table shows capital expenditure by portfolio and the use of resources to finance the General Fund Capital Programme:

Table 4 – Capital Expenditure by Portfolio

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	Later Yrs £000	Total £000
Children's Services	9,190	6,734	1,588	0	0	**17,512**
Env & Transport (E&T)	25,502	16,074	0	0	0	**41,576**
Env & Transport (CS)	708	300	0	0	0	**1,008**
Health & Adult Social Care	456	503	0	0	0	**959**
Housing & Sustainability	2,471	2,776	300	0	0	**5,547**
Leaders	6,055	16,815	3,301	170	100	**26,441**
Resources & Leisure (Res)	2,025	2,303	312	285	0	**4,925**
Resources & Leisure (Leis)	2,560	1,276	50	78	0	**3,964**
	48,967	**46,781**	**5,551**	**533**	**100**	**101,932**

Table 5 Resources to Finance the General Fund Capital Programme

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	Later Yrs £000	Total £000
Unsupported Borrowing	1,303	1,944	0	0	0	**3,247**
Capital Receipts	7,589	11,457	350	3	0	**19,399**
Contributions	4,227	4,043	245	75	0	**8,590**
Capital Grants	30,919	26,674	4,288	0	0	**61,881**
DRF from Balances	1,489	1,040	113	0	0	**2,642**
DRF from Portfolios	3,440	1,623	555	455	100	**6,173**
Total Financing	**48,967**	**46,781**	**5,551**	**533**	**100**	**101,932**

14. The table above shows that following the latest update, the capital programme continues to be fully funded based on the latest forecast of available resources although the forecast can be subject to change as it was in September 2014.

15. Funding for the capital programme is heavily reliant on capital receipts from the sale of Council properties. These receipts have always had a degree of uncertainty regarding their amount and timing, but the changes in the economic climate have increased the Council's risk in this area.

16. This was recognised in 2008 and in the event therefore that there was a

temporary deficit in the funding of the capital programme due to delays in receiving capital receipts, delegated authority was given by Council to the Chief Financial Officer, following consultation with the Cabinet Member for Resources, to undertake additional borrowing in order to provide cover for any delays in the timing of capital receipts.

17. Due to anticipated delays in the receipt of funding from the sale of capital assets an additional £9,160k had to be borrowed to fund the programme in 2011/12 and £2,800k in 2010/11, which was in line with delegated powers approved in September 2008. Repayments of £2,560k and £5,750k were made during 2012/13 and 2013/14 leaving the outstanding balance at £3,650k. The additional revenue costs associated with undertaking this prudential borrowing have been built into future budget forecasts.

18. Despite the ongoing economic difficulties, which have reduced and delayed capital receipts from the sale of land and property, the Council's capital programme is fully funded and based on the latest forecast of capital receipts the outstanding balance of temporary borrowing undertaken to date of £3,650k will be repaid by the end of 2016/17. The figures shown in the table above do not reflect this planned repayment and only relate to the financing of the current programme rather than adjustments anticipated to the financing of prior years.

19. The funding and cashflow position of the overall capital programme is susceptible to changes in the estimated value of future capital receipts and their timing. This has arisen due to the approval of schemes based on future estimates of receipts and the fact that the reserve of receipts has been exhausted. This situation was exacerbated by the recession but is a risk which needs to be considered in the future approach adopted for capital additions.

    It is intended to move to a position where schemes are only approved when receipts are received or certain and when a sufficient reserve of receipts has been built up to protect against volatility in the timing and level of uncertain future receipts.

20. The forecast of capital receipts includes a risk factor calculated by Valuation Services that reduces some receipt values to take account of the uncertainty inherent in these estimated values. This should mitigate the impact of any individual changes in receipts and also ensure that an appropriately realistic forecast is presented. Capital receipts are actively monitored throughout the year and this will continue.

21. The current disposal programme, used to inform the capital receipts assumptions in this programme update, mainly consists of Investment properties. This disposal programme was agreed in 2011 as a 5 year plan. However, the programme is now on hold whilst a formal decision is taken to agree the Council's disposal strategy going forward. The revision to the current programme significantly reduces the assumed level of capital receipts available to fund the capital programme. A further Service Property Review is also being undertaken. Any additional capital receipts identified as a result of this review will be taken into account in future programme updates.

CHANGES TO THE PROGRAMME

22. Given the lack of spare resources in the programme and the lack of available capital resources over the past three to four years, additions to the programme are only considered in very exceptional circumstances.

23. A number of changes to the overall programme have been approved at Capital Boards and via separate reports and a series of recommendations are included in this report to approve a number of additions to the programme.

24. There are recommendations included in this report (vi to vii) to increase the unapproved section of the Environment & Transport Capital Programme in 2015/16 by a total of £8,373k. This sum is split between the Highways and Bridges Programme (£6,704k) and the Integrated Transport Programme (£1,669k) as follows.

Southampton will receive £1,704k of Local Highways Maintenance government grant in 2015/16. From this sum, £1,300k has been allocated to the Roads Programme and has been supplemented by £2,600k of Council Resources, £1,900k of Borrowing and £500k of Revenue (On-Street Reserve). The Roads Programme (Principal, Classified & Unclassified), which totals £6,300k, continues to reflect the need to maintain the structural integrity of the citywide highways network. The programme is designed in line with the Transport Asset Management Plan (TAMP). The remaining £404k of government grant will be used to fund bridges maintenance and other highway projects, as described in Appendix 3. There is an opportunity to bid for further government grant through the Local Highways Maintenance Challenge Fund. All bids will need to have local contributions of at least 10%.

Southampton will also receive £2,124k of Integrated Transport Block government grant in 2015/16. From this sum, £455k has already been allocated as match funding for schemes within the approved capital programme. The remaining £1,669k is provisionally allocated in this report to deliver a range of transport improvement schemes. These include public transport, improved safety, road safety, cycling and pedestrian schemes and public realm enhancements. The integrated transport allocation has had over 40% of its value diverted to the Single Local Growth Fund, which is administered by the Local Enterprise Partnership (LEP). The LEP will allocate this funding to growth initiatives but the funding will not be ring fenced for transport.

NEW SPENDING PRIORITIES PUT FORWARD BY CABINET

25. Given the lack of spare resources in the programme and the lack of available capital resources over the past three to four years, additions to the programme are only considered in very exceptional circumstances.

26. A recommendation is included to add a sum of £2,300k to the Leader’s portfolio capital programme for the scheme set out in the confidential Appendix 5 to be funded by capital receipts.

27. It is further recommended that a sum of £240k is added to the Leisure portfolio capital Programme, to be funded by capital receipts, for repairs to the Bargate Monument. Approval is also sought to give authority to spend this sum in 2015/16. It should be noted that a direct revenue financing contribution will be payable from the service budgets of £40,000 per annum for a period of 6 years.

DELIVERY OF PROGRAMME

28. In the past, there have been issues with regard to delivery of schemes in the light of which a review of project management within the Council was undertaken and a project management system, (Sharepoint), developed and implemented. Following a period to establish the efficient and effective use of Sharepoint across the Council this report includes an assessment of all facets affecting the delivery of the Capital Programme.

29. Within Sharepoint, projects are allocated a RAG status based on the following broad criteria:

    - RED – Significant Concern - Low level of confidence that the project can be delivered to the originally agreed Time, Cost and / or Quality specified at Gateway 3 (project initiation). Any significant risks or issues should be noted under 'Highlighted Risks and Issues' on the Highlight Report and a Red RAG status selected where the Project Manager believes that the risk and/or issue may lead to significant slippage or impact cost and / or quality.
    - AMBER – Some Concern - Medium level of confidence that the project can be delivered to the originally agreed Time, Cost and / or Quality specified at Gateway 3. Any medium risks or issues should be noted under 'Highlighted Risks and Issues' on the Highlight Report and an Amber RAG status selected where the Project Manager believes that the risk and/or issue may lead to some slippage or impact cost and / or quality.
    - GREEN – On Track - High level of confidence that the project can be delivered to the originally agreed Time, Cost and / or Quality specified at Gateway 3. Any minor risks or issues can be noted under 'Highlighted Risks and Issues' on the Highlight Report. The RAG status would remain 'Green' unless the risk and/or issue is likely to lead to some or significant slippage or impact cost and / or quality.

30. It is timely to review the use of Sharepoint now that it has been in use for some time to ensure that it is being used consistently and to best effect. Work is underway to establish a Programme Management Office (PMO) with an agreed project management framework, a pool of project managers and ongoing training for relevant staff. This compliments work to review the use of Sharepoint which will be progressed once the PMO is further developed.

31. Appendix 3 contains detail about financial and project issues within each Portfolio Capital Programme which need to be brought to the attention of Cabinet and Council.

32. Only one scheme has been highlighted with a significant financial issue and this is shown in the table below:

Table 6 – Schemes with a Significant Financial Issue

Key Adverse Financial Variances

Portfolio	Scheme	Adverse Forecast £000's	Appendix 3 See Reference
Resources & Leisure	Sea City Phase 2	358	3 / LS4

33. There are no schemes where there is a significant project issue to report at this stage.

CAPITAL STRATEGY

34. The Council needs to have a fit for purpose Capital Strategy to ensure that all the priorities within the Council Strategy are accounted for in the allocation of resources to the capital programme. A review has therefore been undertaken to update the Capital Strategy for the period 2015/16 to 2019/20 and this is attached as Appendix 6.

RESOURCE IMPLICATIONS

Capital

35. As set out in the report details.

Revenue

36. This report principally deals with capital. However, the revenue implications arising from borrowing to support the capital programme are considered as part of the annual revenue budget setting meetings. In addition any revenue consequences arising from new capital schemes are considered as part of the approval process for each individual scheme.

Property

37. There are no specific property implications arising from this report other than the schemes already referred to within the main body of the report.

Other

38. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

39. The General Fund Capital Programme update is prepared in accordance with the Local Government Acts 1972 – 2003.

Other Legal Implications:

40. None directly, but in preparing this report, the Council has had regard to the Human Rights Act 1998, the Equality Act 2010, the duty to achieve best value and statutory guidance issued associated with that, and other associated legislation.

POLICY FRAMEWORK IMPLICATIONS

41. The update of the Capital Programme forms part of the overall Budget Strategy of the Council.

KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	All

SUPPORTING DOCUMENTATION

Appendices

1.	General Fund Capital Programme – Scheme Details
2.	Major Variations Since the September 2014 Capital Update
3.	Key Issues – February 2015 Programme Update
4.	Major Changes in Capital Resources Since the September 2014 Update
5.	Confidential Appendix
6.	Capital Strategy 2015/16 to 2019/20

Documents In Members' Rooms

1.	None

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out?	No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	The General Fund Capital Programme 2013/14 to 2016/17 as approved by Council on 17 September 2014.	

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CHILDRENS SERVICES

Scheme No.	Description	Estimate 2014/15 £000	Estimate 2015/16 £000	Estimate 2016/17 £000	Estimate 2017/18 £000	Estimate Later Yrs £000	Total £000	Project Manager
Approved Schemes								
E0ACA	Academies.	54	499	0	0	0	553	Gill, Oliver
E0BPS	Bitterne Park 6th Form Parent	306	0	0	0	0	306	Hards, Richard
E0CSL	CS & L General Other	1,501	10	0	0	0	1,511	Gill, Oliver
E0EYP	Early Years Expansion Programme.	225	534	0	0	0	759	Gill, Oliver
E0ICT	ICT	29	0	0	0	0	29	Taylor, Nicholas
E0OLD	Completed Schemes	101	0	0	0	0	101	Gill, Oliver
E0PR2	Primary Review Phase 2.	1,811	3,549	1,331	0	0	6,691	Floyd, Colin
E0PR3	School Expansion Programme – Phase 3	321	499	10	0	0	830	Gill, Oliver
E0PRN	Primary Rebuild - Newlands	227	0	0	0	0	227	Hards, Richard
E0PRW	Primary Review.	802	40	0	0	0	842	Floyd, Colin
E0SAF	Safeguarding	77	0	0	0	0	77	Gill, Oliver
E0SCM	School Capital Maintenance.	2,735	1,603	247	0	0	4,585	Gill, Oliver
E0SSM	Secondary School Maintenance	560	0	0	0	0	560	Hards, Richard
E0UFM	Universal Infant Free School Meals	441	0	0	0	0	441	Gill, Oliver
		9,190	6,734	1,588	0	0	17,512	
Total Programme		9,190	6,734	1,588	0	0	17,512	

ENVIRONMENT & TRANSPORT (E&T)

Scheme No.	Description	Estimate 2014/15 £000	Estimate 2015/16 £000	Estimate 2016/17 £000	Estimate 2017/18 £000	Estimate Later Yrs £000	Total £000	Project Manager
Approved Schemes								
Accessibility								
C7171	Accessibility	365	76	0	0	0	441	Walker, Paul
Active Travel								
C7131	Cycling	710	781	0	0	0	1,491	Walker, Paul
Bridges								
C7770	B2P Bridge Scheme	3,123	572	0	0	0	3,695	Harvey, John
C7911	Bridges	30	0	0	0	0	30	Harvey, John
Environment & Sustainability								
C2400	Planning	49	3	0	0	0	52	Harris, Mike
C2410	Mobile Working	0	48	0	0	0	48	Ferris, Neil
General Environment								
C2300	Digital Radio Service	52	0	0	0	0	52	Walker, Paul
C2690	Relocation of Town Depot	7	0	0	0	0	7	Cooper, Malcolm
C2730	Itchen Bridge Toll Automation Project	79	50	0	0	0	129	Bell, Simon
C2740	Crematorium Major Works	42	0	0	0	0	42	Sanders, Mitch
Highways Other								
C7191	LTP - Other Highways	190	52	0	0	0	242	Armstrong, David
C8200	Highways Drainage (C8200)	54	80	0	0	0	134	Armstrong, David
Improved Safety								
C7151	Improved Safety	178	152	0	0	0	330	Walker, Paul
Network Management								

APPENDIX 1

Scheme No.	Description	Estimate 2014/15 £000	Estimate 2015/16 £000	Estimate 2016/17 £000	Estimate 2017/18 £000	Estimate Later Yrs £000	Total £000	Project Manager
C7181	ITS	1,374	264	0	0	0	1,638	Walker, Paul
Parking								
C9471	MSCP 10 Year Maint. Programme	71	86	0	0	0	157	Sahota, Jaswinder
Public Realm								
C8900	City Centre Improvements	324	0	0	0	0	324	Walker, Paul
C8911	Platform for Prosperity	5,966	217	0	0	0	6,183	Walker, Paul
C8922	Centenary Quay.	1,238	0	0	0	0	1,238	Walker, Paul
C8933	North of Station	2,214	4,435	0	0	0	6,649	Walker, Paul
Public Transport								
C7141	Public Transport	2,857	229	0	0	0	3,086	Walker, Paul
Roads								
C7921	Various Principal	1,390	156	0	0	0	1,546	Armstrong, David
C8000	Classified Roads	1,201	33	0	0	0	1,234	Armstrong, David
C8100	Unclassified Roads	1,457	122	0	0	0	1,579	Armstrong, David
C8110	Unclassified Roads - Carriageway Resurfacing	1,300	0	0	0	0	1,300	Armstrong, David
C8400	Road Improvements	183	0	0	0	0	183	Armstrong, David
C9120	Highways Improvements (Developer)	607	0	0	0	0	607	Armstrong, David
C9200	Highways Maintenance Risk Fund C9200	18	0	0	0	0	18	Armstrong, David
Street Furniture								
C8800	St Furniture	58	10	0	0	0	68	Armstrong, David
Travel Planning								
C7161	Travel to School	305	153	0	0	0	458	Walker, Paul
		25,442	7,519	0	0	0	32,961	

Unapproved Schemes

APPENDIX 1

Scheme No.	Description	Estimate 2014/15 £000	Estimate 2015/16 £000	Estimate 2016/17 £000	Estimate 2017/18 £000	Estimate Later Yrs £000	Total £000	Project Manager
Accessibility								
C7171	Accessibility	0	200	0	0	0	200	Walker, Paul
Active Travel								
C7131	Cycling	0	450	0	0	0	450	Walker, Paul
Bridges								
C7770	B2P Bridge Scheme	0	100	0	0	0	100	Harvey, John
C7911	Bridges	0	154	0	0	0	154	Harvey, John
Highways Other								
C7191	LTP - Other Highways	0	150	0	0	0	150	Armstrong, David
Improved Safety								
C7151	Improved Safety	0	113	0	0	0	113	Walker, Paul
Network Management								
C7181	ITS	0	737	0	0	0	737	Walker, Paul
Public Transport								
C7141	Public Transport	0	351	0	0	0	351	Walker, Paul
Roads								
C7921	Various Principal	0	1,800	0	0	0	1,800	Armstrong, David
C8000	Classified Roads	0	2,000	0	0	0	2,000	Armstrong, David
C8100	Unclassified Roads	0	2,500	0	0	0	2,500	Armstrong, David
C9200	Highways Maintenance Risk Fund C9200	60	0	0	0	0	60	Armstrong, David
		60	8,555	0	0	0	8,615	
Total Programme		25,502	16,074	0	0	0	41,576	

ENVIRONMENT & TRANSPORT (CITY SERVICES)

Scheme No.	Description	Estimate 2014/15 £000	Estimate 2015/16 £000	Estimate 2016/17 £000	Estimate 2017/18 £000	Estimate Later Yrs £000	Total £000	Project Manager
Approved Schemes								
C2921	Weekly Collection Support Scheme	38	50	0	0	0	88	Thomas, Michael
E3001	Houndwell Park Play Area	5	0	0	0	0	5	Saward, Helen
E3007	Freemantle Common Play Area	0	13	0	0	0	13	Hill, Tony
E3011	Deep Dene Play Area	25	0	0	0	0	25	Hill, Tony
E3013	The Common Play Area	0	18	0	0	0	18	Hill, Tony
E3020	Sullivan Road Play Area	2	0	0	0	0	2	Hill, Tony
E3021	Arnheim Road Play Area	14	0	0	0	0	14	Hill, Tony
E3022	Octavia Road Play Area 2014-15	40	0	0	0	0	40	Hill, Tony
E3023	Portswood Rec Play Area 2014-15	12	0	0	0	0	12	Hill, Tony
E3024	Shirley Ponds Play Area	49	0	0	0	0	49	Hill, Tony
E3025	Bitterne Precinct Play Area	10	0	0	0	0	10	Hill, Tony
J426H	Peartree Green	5	0	0	0	0	5	Brown, Clifford
J426L	Southampton Common	0	14	0	0	0	14	Yeats, Nicholas
J427H	Freemantle Lake Park Improvments Yr 2009-11	6	0	0	0	0	6	Brown, Clifford
J4310	Deep Dene Improvements	12	0	0	0	0	12	Brown, Clifford
J4340	Hinkler Green Green Flag Improvements Yr 2010/11	4	0	0	0	0	4	Brown, Clifford
J4370	Park Code for Green Space	22	0	0	0	0	22	Yeats, Nicholas
J4380	Bassett Wood Greenway Improvements	3	0	0	0	0	3	Brown, Clifford
J4410	Mayflower Park Basket Ball Court Renovation	0	27	0	0	0	27	Brown, Clifford
J4430	Weston Shore Improvements Phase 2	5	50	0	0	0	55	Brown, Clifford
J4440	Sports Centre Water Supply Upgrade	0	30	0	0	0	30	Brown, Clifford
J4450	Riverside Park Pitch & Putt Irrigation System Upgrade	0	50	0	0	0	50	Brown, Clifford
J4460	Cedar Lodge Open Space	17	0	0	0	0	17	Brown, Clifford
J4470	Freshfield Road Open Space	2	0	0	0	0	2	Brown, Clifford
J4480	Green Park	5	0	0	0	0	5	Brown, Clifford
J4490	Hum Hole	0	8	0	0	0	8	Brown, Clifford
J4500	Lordsdale Greenway	14	0	0	0	0	14	Brown, Clifford
J4510	Mansbridge Open Space	2	0	0	0	0	2	Brown, Clifford
J4520	Riverside Park	1	40	0	0	0	41	Brown, Clifford
J4540	Sullivan Recreation Ground	4	0	0	0	0	4	Brown, Clifford

Scheme No.	Description	Estimate 2014/15 £000	Estimate 2015/16 £000	Estimate 2016/17 £000	Estimate 2017/18 £000	Estimate Later Yrs £000	Total £000	Project Manager
J4550	Veracity Recreation Ground	2	0	0	0	0	2	Brown, Clifford
J4560	Westwood Greenway	3	0	0	0	0	3	Brown, Clifford
J8100	Mobile Working for P & C Frontline	7	0	0	0	0	7	Horton, John
J814B	St James Park - Implementation	31	0	0	0	0	31	Saward, Helen
J8200	Redbridge Wharf	1	0	0	0	0	1	Horton, John
J8240	Parks Safety Improvements Yrs 2009-11	2	0	0	0	0	2	Horton, John
J8250	Bitterne Manor/Clausentum Wood Improvements Yrs 2010-13	2	0	0	0	0	2	Brown, Clifford
J8260	Community Led Local Improvement Initiatives	13	0	0	0	0	13	Saward, Helen
J8280	Purchase of Compact Sweepers	350	0	0	0	0	350	Horton, John
		708	300	0	0	0	1,008	
Total Programme		708	300	0	0	0	1,008	

HEALTH & ADULT SOCIAL CARE

Scheme No.	Description	Estimate 2014/15 £000	Estimate 2015/16 £000	Estimate 2016/17 £000	Estimate 2017/18 £000	Estimate Later Yrs £000	Total £000	Project Manager
Approved Schemes								
R9330	National Care Standards and H&S Work	100	162	0	0	0	262	Flint, Tracy
R9340	Replacement of Appliances and Equipment	35	20	0	0	0	55	Flint, Tracy
R9700	Common Assessment Framework	139	148	0	0	0	287	Yasin, Saqib
R9720	Residential Homes fabric furnishing CQC	39	3	0	0	0	42	Flint, Tracy
R9730	Sembal House Refurbishment	13	0	0	0	0	13	Rossiter, Ricky
R9750	Paris 5.1 Upgrade	130	170	0	0	0	300	Yasin, Saqib
		456	503	0	0	0	959	
Total Programme		456	503	0	0	0	959	

HOUSING AND SUSTAINABILITY

Scheme No.	Description	Estimate 2014/15 £000	Estimate 2015/16 £000	Estimate 2016/17 £000	Estimate 2017/18 £000	Estimate Later Yrs £000	Total £000	Project Manager
Approved Schemes								
C242A	National Flood Forum	25	0	0	0	0	25	Maguire, Bernadine
C242B	Understanding Flood Risk	4	0	0	0	0	4	Maguire, Bernadine
C242C	Awareness Raising/Developing Community Resilience	13	0	0	0	0	13	Maguire, Bernadine
C242D	Property Level Surveys	8	0	0	0	0	8	Maguire, Bernadine
C242E	Implementation of Property Level Measures	287	0	0	0	0	287	Maguire, Bernadine
C242F	Understanding The Risk Reduction Measures	20	0	0	0	0	20	Maguire, Bernadine
C242G	Project Management	29	0	0	0	0	29	Maguire, Bernadine
C2430	Repair & Renew Grants (Flood Recovery)	100	0	0	0	0	100	Maguire, Bernadine
C2520	Salix Energy Efficiency Measures	50	0	0	0	0	50	Taylor, Jason
C257G	Lighting Upgrades Salix Works	63	0	0	0	0	63	Taylor, Jason
C257I	Insulation Salix Works	48	0	0	0	0	48	Taylor, Jason
C257N	Salix Scc Office Buildings	18	0	0	0	0	18	Taylor, Jason
C257P	Salix Non Office Buildings	50	0	0	0	0	50	Taylor, Jason
G4330	Support for Vulnerable DFG Customers	21	21	0	0	0	42	Hawkins, Janet
G4490	Insulation and Fuel Poverty Initiatives	62	0	0	0	0	62	Hawkins, Janet
G4620	Handyperson Service	40	0	0	0	0	40	Hawkins, Janet
G4650	Disabled Facilities Grants approved in 2013/14	299	0	0	0	0	299	Hawkins, Janet
G4670	Disabled Facilities Grants approved in 2014/15	900	300	0	0	0	1,200	Hawkins, Janet
G4680	Disabled Facilities Grants Support Costs 2014/15	146	0	0	0	0	146	Hawkins, Janet
G6550	Estate Regeneration Cumbrian Way	88	0	0	0	0	88	Windebank, Jane
G6580	Estate Parking Improvements	200	100	0	0	0	300	Cooper, Aidan
		2,471	421	0	0	0	2,892	
Unapproved Schemes								
G4310	Green Projects	0	377	0	0	0	377	Hawkins, Janet
G4590	Disabled Facilities Grants - Future Years	0	900	300	0	0	1,200	Hawkins, Janet
G4610	Disabled Facilities Grants Support Costs – Future Years	0	146	0	0	0	146	Hawkins, Janet
G6430	Support for Estate Regeneration	0	932	0	0	0	932	Stanley conroy, Sherree
		0	2,355	300	0	0	2,655	

Scheme No.	Description	Estimate 2014/15 £000	Estimate 2015/16 £000	Estimate 2016/17 £000	Estimate 2017/18 £000	Estimate Later Yrs £000	Total £000	Project Manager
Total Programme		2,471	2,776	300	0	0	5,547	

LEADERS

Scheme No.	Description	Estimate 2014/15 £000	Estimate 2015/16 £000	Estimate 2016/17 £000	Estimate 2017/18 £000	Estimate Later Yrs £000	Total £000	Project Manager
Approved Schemes								
M0CQR	Cultural Quarter Parent	3,750	12,850	243	0	0	16,843	Low, Jill
M0HOC	Heart of the City Parent	2,064	3,587	2,845	70	0	8,566	Bennett, Wendy
M0HQP	Hollyrood and Queens Park Parent	12	5	0	0	0	17	Dobson, Alastair
M0IRF	Itchen Riverfront Parent	74	42	0	0	0	116	Dobson, Alastair
M0OTH	Other Areas Parent	28	49	0	0	0	77	Bennett, Wendy
M0RPW	Royal Pier Waterfront Parent	47	100	100	100	100	447	Meredith, Emma
M0SQR	Station Quarter Parent	80	182	113	0	0	375	Dobson, Alastair
		6,055	16,815	3,301	170	100	26,441	
Total Programme		6,055	16,815	3,301	170	100	26,441	

RESOURCES & LEISURE (RESOURCES)

Scheme No.	Description	Estimate 2014/15 £000	Estimate 2015/16 £000	Estimate 2016/17 £000	Estimate 2017/18 £000	Estimate Later Yrs £000	Total £000	Project Manager
Approved Schemes								
M9710	Accommodation Strategy Action Programme (ASAP)	1,017	359	0	0	0	1,376	Verner, Andrew
P5050	2011 Mobile Working	9	0	0	0	0	9	Dawtry, Sean
P5080	Oaklands School Site - Demolition	90	0	0	0	0	90	Elliott, Andrew
P5090	Works to Enable Marland House Vacation	68	0	0	0	0	68	Fox, Annabel
P5100	Desktop Refresh Programme	217	380	312	285	0	1,194	Foley, Kevin
P5110	Civic Centre Clock Tower Repairs	351	0	0	0	0	351	Hodge, Richard
P5120	Works to Enable Accommodation Strategy	273	1,564	0	0	0	1,837	Fox, Annabel
		2,025	2,303	312	285	0	4,925	
Total Programme		2,025	2,303	312	285	0	4,925	

RESOURCES & LEISURE (LEISURE)

Scheme No.	Description	Estimate 2014/15 £000	Estimate 2015/16 £000	Estimate 2016/17 £000	Estimate 2017/18 £000	Estimate Later Yrs £000	Total £000	Project Manager
Approved Schemes								
L1000	Oaklands Swimming Pool Feasibility	1,362	5	0	0	0	1,367	Dyer-Slade, Tina
L1001	Lordshill Community Hall	310	51	0	0	0	361	Cooper, Malcolm
L1010	Bargate Monument Repairs	0	240	0	0	0	240	Lisa Shepherd
L1440	Tudor House Museum Phase 1	5	0	0	0	0	5	Matthews, Daniel
L674E	Sports Centre Athletics Track	3	0	0	0	0	3	Greene, Nigel
L6790	Sections 106 Playing Field Improvement	0	80	0	0	0	80	Dyer-Slade, Tina
L6791	Lordshill Playing Field Drainage	20	162	0	0	0	182	Yeats, Nicholas
L7000	Guildhall Refurbishment	200	200	50	78	0	528	Greene, Nigel
L810U	Art in Public Places – Millbrook and Weston	0	17	0	0	0	17	Harris, Michael
L8260	Tudor House Museum Phase 2 Implementation	63	0	0	0	0	63	Matthews, Daniel
L8285	SeaCity Phase 2	165	0	0	0	0	165	Dyer-Slade, Tina
L8286	SeaCity Public Realm Improvements	43	0	0	0	0	43	Dyer-Slade, Tina
L8370	Woolston Library	389	521	0	0	0	910	Baldwin, David
		2,560	1,276	50	78	0	3,964	
Total Programme		2,560	1,276	50	78	0	3,964	

MAJOR VARIATIONS SINCE THE SEPTEMBER 2014 CAPITAL UPDATE

Portfolio	Scheme	£000	Funding Source (*)	Council Priority
	Increases to the Programme			
Environment & Transport	Classified Roads	6,300	CR/GG/DRF	Services for all
Environment & Transport	Other E&T net increases	2,692	various	various
Leaders	Scheme as detailed in confidential Appendix 5	2,300	CR	City pride
Resources & Leisure	Lordshill Community Hall	340	CR	City pride
Resources & Leisure	Bargate	240	CR	City pride
		11,872		
	Decreases to the Programme			
Housing & Sustainability	Thornhill District Energy	(6,712)	Cont	A sustainable council
Resources & Leisure	Art Gallery Roof	(545)	CR	City Pride
Various	Other various net decreases	159	various	various
		(7,098)		
	Total	**4,774**		

*** Funding Source**

Cont	Contributions
CR	Council Resources
GG	Government Grants
DRF	Direct Revenue Financing

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KEY ISSUES – FEBRUARY 2015 PROGRAMME UPDATE

CHILDREN'S SERVICES PORTFOLIO

The proposed February 2015 programme update totals **£17,512k.**This can be compared to the previous September update total of **£17,402k** resulting in an increase of £110k on the programme which represents a percentage variance of **0.6%**.

The changes to the programme are shown in the following summarised table:

	2014/15 £000	2015/16 £000	2016/17 £000	Later £000	Total £000
Proposed	9,190	6,734	1,588	0	17,512
Previous	10,527	5,642	483	750	17,402
Variance	(1,337)	1,092	1,105	(750)	110

PROGRAMME CHANGES:

CSH 1 – School expansion programme phase 3 (Total budget change £110k increase)

Gold Scheme – £830k Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **GREEN**

Budget RAG Status **GREEN**

Conversion of rooms at Bassett Green Primary for use by Springwell School

A sum of £110k was added to the Children's Services Capital Programme to convert two spare rooms at Bassett Green Primary for use by 16 pupils from Springwell School. This sum has been funded by a revenue under spend from the 2013/14 Dedicated Schools Grant.

MAJOR ITEMS OF SLIPPAGE/RE-PHASING:

CHS 2 – Primary Review Phase 2 (Slippage of £234k from 14/15 to 15/16, re-phasing of £107k from 15/16 to 14/15, slippage of £415k from 15/16 to 16/17 and re-phasing of £50k from 16/17 to 15/16)

Gold Scheme – £25,593k Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **GREEN**

Budget RAG Status **GREEN**

Rescheduling of several school expansion projects

The major items of slippage include delays due to the impact of waiting for planning and procurement permissions for Tanners Brook Primary School together with slight delays in the completion of two additional classrooms at Shirley Warren Primary school.

Scheme re-phasing is partially due to bringing forward a project to meet the needs of increased numbers of children on roll at Fairisle Junior School.

CHS 3 – Academies Programme (Slippage of £499k from 14/15 to 15/16)

Gold Scheme – £32,831k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

Retentions withheld due to contractual disputes

The Council is currently in dispute with the contractor on both Academies in relation to the rectification of snagging and defects. Until this is resolved, the Council will not pay the remaining retention payment, which amounts to the slippage showed.

CHS 4 – School Expansion Programme Phase 3 (Slippage of £235k from 14/15 to 15/16, re-phasing of £31k from 15/16 to 14/15, re-phasing of £10k from 16/17 to 15/16)

Gold Scheme – £830k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

Construction Delays at Portsmouth Primary School

Construction delays at Portsmouth Primary School has led to slippage of £225k from 14/15 to 15/16.

CHS 5 – School Capital Maintenance (Slippage of £400k from 14/15 to 15/16 and re-phasing of £58k from 15/16 to 14/15)

Gold Scheme – £11,775k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status RED

Budget RAG Status GREEN

Rescheduling of overall programme

Health and safety works have slipped by £300k due to a dispute with Capita over fee payments for this work programme. In addition, work on the Solar PV project will now take place in the Easter Holiday and will, therefore, slip into 2015/16.

CHS 6 – Early Years Expansion Programme (Slippage of £275k from 14/15 to 15/16)

Bronze Scheme – £900k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

Rescheduling of Early Years expansion project

Delay in the work programmes has resulted in slippage of £275k in some Early Years expansion projects.

SIGNIFICANTFINANCIAL & PROJECT ISSUES:

There are no significant FINANCIAL ISSUES for the Portfolio relating to significant over or under spends.

There are no significant PROJECT ISSUES for the Portfolio.

ENVIRONMENT & TRANSPORT PORTFOLIO

Environment & Transport

The proposed February 2015 programme update totals **£41,576k**. This can be compared to the previous September update total of **£32,584k** resulting in an increase of **£8,992k,** which represents a percentage variance of **27.6%**.

The changes to the programme are shown in the following summarised table:

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	Later £000	Total £000
Proposed	25,502	16,074	0	0	0	41,576
Previous	27,404	5,180	0	0	0	32,584
Variance	(1,902)	10,894	0	0	0	8,992

PROGRAMME CHANGES:

E&T 1 – Roads Programme (Total budget change £6,300k increase)

Silver Scheme – £12,827k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

Investment has been added for the Roads Programme in 2015/16.

Council approval is sought to add £6,300k for Roads to the unapproved section of the capital programme in 2015/16 funded from Local Transport Plan (LTP) government grant of £1,300k, Council Resources of £2,600k, Borrowing of £1,900k and £500k of Direct Revenue Financing (On-Street reserve).

The Roads Programme (Principal, Classified & Unclassified) continues to reflect the need to maintain the structural integrity of the city wide highways network. The programme is designed in line with the Transport Asset Management Plan (TAMP) principles. The recommended investment levels will achieve improvement across all road hierarchies.

E&T 2 – Highways Other (Total budget change £150k increase)

Bronze Scheme – £526k Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **GREEN**

Budget RAG Status **GREEN**

Investment has been added for the 'Highways Other' scheme in 2015/16.

Council approval is sought to add £150k of LTP Government Grant to the 'Highways Other' scheme for minor projects in 2015/16.

Highways Other encompasses Vehicle restraints, highways drainage and highways risk fund. This essential scheme is to tackle the replacement of dangerous vehicle restraints across the City as identified in a Consultant's report, and allows for projects to tackle ad hoc drainage issues that supports the City's Flood/Surface water management plan.
In addition to the above programme there is an additional source of funding to cover the maximum financial risk exposure to SCC through delivery of the Annual Plan and to also allow a small contingency for any unforeseen Compensation Events that may arise through delivery of specific schemes.

E&T 3 – Bridges Programme (Total budget change £254k increase)

Silver Scheme – £3,979k Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **GREEN**

Budget RAG Status **GREEN**

Investment has been added for the Bridges Programme in 2015/16.

Council approval is sought to add £254k of LTP Government Grant to the Bridges Programme to support and deliver bridge work projects in 2015/16.

E&T 4 – Integrated Transport Programme (Total budget change £2,332k increase)

Silver Scheme – £23,689k Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **AMBER**

Budget RAG Status **GREEN**

Investment has been added for the Integrated Transport Programme in 2015/16.

Council approval is sought to add £1,669k of LTP Government Grant to the Integrated Transport programme to support projects in 2015/16.

Since the September 2014 Capital Update the following capital additions have been approved:

Additional S106 contributions: Cycle Missing Links (DDN 26/9/2014)	£16k
Additional S106 contributions: Cycling - Network Improvements (DDN 26/9/2014)	£15k
Additional Government grant: Cleaner Bus Transport Fund (DDN 26/9/2014)	£397k
Additional LTP government grant: Integrated Transport (Cabinet 21/10/2014)	£205k
Additional S106 Contributions - Integrated Transport (Cabinet 21/10/2014)	£40k

MAJOR ITEMS OF SLIPPAGE/RE-PHASING:

E&T 5 – Bridges (Slippage of £98k between 2014/15 and 2015/16)

Silver Scheme – £3,795k Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **GREEN**

Budget RAG Status **GREEN**

There has been some rephasing of bridge improvement projects.

Some retention and final contract payments on large bridge improvement projects will not be released until 2015/16.

E&T 6 – MSCP 10 Year Maintenance Programme (Slippage of £86k between 2014/15 and 2015/16)

Bronze Scheme – £157k Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **AMBER**

Budget RAG Status **GREEN**

Some repair work has been delayed.

Some of the planned repairs to Multi Storey Car Parks have been subject to a contractual delay. No further work is expected in the current year but there will still be a requirement to address emergency repairs in the future.

E&T 7 – Principal Roads (Slippage of £156k between 2014/15 and 2015/16)

Silver Scheme – £3,346k Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status GREEN

Budget RAG Status GREEN

There have been some delays in the delivery of works.

Across the City, the waterproofing project suffered a setback due to the extreme wet weather and the programme was unable to be delivered in full. This scheme is essential to bring resilience into the highway network and prevent further deterioration. Some other work was postponed, due to development issues at the Solent University, and on Northam Road there were issues to resolve with Network Rail over a conflict with the Bridges to Prosperity project.

E&T 8 – Unclassified Roads (Slippage of £122k between 2014/15 and 2015/16)

Silver Scheme – £4,079k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

The Pedestrian Enhancements programme is being reviewed.

The Pedestrian Enhancements programme had previously identified some sites, which became part of the wider Woolston Development. As the programme has specific Government funding to deliver footway improvements, replacement projects are currently being identified. This is an essential scheme that will support the reduction in personal injury claims.

E&T 9 – Highways Drainage (Slippage of £80k between 2014/15 and 2015/16)

Silver Scheme – £134k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

There were delays in this scheme due to wet weather.

Extreme wet weather has prevented the programme from progressing as planned. Some work will be rescheduled for delivery in 2015/16.

E&T 10 – Public Transport (Slippage of £409k between 2014/15 and 2015/16)

Gold Scheme – £3,437k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status AMBER

Budget RAG Status GREEN

Works intended for delivery this year were undeliverable.

A pre-feasibility study found much of the work intended for this financial year was undeliverable. A new programme of works has been established and will be part delivered in the current financial year. However, there is not enough time to deliver all of this work by the end of March 2015 and the work will roll over into the 2015/16 programme.

E&T 11 – Cycling Improvements (Slippage of £770k between 2014/15 and 2015/16)

Gold Scheme – £1,941k Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **AMBER**

Budget RAG Status **GREEN**

There are delays and re-phasing of works.

The Eastern Cycle Route scheme is currently experiencing a delay as the developer for the new store at East Street has not yet commenced on site. The Second Avenue cycle route design has progressed as planned and the budget has been re-phased to match the delivery of works. Several minor cycle projects were put on hold earlier in the year. However, these are all now currently active and planned for completion in 2015/16.

E&T 12 – Improved Safety (Slippage of £134k between 2014/15 and 2015/16)

Bronze Scheme – £443k Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **AMBER**

Budget RAG Status **GREEN**

There have been delays in delivery on this scheme.

The current year's programme started late due to a change in Project Manager. It has not been possible to make this time up and, although schemes will be fully designed, the delivery will be undertaken in the 2015/16 programme.

E&T 13 – Intelligent Transport Systems (Slippage of £203k between 14/15 and 15/16)

Silver Scheme – £2,375k Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **AMBER**

Budget RAG Status **GREEN**

There have been delays in delivery on this scheme.

Due to a lack of available project management, the Congestion Reduction programme was put on hold. However, the schemes are to be designed in the near future and delivery will be undertaken in the 2015/16 programme.
The minor schemes are near to completion in the current year and the remaining works are being programmed for future years.

SIGNIFICANT FINANCIAL & PROJECT ISSUES:

There are no significant FINANCIAL ISSUES for the Portfolio relating to significant over or under spends.

There are no significant PROJECT ISSUES for the Portfolio.

City Services

The proposed February 2015 programme update totals **£1,008k**. This can be compared to the previous September update total of **£998k** resulting in an increase of **£10k**, which represents a percentage variance of **1.0%**.

The changes to the programme are shown in the following summarised table:

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	Later £000	Total £000
Proposed	708	300	0	0	0	1,008
Previous	971	27	0	0	0	998
Variance	(263)	273	0	0	0	10

PROGRAMME CHANGES:

CS 1 – Play Area Improvements (Total budget change £10k increase)

Bronze Scheme - £188k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

An additional £10k has been included for the development of Play Areas.

An additional £10k of S106 developer contributions was approved to be added to the City Services Capital Programme by the Director, Place in December 2014 for the development of the Play Area at Bitterne Precinct.

MAJOR ITEMS OF SLIPPAGE/REPHASING

CS 2 – Minor Parks Development Works (Slippage of £184k between 2014/15 and 2015/16)

Bronze Scheme – £231k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

More time has been allocated to work up proposals to deliver this scheme.

There is slippage across various Minor Parks Development Works schemes, funded from Section 106 Developer Contributions, due to ongoing works with Friends groups to agree appropriate improvements and match funding bids to progress projects.

CS 3 - Play Area Improvements (Slippage of £31k between 2014/15 and 2015/16)

Bronze Scheme – £188k Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **GREEN**

Budget RAG Status **GREEN**

Secretary of State Approval for the change of use of the land is awaited.

There is slippage on two play area projects within this scheme, due to the need to wait for Secretary of State Approval for the change of use of the land.

CS 4 – Weekly Collection Support Scheme (Slippage of £50k between 2014/15 and 2015/16)

Gold Scheme – £2,165k Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **GREEN**

Budget RAG Status **GREEN**

There has been slippage in the purchase of home composters and digesters.

Residents' uptake of home composters and digesters has been slower than was originally anticipated in the Weekly Collection Support Scheme bid. Therefore, the scheme will continue into 2015/16.

SIGNIFICANT FINANCIAL & PROJECT ISSUES:

There are no significant FINANCIAL ISSUES for the Portfolio relating to significant over and under spends.

There are no significant PROJECT ISSUES for the Portfolio.

HEALTH & ADULT SOCIAL CARE PORTFOLIO

The proposed February 2015 programme update totals **£959k**. This can be compared to the previous September update total of **£1,035k** resulting in a decrease of **£76k** which represents a percentage variance of **7.3%**.

The changes to the programme are shown in the following summarised table:

	2014/15 £000	2015/16 £000	2016/17 £000	Later £000	Total £000
Proposed	456	503	0	0	959
Previous	1,035	0	0	0	1,035
Variance	(579)	503	0	0	(76)

PROGRAMME CHANGES:

H&ASC 1 –Modernisation Woolston Community Centre – (Total budget change £86k reduction)

Bronze Scheme – £86k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

Impact of completion of project

This project is complete and all retention payments have been made. The remaining budget of £86k has, therefore, been removed from this project, and £10k has been transferred to Sembal House Refurbishment.

H&ASC 2 –Sembal House Refurbishment.- (Total budget change £10k increase)

Bronze Scheme – £3k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

Budget increase to meet outstanding retention fees

This project has been increased by £10k to cover the remaining outstanding retention payments that are due. The funding has been transferred from the capital project for the Modernisation of Woolston Community Centre.

MAJOR ITEMS OF SLIPPAGE/RE-PHASING:

H&ASC 1 – Paris 5.1 Project (Slippage of £170k between 14/15 and 15/16)

Bronze Scheme – £300k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

Delay in Work Programme

The work is now due to be completed in early 2015/16 leading to slippage of £170k on this project.

H&ASC 2 – Common Assessment Framework (Slippage of £148k between 14/15 and 15/16)

Gold Scheme – £1,278k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

Rescheduling of the Common Assessment Framework Project

This project is on the People Directorate Transformation programme and has a dependency to the PARIS 5.1 project. Although much work will take place between now and the end of the financial year (testing of new software and smartcards preparation), work will begin in earnest after the PARIS 5.1 project hence the slippage. Detailed scoping of the rollout is underway and once completed a spending plan will be offered including any residual funding against this work and that offered from the Transformation programme.

H&ASC 3 – National Care Standards and H&S Work (Slippage of £162k between 14/15 and 15/16)

Silver Scheme – £1,491k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

Delays in work and overall reassessment of requirements

Delays in work programmed at Kentish Road of £148k and a reassessment of the level of work required within the residential establishments going forward has resulted in slippage of £14k.

SIGNIFICANT FINANCIAL & PROJECT ISSUES:

There are no significant FINANCIAL ISSUES for the Portfolio relating to significant over or under spends.

There are no significant PROJECT ISSUES for the Portfolio.

HOUSING & SUSTAINABILITY PORTFOLIO

The proposed February 2015 programme update totals **£5,547k**. This can be compared to the previous September update total of **£12,159k** resulting in a decrease of **£6,612k**, which represents a percentage variance of **54.4%**.

The changes to the programme are shown in the following summarised table:

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	Later £000	Total £000
Proposed	2,471	2,776	300	0	0	5,547
Previous	9,083	2,776	300	0	0	12,159
Variance	(6,612)	0	0	0	0	(6,612)

PROGRAMME CHANGES:

H&S 1 – Thornhill District Energy Scheme (Total budget change £6,712k decrease)

A report on this scheme was considered by Council on 19 November 2014. It was agreed to remove the approved budget from the General Fund Capital Programme, originally to be funded by ECO grant, as the revised Housing Revenue Account scheme does not contain any General Fund component.

MAJOR ITEMS OF SLIPPAGE/RE-PHASING:

There are no MAJOR ITEMS OF SLIPPAGE / RE-PHASING for the Portfolio.

SIGNIFICANT FINANCIAL & PROJECT ISSUES:

There are no significant FINANCIAL ISSUES for the Portfolio relating to significant over or under spends.

There are no significant PROJECT ISSUES for the Portfolio.

LEADERS PORTFOLIO

The proposed February 2015 programme update totals **£26,441k**. This can be compared to the previous September update total of **£24,097k** resulting in an increase of **£2,344k**, which represents a percentage variance of **9.7%**.

The changes to the programme are shown in the following summarised table:

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	Later £000	Total £000
Proposed	6,055	16,815	3,301	170	100	26,441
Previous	6,674	14,106	3,217	0	100	24,097
Variance	(619)	2,709	84	170	0	2,344

PROGRAMME CHANGES:

LD 1 – Scheme details as per Confidential Appendix 5.

MAJOR ITEMS OF SLIPPAGE/RE-PHASING:

LD 2 – West Quay Phase 3 WWQ (Slippage of £170k from 2014/15 to 2015/16)

Silver Scheme – £2,044k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

There is a delay in the commencement of the programme.

The contractors, appointed by Hammerson (Watermark) Ltd, commenced work on site later in the year than originally anticipated.

SIGNIFICANT FINANCIAL & PROJECT ISSUES:

There are no significant FINANCIAL ISSUES for the Portfolio relating to significant over or under spend.

There are no Significant PROJECT ISSUES for the Portfolio.

RESOURCES & LEISURE PORTFOLIO

Resources

The proposed February programme update totals **£4,925k**. This can be compared to the previous September update total of **£5,470k** resulting in a decrease of **£545k**, which represents a percentage variance of **10.0%**.

The changes to the programme are shown in the following summarised table:

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	Later £000	Total £000
Proposed	2025	2303	312	285	0	4,925
Previous	4,001	872	312	285	0	5,470
Variance	(1,976)	1,431	0	0	0	(545)

PROGRAMME CHANGES:

RES 1 - P5020 Art Gallery Roof Repairs and AHU Replacement (Total budget change £545k decrease)

Gold Scheme – £1,936k Scheme Budget

Overall RAG Status **On Hold**

Schedule RAG Status **On Hold**

Budget RAG Status **On Hold**

The works approved under the original scheme budget were split into 2 phases, with phase 1 completed during the last financial year. At that time phase 2 works were put on hold following a review of increased costs anticipated to complete the scheme together with other accommodation priorities. The budget was therefore slipped to 2015/16 as part of the February 2014 Capital Update pending any further decision. As a result of ongoing transformational activity around the future of Leisure provision and increased pressure on capital resources it is anticipated that this budget will be removed from the programme to enable a reprioritisation of funding to take place. Any urgent works will therefore need to be managed as part of the Central R&M planned programme, or be the subject of a separate capital bid if required.

MAJOR ITEMS OF SLIPPAGE/RE-PHASING:

RES 2 - Accommodation Strategy Action Programme (slippage of £359k between 14/15 and 15/16)

Gold Scheme – £23,407k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

The original ASAP scheme is drawing to a close following the completion of the Civic Centre refurbishment and related accommodation changes over a 6 year period. The remaining budget is still anticipated to be required to enable fit-out works for the former Fountains café area and for the conclusion of all other works committed to within the scope of the project. It is therefore proposed that a sum of £359k be slipped into 15/16 to enable these works to be completed as necessary

RES 3 - Works to Enable Accommodation Strategy (slippage of £1,564k between 14/15 and 15/16

Gold Scheme – £1,837k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

The creation of this scheme was approved by Cabinet on 15th July 2014 to enable further accommodation changes to be implemented within the overall accommodation strategy. The initial spend in the current financial year has arisen to enable the vacation of OGS, in addition to which phase 2 works to enable new ways of working are expected to be completed by the end of this financial year leaving a balance of £1,564k to be slipped into future years to cover further accommodation changes as required e.g. the impact of the current service property review and potential vacation of additional buildings.

RES 4 - Desktop Refresh Programme (slippage of £53k between 14/15 and 15/16)

Gold Scheme – £1,194k Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

As a result of the recent accommodation moves required to enable the vacation of Marland House, One Guildhall Square and Castle Way, the required resources from Capita to undertake the 2014/15 refresh programme have been reprioritised, resulting in a small level of slippage into 2015/16.

SIGNIFICANT FINANCIAL & PROJECT ISSUES:

There are no significant FINANCIAL ISSUES for the Portfolio relating to significant over or under spend.

There are no Significant PROJECT ISSUES for the Portfolio.

Leisure

The proposed February 2015 programme update totals **£3,964,000**. This can be compared to the previous September update total of **£3,413,000** resulting in an increase of **£551,000**, which represents a percentage variance of **16.1%.**

The changes to the programme are shown in the following summarised table:

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	Later £000	Total £000
Proposed	2,560	1,276	50	78	0	3,964
Previous	2,860	425	50	0	78	3,413
Variance	(300)	851	0	78	(78)	551

PROGRAMME CHANGES:

LS 1 – Lordshill Community Hall (Total budget change £361,000 increase)

Bronze Scheme - £361,000 Scheme Budget

Overall RAG Status **N/A**

Schedule RAG Status **N/A**

Budget RAG Status **N/A**

A budget has been added for the relocation of Lordshill Community Hall.

The Director, Place approved the addition of £341,000 to the Leisure Capital Programme in August 2014 to relocate Lordshill Community Association from their current site at Andromeda Road to the former Oaklands Nursery to allow the sale of the current site. A further virement of £20,000 from the Potential Tourist Information Centre Relocation project was approved by the Director, Place in December 2014 for additional ventilation that was required.

LS 2 – Bargate Monument Repairs (Total budget change £240,000 increase)

Bronze Scheme - £240,000 Scheme Budget

Overall RAG Status **N/A**

Schedule RAG Status **N/A**

Budget RAG Status **N/A**

A budget has been added for repairs to the Bargate Monument.

It is recommended that £240,000 is added to the Leisure Capital Programme for repairs to the Bargate Monument. As it had been identified that the stone structure on the North Façade of the Bargate was eroding due to water ingress, a Condition Survey was commissioned to assess the extent and cause of the damp staining that was affecting the building. The survey found that the repair work required is significantly more extensive than originally envisaged and that the extent of the stone erosion and the associated loss of the historic fabric of the building is accelerating at an increasing rate. If work is not carried out, there is the potential risk of stonework becoming detached from the wall, creating a health and safety hazard.

LS 3 – Potential Tourist Information Centre Relocation (Total budget change £50,000 decrease)

Bronze Scheme - £50,000 Scheme Budget

Overall RAG Status **N/A**

Schedule RAG Status **N/A**

Budget RAG Status **N/A**

The budget for the relocation of the Tourist Information Centre is no longer required.

The funding for the relocation of the Tourist Information Centre is no longer required following its closure. The Director, Place approved a virement of £20,000 from this project to Lordshill Community Hall.

MAJOR ITEMS OF SLIPPAGE/RE-PHASING:

LS 4 – Woolston Library (Slippage of £500,000 between 2014/15 and 2015/16)

Silver Scheme – £982,000 Scheme Budget

Overall RAG Status **AMBER**

Schedule RAG Status **AMBER**

Budget RAG Status **GREEN**

There has been a delay in the delivery of the core shell of the library building.

There has been a delay, due to the Centenary Quay developer not yet having delivered a shell and core building, which would enable a lease to be signed by the Council. It is expected that this situation will be resolved shortly and that work can start on fitting out the library as early as March 2015

SIGNIFICANT FINANCIAL & PROJECT ISSUES:

The significant FINANCIAL ISSUE for the Portfolio relating to significant over or under spends is:

LS 5 – Sea City Phase 2 (£358,000 Adverse Scheme Variance)

APPENDIX 3

Gold Scheme – £16,759,000 Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **GREEN**

Budget RAG Status **AMBER**

Negotiations with the contractor on the final account are continuing.

The Council is currently in negotiation with the contractor to settle the final account for the construction of the museum and it is anticipated that after much delay this will be finalised in the coming months. The current forecast over spend is largely down to additional work required with regards to asbestos and the associated additional work and delays that this caused. Council approved a provision in July 2012 for additional Direct Revenue Financing of up to £300,000 as a response towards this likely pressure.

There are no Significant PROJECT ISSUES for the Portfolio.

~~Appendix 4~~

MAJOR CHANGES IN CAPITAL RESOURCES SINCE THE SEPTEMBER 2014 UPDATE

The main reasons for the resource changes are:

- **Unsupported Borrowing – £1,355k increase**
  - £1,900k Roads Programme
  - (£545k) Art Gallery Roof

- **Capital Receipts – £5,352k increase**
  - £5,352k net additional use of receipts (mainly for Roads/SeaCity)

- **Capital Contributions – £6,565k decrease**
  - (£6,712k) Thornhill District Energy Scheme
  - £147k Other various net increases

- **Capital Grants – £4,022k increase**
  - £1,204k Intelligent Transport Systems
  - £1,300k Roads Programme
  - £1,518k Other various net increases

- **Revenue from Portfolios - £610k increase**
  - £500k Roads Programme
  - £110k Expansion of Springwell

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Capital Strategy 2015/16 to 2019/20

Contents

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1.THE SOUTHAMPTON CAPITAL STRATEGY

Aims of the Strategy and its links to the Councils budget framework

The overarching aim of the Southampton Capital Strategy is to provide a framework within which the Council's Capital Investment plans will be prioritised and delivered. These plans are driven by the Southampton City Council Strategy, the City Strategy and the City Vision - "City of Opportunity – where everyone thrives"

In order to reflect the ambition and vision above the Council's priorities were revised in 2014 to:

- Jobs for local people
- Prevention and early intervention
- Protecting vulnerable people
- Good quality and affordable housing
- Services for all
- City pride
- A sustainable council

These objectives reflect the on-going commitment to ensure the Council works to put residents and the customers at the heart of what we do reflecting the city's diversity. Such strong leadership is essential if the city is to be able to meet the immediate challenges faced in a way that means it is sustainable and able to make the most of opportunities in the future.

The Capital Strategy

The Council's capital strategy is to ensure that all the priorities of the Council Strategy are accounted for in the allocation of any available resources. The principles of the strategy are as follows:

1) The Council Capital Board (CCB) will lead the strategic direction of capital investment for the Council. The CCB will operate on a commissioning basis. This will enable funding to be better aligned with other partners and funding sources and ensure a city wide approach is taken.

The commissioning approach will be of greater importance with the increased requirement for links to regional strategies and programmes and the need to apply for funds on a regional basis and as a result, the Council must also ensure that its capital strategy reflects the LEP, PUSH, and Transport for South Hampshire all of which aim to work together with other stakeholders to secure a more prosperous and sustainable future for the Solent area.

2) The first call on capital resources will always be the financing of any over programming from previous years. In addition, all projects already approved in the capital programme or contractually committed will be supported and sufficient resources will be provided to enable them to proceed or complete.

3) A capital project sponsor must also be able to demonstrate that a rigorous process of options appraisal has been followed, requiring evidence of need, cost, risk, outcomes and methods of financing. Capital investment proposals which will result in a revenue cost saving or efficiency are encouraged.

4) All capital investment decisions will be made with reference to Council objectives and regional strategies and, only after a positive contribution to one or more of the objectives has been demonstrated, is a project to be considered for resource allocation.

5) The CCB will ensure that the Council can take full advantage of the increased freedom and flexibility afforded by the removal of ring fencing from most funding allocations to facilitate the achievement of the Council's objectives. This funding will be allocated as the CCB feel is appropriate to achieve these objectives, following receipt of the required business case. Regard will however be had to obligations around: the transport agenda, and asset management plans for schools and corporate assets, particularly around health and safety issues.

6) The un-ringfenced and corporate resources will managed by the CCB and it will review all bids for resources, evaluate them and then agree on the prioritisation of resources accordingly. A proposal will be prioritised in accordance with criteria set out in Section 4 of the strategy.

7) The CCB will also review the use of any ring fenced resources to ensure alignment with other spending plans and the maximisation of benefits to the Council and achievement of Council objectives.

8) The CCB will recommend the use of both un-ringfenced and ring-fenced resources and also the general prioritisation of resources so that Cabinet/Council can make a final well informed decision on the utilisation of resources, as per the timeline set out in section 5.

9) There will be no ring-fencing of capital receipts to specific projects unless the use of the receipt is governed by legislation or by a specific agreement. For example, the Council signed an agreement on the use of retained Right to Buy (RTB) receipts in June 2012 (amended in June 2013) which stipulates that any receipts held by the Council under the agreement, which are not used for the specific purpose of providing replacement affordable housing, must be returned to DCLG

10) Prior to the annual review of the capital strategy a review of the individual projects will be undertaken to:

a) Ensure that schemes still meet strategic priorities;
b) Review their continued relevance in the context of a dynamic and constantly developing organisation;
c) Consider the progress of schemes including any reasons for delayed starts or variations to approved budgetary allocations and rephasing of planned expenditure; and
d) Identify any unutilised or underutilised resources
e) Consider any reallocation of resources.

11) All applications/bids for capital grant funding will be brought to the CCB prior to submission to ensure they are in line with agreed priorities and all capital and revenue consequences have been explored. The Council is conscious that the Government is likely to introduce a range of grant funding opportunities for which bids must be submitted at short notice, some of which may have a matched funding requirement. The Council's strategy will be to respond as it considers appropriate to these in line with priorities.

The Wider Region

Solent Local Enterprise Partnership

With a population of more than 1.3 million and over 50,000 businesses, the Solent area is an internationally-recognised key economic hub anchored around the Southampton, Portsmouth, the Isle of Wight, the M27 corridor and the Solent waterway.

The Solent Local Enterprise Partnership (LEP) was formed after the Government offered local areas the opportunity to take control of their future economic development. It is a locally-owned partnership between businesses and local authorities and plays a central role in determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs.

The Solent LEP is led by the business community and supported by three university partners, the further education sector, three unitary authorities, eight district councils, one county council and the voluntary and community sector – all working together to secure a more prosperous and sustainable future for the Solent area.

The vision for the Solent was set out in the initial growth strategy, *A Strategy for Growth,* in December 2012:

> *"Our vision is to create an environment that will bring about sustainable economic growth and private sector investment in the Solent. It will assist this globally-competitive area reach its full potential, enabling existing businesses to grow, become more profitable and to be greener; enabling the creation of new businesses and attracting new businesses to the region."*

Within the broader vision, the Solent LEP strategy includes the following objectives:

- Maximise the economic impact of our economic assets in the area and sectors with the potential for growth. Promoting the area as the UK's leading growth hub for advanced manufacturing, marine and aerospace both at home and, more importantly, in the global marketplace. Developing the advanced engineering and manufacturing sector through a business-led approach and supporting the visitor economy.
- Unlock critical employment sites to enable the Solent businesses, particularly the marine, maritime and advanced manufacturing sectors of their economy, to expand.
- Provide new housing to support the growing workforce.
- Ensure people have the right skills to access employment and support the growing sectors.
- Provide effective support to small and medium-sized enterprises (SMEs) to enable them to grow – including marine and maritime SMEs; and
- Unlock innovation led growth to engage more businesses in knowledge exchange and innovation, develop links to wider Higher Education Institutions (HEIs) and demonstrate the benefits of working with knowledge based partners.

Targets to 2020 include the following:

- In addition to current forecasts, create an additional 15,500 new jobs in the Solent LEP area.

- Achieve GVA growth of 3%.
- In addition to current forecasts, increase GVA per capita by an additional £3,000 per head, increase employment rates to 80% from the current 78% and improve economic activity rates from 80% to 81%.
- Raise the business birth rate from 3.6% to 4.1% (and create 1000 new businesses).
- Improve the business survival rate from 61.4% to 62.5%.
- Raise the proportion of the population with Level 4 and above skills to 36% of the working age population from the current 32%.
- Support the raising of education attainment rates to above the UK average.
- Increase inward investment into Solent attracting at least 5% of FDI projects entering the UK.
- Improve productivity (GDP per head) closer to the South East average.
- In doing so, we will also seek to maximise value for money from key public sector investments focusing on areas that are economically vulnerable, and linking local people to jobs through effective procurement processes whilst levering private sector investment in skills and employment.

Supporting the Strategic Economic Plan is a £2.4bn Investment Plan for the Solent which brings to together:

- Local assets to unlock resources to be re invested in growth, including the Southampton – Portsmouth City Deal - a £953 million investment plan.
- European Union Strategic Investment Funding of £73.6 million including private and public sector match funding.
- Local growth deal - a £1.38bn proposal, including Government, public and private sector match.

Solent LEP prioritisation for capital programmes uses a scored methodology including the number jobs created, private sector leverage and deliverability. City Deal and Growth Deal funding to date have largely been drawn from Regional Growth Fund and FE capital funding, for which national eligibility and reporting remain.

Portsmouth City Council takes the Lead Accountable Body role for Solent LEP in terms of financial procedures and accounting, overseen by governance arrangements including a Board and separate panels.

2. CAPITAL RESOURCES

Current Capital Priorities and Potential Investment levels

The table below identifies the major priorities of the capital programme for 2015/16 to 2019/20.

Priority	Major Project	2015/16	2016/17	2017/18	2018/19	2019/20
		£M	£M	£M	£M	£M
Jobs for Local People						
Prevention and Early Intervention	Primary School Review	3.6	1.3			
	Early Years Expansion Programme	0.5				
	Schools Expansion	0.5				
	School Maintenance	1.6	0.2			
Good Quality & Affordable Housing	Disabled Facility Grants	1.3	0.3			
	Support for Estate Regeneration (General Fund)	0.9				
	Estate Regeneration (HRA)	5.7	4.3	3.8	5.1	0.9
	New Build (HRA)	6.7	7.3	6.1		
	Maintaining and Improving the Housing Stock (HRA)	53.1	35.0	24.6	23.6	21.6
Services for All	Active Travel (Cycling)	1.2				
	Bridges	0.8				
	Roads Programme 2015/16	6.3				
	Green Projects	0.4				
City Pride	Public Realm	4.4				
	Cultural Quarter	12.9				
	Watermark West Quay	2.8				
A Sustainable Council						

The capital programme report and the HRA 50 year business plan details all the projects currently being undertaken.

Methods of funding the capital programme

Government Grants

Capital resources from Central Government can be split into two categories:

1) Non-ringfenced – resources which are delivered through grant that can be utilised on any project (albeit that there may be an expectation of use for a specific purpose). This now encompasses the vast majority of Government funding and the Council will initially allocate these resources to a general pool from which prioritised schemes can be financed.

2) Ringfenced – resources which are ringfenced to particular areas and therefore have restricted uses.

Non-Government Contributions

Where there is a requirement to make an application to an external agency to receive external funding, and when appropriate to commit Council resources as matched funding to any bid for external resources, a business case should first be presented for consideration to the CCB. The business case must demonstrate how the project aligns to Council's priorities and how matched funding and any revenue consequences can be managed within the context of the capital and revenue budget. If the CCB considers the bid meets relevant criteria, it will be referred to the Leader of the Council, Cabinet Member for Resources and the Chief Financial Officer for a decision.

Local Enterprise Partnership

Priorities are largely as set by the Government Department concerned and jobs created, private sector leverage and deliverability. The process is led by the LEP Executive and agreed by Board. The lead accountable body is Portsmouth City Council.

Prudential Borrowing

The Council will investigate opportunities to resource capital projects using prudential borrowing where plans are sustainable, affordable and prudent. Full appraisal will take place to ensure that, where appropriate, sufficient revenue returns are generated to cover the cost of borrowing. Prudential Borrowing will also be utilised to cover the cost of initiatives, such as redundancy capitalisation (on receipt of appropriate Government directions), where the reduction in costs is a corporate issue.

Where it is considered that prudential borrowing is the appropriate method of funding, but it requires additional revenue financing, the cost will be built into the revenue budget planning process. There are various debt instruments available for financing prudential borrowing and these are explored in detail in the Treasury Management Strategy.

Since 1st November 2012 the "certainty rate" has enabled Southampton City Council to take advantage of a 20 basis points discount on standard loans from the Public Works Loan Board (PWLB) under the prudential borrowing regime, in return for providing improved information and transparency on locally determined long term borrowing and associated capital spending plans. The Council made a submission to Government in accordance with its deadline, advising of best estimates of long term borrowing and capital expenditure and has therefore qualified for the reduced borrowing rate. It is intended that the rate will be available until 31st October 2015, following which the Council will reapply for further years access if this is available.

One recently introduced debt instrument that could be utilised going forward is the LGA Municipal Bonds Agency. The agency will be an independent body with its own governance structure, accountable to its council shareholders and the LGA. It is the Councils intention to become a shareholder in this agency which should allow access to cheaper borrowing and provides a viable alternative to the Public Works Loans Board (PWLB). This is explored in further detail in the Treasury Management Strategy.

Capital Receipts

Capital Receipts come from the sale of the Council's assets. If the disposal is Housing Revenue Account land or property then not all of the receipt is available to support the capital programme as a percentage has to be paid over to the DCLG.

Where the sale of an asset leads to the requirement to repay grant, the capital receipt will be utilised for this purpose. Once this liability has been established and provided for, capital receipts will be available to support the capital programme as a corporate resource.

Where the asset has been funded from prudential borrowing a review will be undertaken to determine whether the most cost effective option is to utilise the receipt to repay debt, considering the balance sheet position of the authority.

HRA Right to Buy Receipts

In most cases there will be no ring fencing of capital receipts to specific projects. One exception to this is the retained Right to Buy (RTB) receipts held by the Council under the agreement signed in June 2012 and amended in June 2013. Under this agreement any retained RTB receipts, which are not used for the specific purpose of providing replacement affordable housing, must be returned to DCLG.

Revenue Contributions

An element of the revenue budget can be set aside to fund the capital programme (Direct Revenue Financing), and within the main Capital Programme Update Report Table 5 details the amount that is forecast to be available for the next five years, however with increasing General Fund revenue pressures these amounts available will need to be regularly reviewed.

A service or school may wish to offer some of its revenue budget to support the financing of a capital project. This is acceptable if it can be demonstrated that this funding is unfettered.

Use of Leasing

The Council does have the option to lease assets utilising an operating lease arrangement, with the advent of Prudential Borrowing this source of financing is becoming less attractive. There are also plans in place by the International Accounting Standards Board to review how leased assets are treated. This may make this source of funding even less attractive.

Tax Increment Financing (TIF)

The Local Government Finance Act 2012 which received Royal assent on 1 November 2012 provided the legislative framework for the introduction of TIF. This initiative was first announced in October 2010 as an incentive to grow local economies and attract new businesses to areas and has been the subject of a consultation process.

In essence TIF allows Authorities to borrow against future increases in Business Rate revenues generated as a result of local developments and growth. By capturing predicted increases in income from business rates, it will create an income stream that can be used to borrow against, repay existing borrowing incurred under existing borrowing powers or to reimburse costs to a developer for the initial lay out of infrastructure work. This alternative financing for the infrastructure work is aimed at kick-starting regeneration and thereby supporting locally driven development and growth.

This approach has been successfully used in the USA for a number of years and the American experience (both positive and negative) has been used to inform the debate on the implementation of TIF.

S106 Agreements

In considering an application for planning permission, the Council may seek to secure benefits to an area or restrict uses or activities related to a proposed development through the negotiation of a 'planning obligation' with the developer. Such obligations, authorised by section 106 of the Town and Country Planning Act 1990, generally either improve the quality of the development, or overcome difficulties which would otherwise result in planning permission being refused. A planning obligation must:

(a) be necessary to make the development acceptable in planning terms;

(b) be directly related to the development; and

(c) be fairly and reasonably related in scale and kind to the development.

As such, therefore, the Council may in some instances receive funds to enable it to undertake works arising from these planning obligations.

Examples of the use of planning obligations are the:

- Provision of affordable housing;
- Improvement to community facilities - Public open space / play areas, employment, skills and education;
- Improved transport facilities
- Public art;
- Renewable energy measures;
- Specific measures to mitigate impact on a local area - parking restrictions, landscaping or noise insulation.

The use of any S106 funding will be presented to the CCB for review to ensure maximum use can be made of the funding and where possible there is an alignment with other capital schemes and the Employment and Skills agenda.

Community Infrastructure Levy

The Community Infrastructure Levy (CIL), governed by the Community Infrastructure Levy (Amendment) Regulations 2013 is a levy that Local Authorities in England and Wales can choose to charge on new developments in their area. The levy is designed to be fairer, faster and more transparent than the previous system of agreeing planning obligations between local Councils and developers under section 106 of the Town and Country Planning Act 1990. Whilst similar to the section 106 it does not replace it.

In areas where a CIL is in force, land owners and developers must pay the levy to the local Council. The charges are set by the Council, based on the size and type of the new development. The money raised from the CIL can be used to support development by funding infrastructure that the Council, local community and neighbourhoods want, such as new or safer road schemes or park improvements.
The CIL:

- gives Local Authorities the freedom to set their own priorities for what the money should be spent on;
- gives Local Authorities a predictable funding stream that allows them to plan ahead more effectively;
- gives developers much more certainty from the start about how much money they will be expected to contribute;

- makes the system more transparent for local people, as Local Authorities have to report what they have spent the levy on each year; and
- rewards communities receiving new development through the direct allocation of a proportion (15% or 25% depending on whether a Neighbourhood Plan is in place) of levy funds collected in their area.

Private Finance Initiative (PFI)

Although PFI schemes are not shown within the capital programme as they are not financed by capital resources, PFI is a means by which the Council can facilitate major new infrastructure projects. PFI schemes involve partnerships between the public and private sector to fund public sector infrastructure projects with private capital.

Under PFI, a private sector contractor agrees to accept the risks associated with the design, construction and maintenance of the asset over the contract term, which is typically for a 25 year period. The public sector partner pays an annual fixed price during the contract term, part of which is subject to inflation. At the end of the term, the asset is wholly owned by the Council. The Government has provided significant support for PFI schemes although this has recently reduced in line with the general reduction in funding for the public sector.

No additional PFI projects are anticipated. Any such proposals would be presented to the CCB for evaluation before presentation for Members approval.

Resourcing Strategy

The Council's strategy for deploying resources is to ensure that all resources are being utilised to achieve the Council objectives. As most capital financing can be used for projects at the Council's discretion, then the Council is able to address its own priorities and shape the capital programme to a locally rather than a nationally driven agenda.

The Council will ensure that it takes full advantage of the freedom and flexibility arising from the removal of ring fencing of resources to facilitate the achievement of council objectives. All non-ringfenced capital funding and other non-specific Council capital resources, will be considered a Council resource and allocated via the Council Capital Board. This resource will then be managed so that only schemes which can demonstrate the attainment of Council capital priorities will be allocated funds. The Council Capital Board (CCB) will review the Council Strategy and the Capital Strategy each year to ensure the priorities are aligned making recommendations to Cabinet/Council on the prioritisation of resources for:

a) the initial capital programme; and
b) any subsequent revisions to the capital programme.

The Cabinet/Council will make the final decision on the overarching capital programme for and will subsequently delegate the updating of the programme and revisions to projects to the Leader of the Council and Cabinet Member for Resources, in conjunction with the Chief Financial Officer, in order to minimise delays in the capital programme

The CCB will review the usage of any ring fenced resources to ensure alignment with other spending plans and the maximisation of benefits to the Council.

In determining how the non-ring-fenced resources will be allocated the CCB will have regard to:

1. The preparation of the statutory Local Transport Plan, and Transport Asset management strategy;

2. The preparation of the Asset Management Plan for Schools and Council Buildings to ensure health and safety issues have been dealt with appropriately; and
3. The Council's obligation to finance adaptations to the homes of disabled residents for which it expects to receive a grant from Central Government is now to be passported directly to the Better Care Fund along with the Adults Personal Social Services grant. It has been agreed with the CCG that these monies will be retained by the Council in 2015/16, as part of the S75 pooling arrangement detailed in the Revenue Budget Report.

Grant funding allocations notified to the Council also include information about capital maintenance funding for Voluntary Aided (VA) schools. This grant is paid directly to the Church of England and Roman Catholic diocese respectively and is not therefore included within the Councils capital programme. Expenditure undertaken by the Council on VA schools is planned with regard to the availability of contributions from this grant and diocesan resources.

3. CAPITAL INVESTMENT AND DISPOSAL APPRAISAL PROCESS

All capital investment will be commissioned by the CCB. This will enable any expenditure and it's funding to be better aligned with the Council and City priorities as well as that of other partners and funding sources. These partners, from both the public and private sector will be at both a regional level and also at a district level.

Once initial strategic capital requirements have been identified and prioritised, full business cases will be commissioned for the highest priority projects.

The Council is currently reviewing its programme management arrangements including a review of the documentation being utilised. It is anticipated that project management documentation will be adapted to ensure it can be utilised for capital projects and for review by the CCB.

For proposals initially commissioned by the CCB the following approvals process will be put in place:

a) Outline Business Case (OBC) which will focus on options appraisal and quantifiable outcomes.
b) Full Business Case (FBC) – the final investment decision. This will focus on the how the priorities set out in the OBC will be delivered, including:
    I. Project description
    II. Consultation
    III. Expenditure and funding including whole life costs and revenue implications
    IV. Outputs
    V. Any further option appraisal
    VI. Value for Money
    VII. Delivery
    VIII. Timescales
    IX. Risk Management
    X. Sustainability, Forward strategy and evaluation
    XI. Asset Management
    XII. Procurement
    XIII. Equality Impact Assessment
    XIV. Environmental Impact Assessment

c) Change Requests where delegated tolerance levels will be exceeded.

For proposals that are identified by officers there will be an initial extra step in the process, which will be undertaken on an annual basis:

a) Concept Outline – this will cover the initial concept idea, potential costs and funding sources, links to the Council Strategy and the City Plan, how outcomes will be improved.

It should be made clear that these will be the exception and the main focus will be on projects commissioned by the CCB.

Where there is already an agreed asset management plan the CCB can choose to request elements of the above business case come forward as they see fit.

How projects will be appraised

Capital Projects will be appraised using the following criteria:

1. Does the project deliver or facilitate the delivery of a strategic priority?
2. Is it worth planning – is it value for money?
3. Can we afford to progress the project and commit funding?
4. Does the project stimulate or add to economic growth?

Business cases will be appraised by a small team of officers prior to being received by the CCB. The team should consist of a finance, legal, property, and strategy officer. The team will make recommendations to the CCB having appraised the scheme using the above criteria.

4. HOW THE CAPITAL REQUIREMENTS WILL BE PRIORITISED

Once a project has demonstrated that it meets the Council's strategic objectives and it has been agreed that it is suitable for capital investment, the strategic requirements will be prioritised using the following criteria (it should be noted that these are not mutually exclusive or in ranking order):

The criteria will examine if the proposal is:

1. Related to mandatory, contractual or legislative service delivery requirements
2. Required to achieve the delivery of a specific revenue budget saving within the revenue budget setting process
3. Required to support Service Plan priorities
4. Linked into other regional objectives
5. Supporting the evolving localism agenda
6. Reducing costs or backlog maintenance of assets management/estate management
7. Providing a general revenue saving (not directly linked to the budget cycle) or offering the delivery of a more efficient service
8. Fully funded from external resources (including project management etc.)
9. Bringing in substantial external resources for which Council matched funding is required
10. Likely to have the highest impact on achieving improved performance against the Council's key objectives

This criteria will be reviewed and any changes reported each year in line with the Council Strategy. Following this, a process of commissioning alongside officer requests for funding will be undertaken and will be presented to Members each year as part of the process for approving the capital programme, or during the year if projects come forward outside the normal timeframe.

All projects should demonstrate that they:

- Deliver the highest impact in achieving the required outcomes;
- Are financially sustainable and any adverse revenue implications can be dealt with within existing budgets, and the whole life cost of the project has been considered;
- Have identified risks and appropriate actions to negate these risks;
- Have identified key milestones;
- Have a full exit strategy identified where the project involves a disposal; and
- Have a method of procurement identified and represents value for money.

5 CAPITAL PROGRAMME DECISION MAKING CYCLE

The diagram below illustrates the decision making cycle for capital projects and the link to the revenue budget, the Medium Term Financial Strategy, and the Council Strategy

Sept	• Capital Strategy for forthcoming year is agreed at Council alongside the Council Strategy and the Medium Term Financial Strategy • A review of existing projects is undertaken to ensure they are still a priority
Oct	• Outline Business cases are commissioned for priority areas • Call put out for Concept Outlines • Capital requirements of revenue savings identified
Nov	• Outline business cases are reviewed and prioritised • Concept outlines are reviewed and prioritised
Dec	• Settlement information received • Capital Receipts reviewed • Move to full business case for priorities • Move to Outline business case for officer identified projects
Jan	• Funding available reviewed • Priorities analysed
Feb	• Capital Budget Report submitted outlining priority projects for the forthcoming year • Potential revision to Capital Strategy following settlement information and review of MTFS assumptions • Analysis of business cases undertaken • Budget set for the year
Mar	• Outline Business cases reviewed and where appropriate move to full business case • CCB identifies which projects it would like to monitor on a regular basis • Monitoring of the projects pre implementation commences
Apr to Aug	• Commencement of projects and monitoring put in place

6 HOW THE COUNCIL WILL PROCURE ITS CAPITAL PROJECTS

The structure of the Council's procurement function includes designated Commercial Procurement Managers whose focus is to support all capital projects.

Integration of revenue and capital financial planning provides opportunities for greater efficiency by selection of the most effective procurement processes.

Efficiency gains via procurement will be achieved by:

- Efficient procurement processes which are constantly being enhanced and improved;
- Strategic pro-active contract management of the wider supply chain either directly or through Primary contractors to ensure that efficiency savings and cost optimisation through project completion and beyond;
- Procuring fixed price contracts with risk / reward terms to incentivise further efficiencies. This will require a focus upon getting the design/specification right first time whilst also ensuring that services give both Property and Procurement sufficient notice of any forthcoming capital projects;
- Joining in region wide procurement initiatives and framework agreements where they can demonstrably provide savings through economies of scale;
- Exploring and introducing where practicable PFI and Public Private Partnership (PPP) agreements and other innovative financing arrangements where practicable;
- Exploring and introducing where practicable Leasing/borrowing strategies which will consider the most effective means of acquiring assets;
- Identifying from the Capital and maintenance programme the contracting/framework creation opportunities which will leverage most effectively the council's spend and return the best value for money;
- Ensure the full asset lifecycle cost is considered as part of the asset acquisition process; and
- Ensure that any capital project procurement comply with the council's sustainable procurement and ethical procurement policies as well as the Social Value Act.

One of the key objectives of complying with these policies should be to use our capital project procurements to generate jobs, apprenticeships, NEET employments opportunities and training for long term unemployed for the citizens of Southampton. As such these procurements should be used as a vehicle for delivering economic growth in Southampton.

7. HOW THE COUNCIL WILL MONITOR AND MEASURE THE PERFORMANCE OF THE CAPITAL PROGRAMME

The CCB has a remit to review the financial performance of the capital programme. Financial monitoring reports will therefore be considered by Cabinet on a quarterly basis together with a capital outturn report. Issues that have been considered and recommend by the CCB can be reported to Cabinet as necessary via the regular financial monitoring reports. Where a potential cost overrun has been identified, the CCB will explore possible solutions in detail. It will also consider any underspending or identified surplus resources which can be reallocated to other priorities.

Where there is a delay in the commitment of programme/project resources, the CCB will require project managers to report the reasons for the delay and consider whether it would be appropriate to recommend the decommissioning of the project and the reallocation of non-ring-fenced resources to other projects. It should be noted here there may be a potential revenue consequence of doing this due to the capital accounting requirement to transfer abortive costs to revenue.

The Local Portfolio Capital Boards will be responsible for monitoring the implementation and delivery of the individual projects. The CCB will decide which projects and programmes it would like to receive a regular progress and performance update on based around strategic importance and associated risk.

The performance of the capital programme is also measured by the prudential indicators which are reported to Cabinet and Council as part of the Treasury Management Strategy, the Treasury Management half yearly review, and the post year-end review.

8. THE COUNCIL CAPITAL BOARD

The Council Capital Board will be made up of the following members:

- Cabinet Member for Resources (Chair)
- Leader of the Council
- Chief Executive
- Assistant Chief Executive
- Chief Financial Officer
- Deputy Chief Financial Officer

By invite:

- Director for Place
- Director for People
- Director for Corporate Services

The Board will meet on a monthly basis with the remit of:

1. Discuss and recommend actions around developing capital issues
2. Develop the capital strategy
3. Commission the coming years capital programme
4. Review the capital receipts position
5. Review the assets disposal plan
6. Monitor the performance of the capital programme overall
7. Monitor the performance of strategic and high risk projects
8. Periodically review the strategic fit of projects
9. On an annual basis recommend the tolerance levels for project variations in time to allow the Financial Procedure Rules to be updated and approved by Council

The full terms of reference for the Board are included in the Financial Procedure Rules and will be updated annually to reflect any changes to the Council Capital Board.

	CABINET COUNCIL			
SUBJECT:	GENERAL FUND REVENUE BUDGET 2015/16 TO 2017/18			
DATE OF DECISION:	10 FEBRUARY 2015 11 FEBRUARY 2015			
REPORT OF:	CABINET MEMBER FOR RESOURCES			

CONTACT DETAILS

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STATEMENT OF CONFIDENTIALITY
N/A

BRIEF SUMMARY

The purpose of this report is to set out the latest estimated overall financial position on the General Fund Revenue Budget for 2015/16 and to outline the main issues that need to be addressed in considering the Cabinet's recommendations to Council on 11 February 2015.

RECOMMENDATIONS:

CABINET

It is recommended that Cabinet:

a) Note the position on the estimated outturn and revised budget for 2014/15 as set out in paragraphs 21 to 24.

b) Note the position on the forecast roll forward budget for 2015/16 as set out in paragraphs 34 to 77.

c) Note and approve the arrangements made by the Leader, in accordance with the Local Government Act 2000, for the Cabinet Member for Resources to have responsibility for financial management and budgetary policies and strategies, and that the Cabinet Member for Resources will, in accordance with the Budget & Policy Framework Rules as set out in the Council's Constitution, be authorised to finalise the Executive's proposals in respect of the Budget for 2015/16, in consultation with the Leader, for submission to Full Council on 11 February 2015.

d) Approves and recommends to Council where appropriate, the General Fund Revenue Budget changes as set out in Council recommendations i-xviii

COUNCIL

It is recommended that Council:

i) Notes the budget consultation process that was followed as outlined in Appendix 1 and notes that this year's process took into consideration feedback from last year on how to improve the process.

ii) Notes that the consultation feedback has been taken into consideration by the Cabinet and has informed their final budget proposals.

iii) Notes the Equality and Safety Impact Assessment process that was followed as set out in paragraphs 18 to 20 and the details contained in Appendix 2 which reflect the feedback received through the consultation process.

iv) Approves the revised estimate for 2014/15 as set out in Appendix 3.

v) Notes the position on the forecast roll forward budget for 2015/16 as set out in paragraphs 34 to 77.

vi) Approves the revenue pressures and bids as set out in Appendix 4 and 5 respectively.

vii) Approves the efficiencies, income and service reductions as set out in Appendix 6b.

viii) Approves the General Fund Revenue Budget 2015/16 as set out in Appendix 7, which assumes a council tax increase of 1.99%.

ix) Delegates authority to the Chief Financial Officer (CFO) to action all budget changes arising from the approved pressures, bids, efficiencies, income and service reductions and incorporate any other approved amendments into the General Fund estimates.

x) Notes that after taking these items into account, there is an estimated General Fund balance of £9.6M at the end of 2017/18 as detailed in paragraph 114.

xi) Delegates authority to the Chief Financial Officer, in consultation with the Head of Legal and Democratic Services , to do anything necessary to give effect to the recommendations in this report.

xii) Sets the Council Tax Requirement for 2015/16 at £77.27M.

xiii) Notes the estimates of precepts on the Council Tax collection fund for 2015/16 as set out in Appendix 9.

xiv) Delegates authority to the Chief Financial Officer to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire Fire and Rescue Authority precept and the Police and Crime Commissioner for Hampshire precept.

xv) Notes the Medium Term Financial Strategy as detailed in Appendix 10 including the Medium Term Financial Forecast in Annex A of this appendix.

xvi) Approves the Reserves Policy as set out in the Medium Term Financial Strategy at Appendix 10.

xvii) Approves the creation of a Medium Term Financial Risk Reserve with a contribution of £2.89M in 2015/16 and to delegate authority to draw on this reserve to the Chief Financial Officer and Chief Executive in consultation with the Cabinet Member for Resources as set out in paragraph 119.

xviii) Authorises the Chief Executive and Chief Officers to pursue the development of the options for efficiencies, income and service reductions as set out in Appendix 6b for the financial years 2016/17 and 2017/18 and continue to develop options to close the remaining projected gaps in those years.

xix) Approves entering in to an agreement with the Local Capital Finance Company and to approve a £20,000 investment in the Company in 2015/16 to enable SCC to have access to this competitive alternative borrowing source, as set out in paragraph 85.

xx) Approves entering into a Section 75 (S75) of the National Health Service Act 2006 Partnership Agreement pooled fund, noting the minimum statutory requirement to pool £15.325m revenue (SCC contribution £5.085M) and £1.526m (all SCC contribution) capital as detailed in paragraphs 124 to 128.

xxi) Note the actual S75 pooled fund to be set up will be an estimated £61M and approve a total SCC contribution of £5.3M revenue and £1.526M capital, from 1 April 2015.

xxii) Approves, in conjunction with recommendation xxiii, the addition of the remaining budgets included within the schemes as per the Better Care Plan, into the pooled fund as and when appropriate, bringing the total value to approximately £132M (SCC contribution of £51M).

xxiii) Delegates authority to the Director of People, following consultation with the lead Cabinet Member for Health and Adult Social Care, the Chair of the Health and Wellbeing Board and the Head of Legal and Democratic Services, to (a) agree the terms and conditions of the pooled fund agreement under S75 of the National Health Service Act 2006 and (b) to carry out any ancillary actions needed to give effect to this recommendation.

REASONS FOR REPORT RECOMMENDATIONS

1. The Constitution requires the Executive to recommend its budget proposals for the forthcoming year to Full Council. The recommendations contained in this report set out the various elements of the budget that need to be considered and addressed by the Cabinet in preparing the final papers that will be forwarded to Council.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. Alternative options for revenue spending form an integral part of the development of the overall Budget Strategy that will be considered at the budget setting meeting on 11 February 2015. Alternative options may be drawn up by opposition groups and presented to the same meeting.

DETAIL (Including consultation carried out)

CONSULTATION

Introduction

3. Southampton City Council's Cabinet published their draft budget proposals for 2015/16 for public consultation on 18 November 2014 and this was used as the basis for extensive consultation with a range of stakeholders.

4. The results of the consultation exercise were reported to the Leader and Cabinet Member for Resources prior to agreement of the Executive's final budget proposals which are now presented to Cabinet and Council.

5. The Cabinet Member for Resources led the consultation on the budget proposals supported by other Cabinet Members, the Council's Management Team (CMT), Heads of Service and staff in the Transformation and Performance Division. The consultation process ran for 12 weeks from 19 November 2014 to 10 February 2015 with the online questionnaire available for 9 weeks from 19 November 2014 until 21 January 2015. Any feedback received after the publication of this report will be reported directly to Cabinet and Full Council.

Consultation Process

6. In this difficult financial climate the Cabinet want to protect front line services as much as possible, become fit for the future and deliver a balanced budget. The scale of the challenges faced by the Council has meant that while the Cabinet wanted to encourage genuine ideas for achievable savings from everyone, they were keen to manage expectations. This is because decisions to protect one service will inevitably have an impact on another service.

7. A variety of methods were used to assist a wide range of people to give their views to inform the final budget which is due to be agreed by Full Council on 11 February 2015. The consultation process was centred on an online survey which was made available to residents, businesses, partners, community and voluntary groups and all council staff. Paper copies were placed in the city's libraries, GP surgeries, local housing offices and Gateway, the council's customer contact centre. The online questionnaire was promoted in various ways including using the council website, Stay Connected (the Council's email alert system) and through a network of partners and community groups.

8. Additional consultation activity included a community budget consultation meeting, working with partners and organisations directly affected by the proposals ensuring they were aware and had the opportunity to voice any concerns and suggest alternatives, and comprehensive staff consultation. This was in addition to the Council's decision making processes which include feedback from the Overview and Scrutiny Management Committee (OSMC) and Health Overview and Scrutiny Panel.

9. The Council worked closely with partners and organisations directly affected by the proposals ensuring they were aware and had the opportunity to voice any concerns and suggest alternatives. Comprehensive staff consultation was also undertaken by service managers, led by Human Resources. Details of the consultation process and feedback received are attached at Appendix 1.

10. The consultation aimed to explain the challenges faced by the Council and the reasons for the difficult financial position. It sought feedback on the proposals and alternative suggestions that could be considered when finalising the proposal. Given that the Council cannot afford to continue to do everything that it currently does and savings have to be made, the consultation process was designed for Cabinet and senior managers to hear views about:

- The council's approach to delivering savings;
- Suggestions for making savings and generating income that we have not yet considered;
- Potential impacts, and action we could take to reduce impacts that we have not already identified or explored; and
- Different ways the council could deliver services such as working with others, including partner organisations and local communities.

11. This year's budget consultation process built on the feedback received last year. The key points related to support for the additional explanation documents produced last year, accessibility of the budget information, poor attendance at area based meetings, more details required in the questionnaire and support for the more inclusive approach taken were taken on board in this year's consultation process. As a result, in addition to the budget tables, covering paper and equalities impact assessments that are produced every year, the supporting documents produced last year were retained and further developed.

12. The Overview and Scrutiny Management Committee (OSMC) discussed the budget proposals at their meeting on 13 November 2014. Specific information requested by OSMC was circulated to the Committee. In addition OSMC requested that the Cabinet Member for Resources gives consideration to the impact of the proposed £1M reduction in agency spend, overtime and vacancy management and reflects whether it should be located in the service reduction column rather than the efficiency column and this is now reflected in the report. At their 27th November 2014 meeting, the Health Overview and Scrutiny Panel (HOSP) discussed with the Cabinet Member the potential longer term impacts of the Health and Adult Social Care proposals but no specific recommendations were made at this meeting.

Consultation Feedback

13. To date, for the 2015/16 budget consultation just over 700 responses have been received. Of the total number of respondents, 17% of responses were from Southampton City Council staff, with 47% of the total number of respondents being female and 53% male. Overall the feedback welcomed the Council's approach and the opportunity to be involved in decision making. The questionnaire on the budget proposals was split into seven sections. Each section asked the extent to which the various proposals were supported and also gave the opportunity to comment on the proposal and provide alternative suggestions. There was also a further opportunity to provide comments at the end.

14. Overall, the Council's budget approach was supported and there was some recognition of the financial difficulties faced by the council. Positive and constructive feedback was also received from Health - Southampton City

Clinical Commissioning Group (CCG), Hampshire Constabulary, Hampshire Fire and Rescue Service, Southampton University Hospital NHS Foundation Trust. The summary of the feedback on the specific questions is detailed in the table below:

Question	**Strongly agree/ agree**	**Disagree /Strongly disagree**
What are your views on our overall approach to balancing the budget?	51%	15%
What are your views on our proposals for ASC – learning disabilities placements	53%	25%
What are your views on our proposals for housing related support?	61%	13%
What are your views on our proposals for children and family services?	59%	17%
What are your views on our proposals for community safety?	34%	37%
What are your views on our proposals for communities?	38%	33%
What are your views on our proposals for economic development?	41%	34%
What are your views on our proposals for regulatory services?	62%	11%
What are your views on our proposals for City Services?	58%	23%
What are your views on our proposals for waste collection and disposal?	82%	7%
What are your views on our proposals for highways and transport?	60%	16%
What are your views on our proposals for internal efficiencies – cost reductions?	61%	10%
What are your views on our proposals for internal efficiencies – management capacity?	61%	12%
What are your views on our proposals for internal efficiencies – contracts?	69%	8%
What are your views on our other proposals?	71%	10%

Issues Raised

15. However, concerns were raised about several issues and these are detailed in Appendix 1. Cabinet have considered and reviewed proposals in response to

the consultation feedback. Key highlighted areas of concern in relation to the proposals in the written comments in the questionnaire were:

- the proposals may impact vulnerable people (adults and children's learning disabilities proposals, community safety, communities);
- Some of the proposals (e.g. community safety, communities) may result in increased costs to the Council or partners in the longer term;
- the importance of ensuring that renegotiated contracts don't define best value for money by only considering costs;
- the council should encourage contractors to pay the living wage; and
- the need to consider other options for public toilets including supporting local businesses to provide access to their facilities.

16. Other key comments and suggestions of areas where savings could be made included:

- Reducing the number of Councillors, frequency of elections and expenses;
- Currently weekly waste collection is not needed and the frequency should be reduced;
- Concerns about roads and potholes in the city;
- Support for the Council to further develop shared services;
- Reducing the number of managers employed by the Council and high salaries;
- Reducing consultants/interim managers;
- Concerns about air quality in the city;
- Desire for a staff suggestion scheme;
- Better signposting for tourists (including cruise ship passengers) within the city;
- Include the voluntary and community groups as part of the future solution; and
- Encourage citizens and businesses to be more socially responsible.

How the Consultation Feedback was used

17. In finalising their budget proposals, the Leader and Cabinet Member for Resources have taken into consideration the areas of concern and their response is detailed in Appendix 1. The main areas of concern relate to:

- Move to a fortnightly waste and recycling collection – The Council is currently in receipt of a government grant to maintain weekly bin collections. However, Cabinet will consider how to modernise the current service and how to further increase recycling as well as the option of alternate weekly bin collection if government funding for weekly collections is not maintained.
- The living wage – concerns were raised by residents about the effect on the salaries of contracted staff as a result of contract renegotiating and outsourcing. They felt that the living wage should be paid. Cabinet recognises the importance of the living wage and is keen to lead by example and have given a commitment to introducing the living wage for City Council staff. Cabinet are currently working with the unions on how this will be introduced and are working with other employers in the city to encourage them to sign up. They will also be looking at how the

Council's ethical procurement policy can be used to demonstrate its commitment to the living wage.

- Public Toilet Scheme – several respondents requested that the Council consider other options for public toilets particularly supporting local businesses to provide access to their facilities. If support can be generated from businesses for such a scheme the Cabinet would be happy to pursue this request further and propose to request Future Southampton to consider the issue.
- Road quality and potholes – The Council intends to significantly increase its expenditure on road resurfacing to more than £6M per year over the next three years, with a particular focus on residential roads.
- Shared services – there was a high level of support for the Council to look to developing shared services with other councils and partners across the region.
- Air quality in the City – A Member Panel is currently considering this issue and will be making recommendation to Cabinet in early summer this year.
- Staff suggestion scheme – The Chief Executive has recently introduced a staff engagement group called PULSE to better involve staff in decision making, get more detailed feedback on a range of issues and ultimately change the organisation for the better.
- Making the most of Tourism (including cruise ship passengers) - Southampton City Council's Arts and Heritage Team are working with Associated British Ports on a shuttle bus for transport passengers from the cruise ship terminal to the Sea City and Tudor House mueums. Final confirmation that this will be rolled out is awaited from ABP as they are liaising with the liners directly.
- School learning disability services – Following consultation with the School's Forum there have been some changes to the this proposal. There will now be funding for a Southampton Special Educational Needs Outreach service to provide a free core offer to mainstream schools.
- Following consultation with the School's Forum there have been some changes to this proposal. There will now be funding for a Southampton Special Educational Needs Outreach service to provide a free core offer to mainstream schools. Schools will also be able to use their existing resources to purchase additional levels of Outreach support from this service as well as purchasing support from the council's Emotional Well-being Development Officers.
- The consultation feedback also included information on the impact of some proposals that had not previously been identified. This information has been reflected in the Equality and Safety Impact Assessments and in the Cumulative Impact Assessment published with the Council budget papers.

EQUALITY AND SAFETY IMPACT ASSESSMENTS

18. The Equality Duty is a duty on public bodies which came into force on 5 April 2011 and requires the Council to show that it has 'had regard' to the impact of its decisions on its equality duties and the need to advance equality of opportunity between people who have protected characteristics and those who do not. While the Equality Duty does not impose a legal requirement to conduct

an Equality Impact Assessment (EIA), it does require public bodies to show how they considered the Equality Duty and that they have been consciously thinking about the aims of the Equality Duty as part of the process of decision-making. To comply with these requirements as well as the Community Safety legislation, the Council has used its existing impact assessment framework so that it can ensure the use of a consistent, council wide mechanism to evidence how decision-making took into account equality and safety considerations.

19. Individual Equality and Safety Impact Assessments (ESIAs) have been completed by Heads of Service for those proposals contained in Appendix 6b where it is felt that proposed savings could have an adverse impact on a particular group or individuals. The first draft of the Cumulative Impact Assessment was completed by a central team of officers within the Council, based on the initial ESIAs completed by service managers. This was published alongside the Executive's draft budget proposals on 18 November 2014 and the impact assessments detailed in Appendix 2 reflect the feedback received to date.

20. The feedback from residents, partners, community groups and council employees on the potential impact on equalities groups and mitigating actions has been reviewed. As a result, the following ESIAs have been amended and Heads of Service are considering mitigating actions for these:

- Efficiencies resulting from the integration of the Community Safety Team with Environmental Health
    - Low-level incidents may escalate if not dealt with.
    - Police spend time dealing with more low level incidents.
    - People may suffer from more anti-social behaviour.
- Reductions in School Crossing Patrols (SCP)
    - Concerns that School Crossing Patrols will not impact on households equally.
    - Those both for and against SCP removal put child safety first.
    - May impact on road safety
- Closure of Woolston and Portswood Public Toilets
    - Concerns for older people, disabled, children, pregnant women and those with medical issues if toilet provision removed.
    - Removing toilets will protect vulnerable people against being abused in these locations.
    - Many toilets are covered in graffiti, close and improve the public realm rapidly to prevent further decline of the neighbourhood.
    - Alternative offer of toilet provision to be well sign posted and accessible.
- Deletion of the City Development Manager Post. No feedback received
- Feedback relating to Economic Development included:
    - Long term impact on economic prosperity
    - Might mean reduced capacity to judge value for money of future project proposals or greater risks in projects in the future.
    - Areas of the city are run down and need developing. Who will focus on these areas if there is less resource put into development?
    - Loss of status for Southampton as an attractive place for businesses.

REVISED BUDGET & FORECAST OUTTURN 2014/15

21. This report is concerned mainly with the revenue estimates for 2015/16. However, there are elements of the 2014/15 estimated outturn, as detailed in Appendix 3, that will have an impact on the overall financial position. The latest position, as at Month 9, is that there is a forecast year end underspend of £0.779M (further information regarding this forecast position is set out in the Corporate Monitoring Report which is to be considered by Cabinet at its meeting on the 10th February 2015).

22. The forecast underspend is £0.0.695M which includes a potential carry forward of £0.084M.

23. The revenue budget for 2014/15 assumed a general draw of £6.97M would be made from balances to support the delivery of a balanced revenue budget. Assuming that the revised budget forecast of a net underspend of £0.695M is approved by Council on 11 February, the net draw made from balances to revenue will reduce by £0.695M. The table below summarises the main changes:

	£M
Net Increase in Portfolio Costs	3.262
Net Decrease in Capital Asset Management	(1.600)
Additional Non-Specific Government Grants	(0.998)
Reduction in Risk Fund Provision	(1.359)
Reduction in Net Draw from Balances (General)	**(0.695)**

24. Further information regarding the forecast outturn is set out below.

Portfolio Outturn

25. The forecast variance on Portfolio spend of £3.262M is set out in the table below:

Portfolio	Baseline Forecast Outturn Variance £M	Risk Fund Items £M	Forecast Outturn Variance £M	%
Children's Services	3.905 A	0.795 F	3.110 A	7.8
Communities	0.102 A	0.102 F	0	0.0
Environment & Transport	0.016 F	0	0.016 F	0.1
Health & Adult Services	2.990 A	0.645 F	2.345 A	3.7
Housing & Sustainability	0.223 A	0.216 F	0.007 A	0.4
Leader's	0.340 F	0	0.340 F	7.2
Resources & Leisure	1.844 F	0	1.844 F	3.7
Portfolio Total	**5.020 A**	**1.758 F**	**3.262 A**	**1.7**

Capital Financing Charges

26. The favourable variance of £1.6M is due to forecast interest payable being below that originally estimated, due to lower than anticipated borrowing costs, and forecast interest receivable being above that originally anticipated.

27. The cost of financing the authority's long term and short term debt in 2014/15 is currently forecast to be £1.9M less than budgeted, of which approximately £0.931M benefits the General Fund. This is mainly a result of variable interest rates being lower than estimated, no new long term borrowing being undertaken since 2013/14 and to deferring any new borrowing to later in this financial year than initially planned.

28. Investment income for the year is currently forecast to be around £0.651M higher than originally estimated.

Non Specific Government Grants

29. Additional non-specific Government grant income not included in the budget is anticipated resulting in a forecast favourable variance of £0.998M as follows:

30. The amount of Education Services Grant that the Council receives is primarily based on the number of pupils in maintained schools in the city. This number is continually updated as schools convert to academies. Based on known academy conversions this financial year, the amount forecast to be received in 2014/15 is expected to be £0.9M more than budget.

31. Remands allocation of £0.098M has been received from the Ministry of Justice.

Risk Fund Provision

32. Potential pressures that may arise during 2014/15 relating to volatile areas of both expenditure and income are being managed through the Risk Fund. An initial allocation of £4.4M was approved for 2014/15, and of this sum £3.117M

remains in the budget, following the allocation of £1.283M to portfolios, to cover these pressures and is taken into account during the year as evidence is provided to substantiate the additional expenditure against the specific items identified.

33. At Month 9, it is estimated that pressures within Portfolios will require the allocation of an additional £1.758M from the Risk Fund. This will result in an overall forecast favourable variance on the Risk Fund of £1.359M. It is assumed that this balance will be fully utilised to offset the net portfolio overspend in 2014/15. The provision made within the Risk Fund has been reviewed as part of the development of the budget for 2015/16 to ensure that a sufficient allocation is included for such pressures in the future.

FORECAST ROLL FORWARD BUDGET 2015/16

34. The report to Cabinet on 18 November 2014 identified a roll forward gap for 2015/16 of £14M after pressures but before any further initiatives or savings were taken into account. This figure has now been updated to reflect changes in the overall position since that date, including the outcome of the provisional Local Government Finance Settlement. The revised roll forward gap is £9.854M (before bids), and the reasons which underpin this revised position are set out below.

Provisional Local Government Settlement

35. The Autumn Statement made by the Chancellor early in December contained a number of key announcements and whilst the impact on the Council's medium term financial position appeared to be limited, experience has shown that the devil is in the detail. The provisional Local Government Settlement was received on 18 December 2014 and provided clarity on the financial impact for 2015/16.

The closing date for responses to DCLG was 15 January 2015 and the final settlement is anticipated in early to mid-February.

36. The Provisional Local Government Finance settlement shows Southampton City Council has received a small increase in funding of £0.247M over and above the predicted allocations included within the Medium Term Financial Forecast for Revenue Support Grant (RSG) and the Business Rates Top Up. Whilst this is positive news it still reflects a loss of RSG of 28.5%.

37. However the settlement includes an element for the Local Welfare Provision of £0.485M, and if this is taken into consideration the position swings to a small like for like reduction of £0.238M.

38. In addition other grant allocations, for example Council Tax New Burdens and Local Reform and Community Voices, are showing a reduction in resources.

Given that other grant allocations are reducing, in line with previous assumptions, it is proposed that no allocation is made for Welfare Provision as this funding is not new money and was not anticipated. Therefore the £0.247M increase has been taken into consideration in meeting the shortfall from other grants and closing the budget gap.

39. The key issues from the provisional settlement are listed below:

Key Issues:

- Local authorities increasing Council Tax by **2% or above** will be required to hold a local referendum. This applies to local authorities, fire authorities and police authorities.
- Local authorities freezing or lowering Council Tax level in 2015/16 will receive a Council Tax Freeze Grant equivalent to a 1% increase in Council Tax
- Council Tax Freeze Grant for 2014/15 is now included within the Settlement Funding Assessment for 2015/16.
- Rural funding has increased to £15.5m (previously £11.5m). This funding is now all within Revenue Support Grant (RSG) – previously, £9.5m was in RSG and £2.0m was paid as Rural Services Delivery Grant.
- A deduction of £23.4m has been made from RSG to fund the Improvement and Development Agency.
- The £9.4m in Efficiency Support Grant payments for 2014/15 will be rolled into the Settlement Funding Assessment for 2015/16.
- Revenue Support Grant was identified as including £129.6m for Local Welfare Provision**.** It is important to note that this is not new or additional funding**.** The DCLG have decided to split out an element of RSG to reflect what it believes should reflect Local Welfare Provision. However, this amount was previously paid as a Specific Grant in 2014/15, with no additional funding added to RSG for 2015/16.

The loss in funding as a result of the 2% cap on the 2015/16 Business Rates Multiplier (announced at Autumn Statement 2014) will be refunded to local authorities through a S31 grant payment (in the same way as the 2014/15 2% cap).

Impact on Southampton of the Provisional Local Government Settlement

40. The impact of the above on Southampton's overall settlement funding assessment is slightly worse than the national average being a reduction of 15.21% in comparison to 13.91%. This is largely as a result of Southampton not being affected by the areas where funding has been increased in the overall assessment in particular rural funding.

41. The Southampton reduction in spending power has been calculated at 3.1%, compared to the national reduction of 1.8%, however it should be noted that this calculation has been recognised by the LGA as being a flawed calculation mainly due to the inclusion of NHS funding for the Better Care Fund.

42. The Medium Term Financial Forecast included an assumption that the Revenue Support Grant was to reduce by 28.9%, based on the allocation received in the settlement the actual reduction is 28.5%.

43. The overall impact on the forecast revenue position is shown in table below:

	Budget 2015/16	Settlement 2015/16	Difference
	£M	£M	£M
Revenue Support Grant	42.212	42.473	(0.261)
Business Rates Top Up	1.623	1.609	0.014
Net Impact of Changes	**43.835**	**44.082**	**(0.247)**

44. In addition to the above, other changes have been made to the base position to reflect the utilisation of one off funding sources over and above those previously taken into consideration including

- confirmation of the continuation of Housing Benefit Administration Subsidy (£0.432M). This is in addition to £1M assumed in November 2014.
- a further year of New Homes Bonus funding in 2015/16 (£0.342M) This is in addition to £4M assumed in November 2014.
- following confirmation of the level of Education Services Grant (ESG) along with up to date information about anticipated Academy transfers has enabled us to update our estimates for 2015/16 resulting in an increase in anticipated grant of £1M;
- a small increase in the Lead Local Flood Authority grant of £0.042M; and
- a reduction of £0.050M in the Local Reform & Community Voices Grant.

45. The table below details the assumed level of non-specified grants for the period 2015/16 to 2017/18:

Grant	Estimate 2015/16 £M	Estimate 2016/17 £M	Estimate 2017/18 £M
Revenue Support Grant	42.473	30.054	19.214
Housing and Council Tax Benefit Subsidy Admin Grant	1.783	0.309	0.272
Lead Local Flood Authority - Paid Via LSSG	0.065	0.020	0.018
Education Services Grant	2.000	1.728	1.389
Community Right to Challenge	0.009	0.008	0.007
Community Right to Bid	0.008	0.007	0.006
Local Reform and Community Voices	0.150	0.126	0.105
Council Tax - New Burdens Funding	0.146	0.128	0.113
New Homes Bonus	4.342	0.000	0.000
Total	**50.975**	**32.381**	**21.123**

46. The final Local Government Finance Settlement has not been received prior to the publication of this report, but any changes resulting from the final settlement will be taken into account if necessary in a revised budget proposal for the Council meeting on 11 February.

Council Tax Base

47. The council tax base for 2015/16 has been set at 58,825 properties using delegated powers granted by Council on 17 January 2007. This is an improvement on the position assumed in November and reflects growth in the tax base and the required adjustments in respect of the Local Council Tax Reduction Scheme for 2015/16. The increased tax base leads to forecast additional income of £2.340M in 2015/16. This has been reflected in the forecast position.

Collection Fund Surplus / Deficit

48. Income received into the Collection Fund comes from two sources, Non Domestic Rates (NDR) and Council Tax. Until 2013/14 income received from National Non Domestic Rate payers was paid in full to the Central Government NNDR Pool after a contribution had been made to the City Council's General Fund to meet the costs of collection. The net effect of NNDR on the Collection Fund was therefore neutral. However, from 2013/14, due to the localisation of Business Rates (previously known as NNDR) under the Business Rate Retention (BRR) Scheme, BRR variances now have an impact on the Collection Fund Outturn.

49. The remainder of the income received by the Collection Fund is the income due from Council Tax Payers. Some households are entitled to various allowances to the standard rate including the Single Person Discount and Council Tax Reduction that reduce the amount that they are required to pay. Until 2013/14 the cost of Council Tax Benefit was met in full by Government subsidy. However, from 2013/14 onwards this is no longer the position due to ending of Council Tax Benefit and the introduction of a Local Council Tax Reduction scheme.

Council Tax Surplus 2014/15

50. Each billing authority is required to estimate the level of surplus or deficit on the Council Tax element of the Collection Fund at the end of each financial year in order that these amounts can be included in the calculation of the Council Tax for the coming financial year.

51. These estimates must be made by the 15 January each year (or the earliest working day before this date if it falls on a weekend) and then be notified to all precepting Authorities.

52. A revised estimate of the Collection Fund surpluses and deficits as at the end of December 2014 has been calculated. This shows an estimated increase in the income due from council tax payers of £3.212M compared to the original forecast at tax setting time (a variance of 3.6% from the original estimate).

53. In addition there has been an increase in the level of the surplus brought forward on the Council Tax Collection Fund on 1 April 2014 of £0.53M.

54. The amounts identified above combine to make a surplus of just over £3.742M

on the Council Tax Account. This surplus will be shared between the precepting authorities as follows:

	£M
Southampton City Council	3.205
Police and Crime Commissioner for Hampshire	0.384
Fire & Rescue Authority	0.153
Total	**3.742**

This surplus of £3.742M of which the Council's share is £3.205M has been taken into account in setting the 2015/16 Council Tax.

Business Rates Surplus 2014/15

55. From 1 April 2013 the arrangements in respect of NNDR changed from a position where the Authority purely collected business rates on behalf of Central Government to one where this income is shared between Central Government, Local Authorities and major precepting bodies, (Hampshire Fire and Rescue Authority (HFRA) in Southampton's case). This change affects the retention of the income collected and also carries a risk to the Council for failure to collect rates in comparison with a predetermined "Start-Up" funding assessment. Risks of non-collection include rates billed from 1 April, those not yet collected from prior years and appeals that were not resolved before that date.

56. A revised estimate of the Business Rates Collection Fund Surpluses and Deficits has been calculated as at the end of December 2014. This shows an estimated increase in the income due from business rate payers of £4.988M in 2014/15 compared to the original forecast at tax setting time (a variance of 4.8% to the original forecast).

57. There is also an increase in the level of the deficit brought forward on the Business Rates Collection Fund on 1 April 2014 of £0.154M.

58. The amounts identified above combine to make a surplus of £4.834M on the Business Rates element of the Collection Fund. This surplus will be shared between Central Government, Southampton City Council and Hampshire Fire and Rescue Authority as follows:

	£M
Central Government	2.417
Southampton City Council	2.369
Hampshire Fire & Rescue Authority	0.048
Total	**4.834**

This surplus of £4.834M of which the Council's share is £2.369M has been taken into account in setting the 2015/16 Council Tax.

Business Rates

59. The Business Rate Retention (BRR) Scheme was introduced in April 2013 and represented a major change in the way in which local government is funded. It

is seen by the government as providing a direct link between business rates growth and the amount of money local authorities have available to spend on local services. However, the reality is more complex and the new system introduces a high level of risk into the financial position for local authorities without the level of control the government suggests is possible

60. Councils are able to retain a proportion of their growth in business rates but also take the risk for reductions in business rates, although there are 'safety net' arrangements in place to protect against very large reductions.

61. The estimate for 2015/16 has taken into account the estimated rateable value of businesses within the City, adjusted for reliefs, transitional relief, appeals and any reductions in rateable value.

62. Estimating business rate income is complex, as there are many factors which can significantly affect the overall figure, including entitlement to reliefs and properties coming on to, or being taken off the rating list. The biggest uncertainty concerns revaluations arising from appeals against the Valuation Office (VO) determinations. These are very common and can lead to large refunds being backdated several years

63. The amount to be retained, and the amounts to be paid to central government and major precepting authorities are fixed at the start of the financial year on the basis of the billing authority's estimate of its business rate income for the year. Any variation is recognised as part of the end of year accounting process for the Collection Fund and any surplus can be utilised in the budget whilst any deficit must be made good.

64. The NNDR1 form for 2015/16 has now been completed. Given the continued uncertainty of the impact of in year adjustments such as appeals the form allows for estimated growth / decline of various elements. After allowing for these various elements and the impact of the Autumn Statement changes (funded by Section 31 Grant) the Councils Net Rates Payable for 2015/16 is £104.293M.

65. After allowing for estimated losses in collection of £1.5M and estimated repayments in respect of the 2015/16 Rates of £7.572M this gives a Collectable Rates figure of £95.221M.

66. After allowing for Costs of Collection of £0.314M the adjusted Non Domestic Rating Income forecast is £94.907M.

67. The following table shows how the total income is shared:

	£M
Estimated Net Domestic Rating Income	94.907
Amount to be paid to Central Government (50%)	47.454
Amount to be retained by the Council (49%)	46.505
Amount to be passed to HFRA (1%)	0.949

68. In addition to income received from the collection of Business Rates the Council will receive grants under Section 31, and these are detailed in the table below:

Grant Description	**Estimated Grant £M**
Multiplier Cap – based on cost of 2% cap on small business multiplier in 2015/16	0.678
Small Business Rate Relief	0.831
Long Term Empty Property Relief	0.026
Retail Relief	0.440
Total	**1.975**

69. The overall level of expected income for business rates is expected to be £5.157M higher than originally forecast for 2015/16. This has been reflected in the updated position presented in Appendix 10. This consists of additional collected income of £1.3M; additional S31 Grant income of £1.488M and the 2014/15 surplus of £2.369M.

Detailed Estimates Changes and Net Interest Payable

70. Other changes in the detailed estimates submitted by Portfolios and Trading Areas have also been reflected in the figures and show a small adverse variance however, this is more than offset by the favourable impact of reduced interest payable, giving a net favourable variance against the November 2014 position of £0.216M. Since November changes have been made to a number of key variables which impact the forecast of net interest payable. These include changes as a result of the Capital Programme update which is to be presented to Council on 11 February, an updated assessment of the outlook for interest rates and an assumption that in year borrowing will be delayed.

71. It should also be noted that following a review of the risk fund provision there has been an increase in the level of the provision 2015/16 of £1.286M. A significant element of this increase reflects increasing social care demographic pressures.

Change to Draw on Balances

72. In the light of the financial challenge facing the Council in future years the position presented in November, 2015/16 assumed a draw on balances of £7.934M.

73. Since that time the changes set out above, and most notably the impact of business rates and council tax surpluses, have meant that a reduction in the draw on balances of £0.803M is required to support the revenue position in 2015/16, compared with the balances position resulting from the November draft budget. This gives and adjusted draw of £7.13M in 2015/16.

Changes in Reserves

74. The revised position has allowed some headroom to create a Medium Term Financial Strategy Reserve and to review the Treasury Risk Reserve. This is discussed in more detail in paragraph 119.

Overall Change in Roll Forward Position

75. The table below shows the net changes in the overall forecast position arising from the changes set out overleaf:

	£M
Forecast Deficit in November Cabinet Papers	**14.020**
Net Impact of Provisional Local Government Finance Settlement	(2.025)
Council Tax Base	(2.340)
Collection Fund – Council Tax Surplus	(2.827)
- Business Rate Surplus	(2.369)
Business Rate – 2015/16 Additional Income	(1.300)
- Increase in S31 grants	(1.488)
Detailed Estimate Changes & Net Interest Payable	(0.216)
Increase in Pressures & Bids	4.546
Increase in Risk Fund	1.286
Increased Contribution to Reserves - MTFS	2.890
Transfer from Reserves – Treasury Risk	(1.000)
Reduced Draw from Balances	(0.803)
Revised Forecast Deficit	**9.980**

76. In arriving at the 'base' position presented in November it was recognised that one off funding sources of £5.9M had been utilised. The revised position now includes additional non recurrent funding from the collection fund surplus £5.196M and a reduction in Treasury Risk Reserve of £1M. These one off elements, whilst serving to reduce the gap in 2015/16, by their very nature do not positively impact on the medium term financial position. The position also includes a number of grant allocations that are not forecast to continue into 2016/17. These are £4.342M of confirmed continuation of New Homes Bonus grant funding, and £1.432M of Housing Benefit Administration Subsidy Grant.

77. This position shown in the table above represents the 'base' position from which all four political groups may develop their own budgets taking into account the proposals for new spending and savings options put forward by Officers. The specific proposals in this report as set out in the appendices and outlined in the following paragraphs represent the Executive's budget proposals for 2015/16.

RISK BASED CONTINGENCY FUND

78. In 2008/09 the Council established the Risk Fund as a financial planning

mechanism to manage volatile risks within the budget. The Risk Fund includes a number of pressures which are volatile in nature, and which cannot be forecast accurately until data is collected during the financial year on the level of activity and costs (for example increasing numbers of older persons affecting care budgets).

79. The establishment of the Risk Fund means that not all the funding set aside to cover the estimated implications of pressures is allocated to Portfolios prior to the start of the financial year, but is instead retained centrally. The Risk Fund is risk adjusted, to reflect the fact that not all the volatile pressures will fully materialise during the year.

80. A sum of £4.503M is included in the Risk Fund for 2015/16 to cover a range of risks, an increase of £1.286M from 2014/15. Funding will only be released during the year if the risk materialises, and evidence is provided to substantiate that the risk cannot be managed within the existing budgets allocated and all avenues for managing the risk have been explored. The release of the fund will be upon approval from the Chief Financial Officer together with the Chief Executive in consultation with the Cabinet Member for Resources

TREASURY MANAGEMENT

81. The Council's Treasury Management Strategy was presented to the Governance Committee on 9th February and is the subject of a report on the Council agenda.

82. It aims to set out a proposed strategy for the coming year in relation to the Council's cashflow, investment and borrowing activity, and the management of the numerous tasks related to the activity.

83. The Council has a large long-term debt Portfolio which includes £35M of variable rate loans, which are currently averaging 0.69% and are helping to keep overall borrowing costs down. Whilst in the current climate of low interest rates this remains a sound strategy, the Council needs to review rates regularly and if appropriate switch into fixed rate loans. In order to mitigate this interest rate risk the Council approved the creation of a Reserve in 2009 to help manage volatility in the future and ensure that there was minimal impact on annual budget decisions or council tax in any single year. In addition to interest rise risk, the Authority has had to give consideration to covering the risk associated with 'bail – in' (following the banking regulation reform) which in future would force losses on investors before taxpayers are asked to support failing banks. This use of this reserve is referred to in paragraph 120.

84. In addition more recently the Council has had significant cash balances available for short term to medium term investments. In order to generate additional income options have been considered for longer term investments such as covered bonds / Floating Rate Note's (FRN's) and similar instruments with a view of investing up to our limit to optimise investment income.

85. It should also be noted that as an alternative to the PWLB, A Local Capital Finance Company was established in 2014 by the Local Government Association. It intends to issue bonds on the capital markets and lend the proceeds to local authorities. In order to be able to have access to this borrowing source, it will be necessary for SCC to contribute to the capital structure of the company. As a result, Council is recommended to approve a

contribution of £20,000 for this purpose in 2015/16 to be met from within the capital financing charges budget. The benefit of this is that it will give an additional alternative borrowing source to the PWLB and should offer more favourable borrowing rates that compete with the rates offered by the PWLB.

REVENUE PRESSURES

86. Part of the Budget process each year also looks at unavoidable pressures on services that will have a financial impact, many of which are outside of the control of the service itself. Examples of these would be contractual changes, which have a direct impact on costs (e.g. increase in service specification), legislative changes such as new functions and standards, or areas where the current budget is not adequate for the level of activity within the service and these pressures cannot be addressed by savings/efficiencies.

87. Pressures totalling £6.505M are being recommended for 2015/16 and the key pressures are set out below and detailed in Appendix 4.

    - £3.1M in Children Services, mainly resulting from an increase in the projected number of Looked After Children; and
    - £2.4M in Health and Adult Social Care, resulting from the full year effect of an increase in the number of clients receiving long term care identified in 2014/15.

REVENUE BIDS

88. Revenue bids are brought forward to fund new spending initiatives. Unlike pressures, which are unavoidable, there is an element of choice in deciding whether to proceed or not with these items. The bids have been reviewed and the proposals for new expenditure put forward by the Executive total £0.126M in 2015/16. These are detailed in Appendix 5

EFFICIENCIES, INCOME AND SERVICE REDUCTIONS

89. For the purposes of considering an overall budget package, it should be noted that the roll forward budget includes a 3% vacancy factor built in to all salary budgets as well as the ongoing effects of savings identified in previous budget rounds.

90. The November Cabinet report set out draft budget proposals for consultation and at that point included efficiencies, income generation and service reductions nearing £9.7M. This level of savings went most of the way towards bridging the draft budget gap which at that point in time was more than £14M reducing the gap to £4.347M. The changes summarised in paragraph 75 increase this gap to £9.980M, and this is the level of savings therefore required to balance the draft budget for 2015/16 assuming a council tax increase of 1.99%.

91. In terms of closing the budget gap and setting a balanced budget, the Executive's recommendations for efficiencies, income generation and service reductions now total £9.980M and are set out in detail in Appendix 6b. These savings include £1.7M of Cross Cutting Savings for Procurement and Agency staff.

STAFFING IMPLICATIONS

92. The City Council employs 3,803 of non-school employees and their staffing costs constitute a significant element of overall expenditure. Given that this is the case, it is inevitable that when the Council is faced with such a significant funding shortfall, the savings proposals put forward, (as set out in Appendix 6b), will have an impact on staff cost and staff numbers.

93. Aware of this fact, the Council has continued to have in place a carefully planned approach to recruitment, ensuring that vacant posts have only been recruited to where absolutely necessary.

94. This proactive approach has meant that the Council has been able to hold a number of posts vacant which can now be deleted in order to make savings as part of the budget process. The deletion of vacant posts reduces the impact on staff in post and reduces the actual number of employees who will be made redundant.

95. Based on the current savings proposals contained in the budget 226.58 Full Time Equivalent (FTE) posts are impacted. The post holders will either be at risk of being made redundant or be subject to TUPE transfer, and up to 265 individuals are impacted.

96. This is in addition to the proposed staffing reductions already approved for 2015/16 as set out in the report agreed by Full Council on 17 September. Taken together with the staffing proposals set out in this report, the potential total reduction in FTEs arising from savings which impact in 2015/16 is 295.98 FTEs.

97. Through the consultation process the Executive has explored all avenues with the Trade Unions and staff to identify wherever possible alternative options for delivering savings, in order that the level of proposed staffing reductions and redundancies can be reduced.

98. The Executive will also continue to ensure that impacted staff are aware of all the available options which can be used to avoid compulsory redundancies and this will include:

- Early retirement,
- Flexible retirement,
- Voluntary redundancy and
- Reduced hours

99. In addition, the City Council has an excellent past record of using its redeployment policies to minimise any compulsory redundancies arising out of the budget proposals and the Executive will seek to support employees who find themselves on the redeployment register as a result of savings implemented as part of the 2015/16 budget.

PROPOSED BUDGET PACKAGE

100. Summarised below is the proposed budget package put forward by the Executive for consideration. The detailed analysis is reflected in the General Fund Revenue Account set out in Appendix 7. The proposals are based on a Council Tax increase of 1.99% and include a draw from balances of £7.13M.

	£M
Total GF Spending (After Addition to Balances & Pressures)	**87.25**
Efficiencies, Income and Service Reductions (Appendix 6)	(9.98)
Council Tax Requirement	**77.27**

101. Any changes made to this proposed budget package, for example in response to the ongoing consultation with staff which will run until 11 February 2015, will be highlighted to Full Council on 11 February 2015.

COUNCIL TAX

102. The Executive are recommending a Council Tax increase of 1.99% for 2015/16. The Council Tax Requirement shown in Appendix 7, which takes into account Government Grants and an assumed surplus on the collection fund at the end of 2014/15, is the level of council tax required to provide a balanced budget for 2015/16. This is then divided by the council tax base set by the CFO, following consultation with the Cabinet Member for Resources, to give the basic amount of council tax for the year of £1,313.55, which is a 1.99% increase. The full calculation is set out in Appendix 8.

103. The estimates of the payments from the Collection Fund in the form of precepts for 2015/16 are set out in Appendix 9. This also details the increase in Council Tax by property band for 2015/16.

This includes preliminary figures for the Police & Crime Commissioner (PCC) and the Fire Authority, for whom proposed council tax increases of zero for a Band D property have been assumed at this stage. The Appendix therefore shows that when these items are added to Southampton's council tax, the overall percentage change falls from 1.99% to 1.71%.

104. The figures for both the PCC and the Fire Authority will not be approved until after the 11 February and therefore this report requests a delegation of authority to the Chief Financial Officer to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire Fire and Rescue Authority precept and the Police and Crime Commissioner for Hampshire precept.

PAY & ALLOWANCES

105. On 19 November 2013 when the Council considered the plans for the 2014/15 revenue budget it was reported that a period of consultation had started on the future approach to Pay and Allowances. In particular this aimed to address issues of Pay, Equality and Fairness across the Council's service, and mitigating any risk of claims against the Council for operating in a differential fashion. This has been an issue for local government as a whole and most Councils have completed reviews to address inequality in Pay and Allowances or are in the process of doing so.

106. Over the past year the Council has been formulating its proposals so far as pay and allowances are concerned which have been consulted on with the relevant trade unions and reported regularly to Council members. In order to implement these proposals by agreement a vote giving approval is required by the staff side trade unions. If this is not accepted or does not take place the option is available for the Council to dismiss and re-engage staff on revised contracts based on the new arrangements.

107. The Trade Unions are now consulting their members within the council on whether to accept the proposed changes to Pay and Allowances. This will be done mainly by postal ballot with some staff meetings by agreement (GMB in schools, for example). The ballot will start on Monday 2 February with forms returned by midday on Monday 16 February.

108. The financial implications of the ultimate position will be relevant to the 2015/16 budget and the financial position for future years. This has been taken into account in setting the budget for 2015/16.

GENERAL FUND BALANCES AND RESERVES

109. The Council continues to face unprecedented levels of funding cuts combined with increasing demand for services which means the Council is facing extremely high levels of risk. In times of financial stress, one option open to Councils is to utilise reserves and balances to smooth the impact of reducing income and rising costs, allowing Members time to drive through necessary reductions in spend and service transformation

110. In comparison to other Unitary and Metropolitan Authorities, Southampton has a relatively low level of useable balances and reserves, and as highlighted in February 2014 in the CFO's 'Statement on General Fund Budget Strategy' which formed part of the 2014/15 General Fund Budget report, the CFO set out that where the financial position allows, further contributions should be made to balances and reserves. This would provide the Council with further options to smooth and manage the impact of reducing resources and rising demand.

GENERAL FUND BALANCE

111. It is important for Cabinet and Council to consider the position on the General Fund Balance. Balances are used either to:

- support revenue spending,
- support the capital programme, or
- provide a 'working' balance at a minimum level suggested by the CFO with any projected excess being available to fund any one-off expenditure pressures or to reduce the council tax on a one-off basis.

112. Several years ago, CIPFA issued guidance on a risk based approach to setting an appropriate level of reserves. The CFO at the time produced a calculation for the City which took into account factors such as:

- Exposure to pay and price inflation
- Volatile areas of income generation
- Demand led service expenditure

- Exposure to interest rate variations
- Contractual commitments
- Achievement of budget savings
- VAT partial exemption risk

113. This calculation is reviewed annually and updated to reflect current levels of expenditure and income and treasury management operations and also new considerations such as partnership arrangements. This level was reviewed in 2014/15 and the CFO recommended that the minimum level of balances be £5.5M in line with good practice guidance. Further consideration has been given this year as to whether the minimum level of balances should be increased further. Appendix 12 Chief Financial Officers View on the Budget sets out this review.

114. The table below shows the position for balances after taking into account the estimated outturn for 2014/15, the budget proposals set out in this report and the current update of the capital programme.

	2014/15	2015/16	2016/17	2017/18
	£M	**£M**	**£M**	**£M**
Opening Balance	**53.409**	**23.366**	**11.858**	**10.052**
Draw to Support Capital	(1.489)	(1.040)	0.0	0.0
(Draw to Support) / Contribution from Revenue	3.419	(7.130)	2.507	4.000
Contributions (to) / from Other Reserves	(3.000)	0.0	0.0	0.0
Draw for Strategic Schemes	(7.989)	(3.438)	(4.313)	(4.427)
Closing Balance	**23.366**	**11.858**	**10.052**	**9.624**

115. The current level of balances reflects the budget proposals set out in this report to be approved by Council on 11 February. These proposals include the use of £7.13M of balances in 2015/16 to support the revenue budget. The above projection includes a contribution to Organisational Development allocation contained within balances of £4.45M in 2015/16, £4.2M in 2016/17 and £4.0M in 2017/18 in order to ensure that adequate ongoing provision is made for the costs associated with the implementation of staff related savings and change.

116. In view of the financial challenge facing the Authority the Council must not lose sight of the need to ensure that work is ongoing to develop sustainable savings proposals for future years and must be mindful of the need to carefully consider the extent to which one off funding is utilised in order to deliver a balanced budget in any one year.

117. The minimum level of balances is currently set at £5.5M. The above prediction indicates that the level of minimum balances will be maintained in the medium

term.

Presently, approaching £4.1M is forecast to be available within balances as a consequence of the position set out in this report. Given the fact that this is a forecast position it would not be prudent to utilise this amount at this stage of the year. However, any ultimate amount which is available within balances may be used to fund future initiatives, cover future liabilities or contribute to the revenue budget in future years.

EARMARKED RESERVES

118. As part of the Administration's overall budget proposals set out in this report, they have been able to create some headroom in the overall financial position proposed for 2015/16, such that a contribution can be made to reserves (to a Medium Term Financial Risk Reserve) in recognition that the budget forecasts for 2016/17 onwards remains extremely challenging.

Medium Term Financial Risk Reserve

119. As a result of the risk around the Medium Term Financial Strategy, the volatility around Business Rates, and the potential for savings to be delayed as the Council goes through a period of major change a Medium Term Financial Strategy reserve has been set up to assist the Council in managing this risk. In making this contribution, it is felt that the certainty of the need to inject additional non-recurrent funding into the budget in future years as part of managing the overall budget position, is great enough to trigger an accounting requirement for an earmarked reserve to be created. It is therefore proposed to establish a Medium Term Financial Risk Reserve with a contribution of £2.89M in 2015/16 (partly funded by a transfer of £1M from the Treasury Risk Reserve, as set out below) and for the authority for draws on this reserve to be delegated to the Chief Financial Officer and the Chief Executive in consultation with the Cabinet Member for Resources.

Treasury Risk Reserve

120. A review of the Treasury Risk Reserve (formerly the Interest Equalisation Reserve) has resulted in a reduced requirement ofset aside. This review has taken into consideration the revised outlook for interest rates and the Council's revised levels of borrowing, and also the Council's pro-active investment strategy which aims to mitigate wherever possible the risk of Bank Bail in. As a result of the review it is proposed to transfer £1M of the reserve to the Medium Term Financial Strategy Reserve.

MEDIUM TERM FINANCIAL STRATEGY

121. Attached at Appendix 10 is the Council's Medium Term Financial Strategy, which sets out the way the financial planning process is integral to the business planning process and the context within which the Medium Term Financial Strategy is set.

122. It should be noted that there remain significant budget shortfalls in the medium term, with a forecast gap currently of £39M in 2016/17 rising to a cumulative gap of almost £61M in 2017/18. The medium term financial position has been increased to incorporate a five year planning horizon, however it should be noted that the further into the future the figures are the more subject to change they become. At the close of this timeline there is a forecast £90M gap.

The funding gap will be reviewed and addressed as part of the ongoing development of longer term financial planning.

123. Whilst the budget for future years does not need to represent a balanced position by the time that Full Council set the 2015/16 budget on 11 February 2015, Members should not lose sight of the need to ensure that work is ongoing to develop savings proposals for future years. Significant further work is required to ensure that savings can be delivered to balance the budget for these future years. It is imperative that plans are put in place as soon as possible in order that the Council can address the significant budget shortfall for 2016/17 onwards.

BETTER CARE FUND

124. In the Comprehensive Spending Review statement made in summer of 2013 the Chancellor of the Exchequer announced that nationally a sum of £3.8 Billion would be set aside in 2015/16 to ensure closer integration between health and social care. This funding was described as "a single pooled budget for health and social care services to work more closely together in local areas, based on a plan agreed between the NHS and Local Authorities".

125. The final plan was signed off by the Health and Wellbeing Board, Chief Executive of the City Council and Chief Operating Officer of the CCG on 19 September 2014 and submitted to Ministers. This has been recently approved following the Nationally Consistent Assurance Review which identified no areas of high risk within the plan and means that Southampton can now progress its plan with the establishment of a Better Care pooled fund by 1 April 2015.

126. The minimum requirement for the Better Care Fund in 2015/16 is a £15.325M revenue contribution, of which £5.085M is SCC funding and a £1.526M capital contribution, all of which is SCC funding. From 1 April 2015 it is proposed to enter into a S75 pooled fund agreement with the Southampton City Clinical Commissioning Group (SCCCG) for the sum of approximately £61M for three schemes; Cluster development, Supporting carers and Integrated discharge, reablement and rehabilitation. This represents pooling budgets for a significantly greater number of services than the minimum required which is consistent with the ambition locally to integrate and pool resources at scale to significantly transform its health and care services. Furthermore, the schemes Placement & Packages and Community Solutions & Prevention are proposed to be added at a later date bringing the total pooled fund to £132M.

127. The pooled fund, from 1 April 2015, will initially include budgets from SCC and SCCCG that total £5.3M and £55.5M respectively. Under the conditions of the Better Care Fund, additional funding of £0.6M from within the pool, from 1 April 2015, will be provided to help meet the new responsibilities of the Council required by the Care Act 2014. This funding will come from the existing NHS resource and will therefore be a pressure to the CCG.

128. A report was submitted to Cabinet on 20 January 2015 which provides further details on the Better Care Fund. This report recommended that Council approved the Better Care Fund proposals.

TRANSFORMATION PROGRAMME

129. Cabinet are considering alongside this report the Transformation Programme Update Report. This details the progress made in designing and delivering the Council's new Operating Model.

The priorities of the Transformation Programme are:

- Implementing a new operating model for the Council by 2017, which is focused on delivering the outcomes and priorities of our Council Strategy 2014/17;
- Reduce year on year our overspends as well as reducing the costs and demands for social care services for our vulnerable children and adults;
- Develop a list of Council services that will have to be stopped or reduced;
- Reduce the level of resources in our front and back office functions;
- Further reduce our procurement spend on external supplies and services and a review of all contracts;
- Significantly reduce our management layers and widen our spans of control; and
- Become more commercially focussed in how we do business and use innovation to reduce costs and generate more income.

130. The report explores how the Council will need to change the way it operates in order to meet the challenges it faces over the coming years. This new model of operating will ensure the Council focuses service delivery on meeting the outcomes really needed by local residents, communities and businesses.

131. The financial challenge facing the Council is obviously a major driver for this change, and we need to review the way we set budgets to align budgets with an outcome and commissioning based approach, as detailed in the Medium Term Financial Strategy.

132. The initial work that has been carried out has identified potential recurrent savings of £15M from Transformation towards addressing the £61M budget gap. These potential savings also come with potential one off investment requirements of £4.5M revenue over the 2 year period, and £10M capital. The capital investment requirements will need to be built into the Capital Programme review detailed in the Capital Strategy.

133. At this stage the proposals referenced in the Transformation Report are high level, and the potential savings, as set out below, are therefore indicative. However, the Chief Executive and Management Team will aggressively drive forward the identified savings opportunities and themes to deliver the maximum level of savings possible to contribute towards closing the Council's overall budget shortfall.

134. A key part of this approach will be to deliver the identified savings opportunities as early as possible during 2015/16, and work is already underway to achieve that objective. As work progresses the potential level of savings will be confirmed, and further reports will be brought forward during the year to agree new savings and update on the budget gap remaining

135. As the proposals are still in development, for financial planning purposes and for inclusion in the Council's Medium Term Financial Strategy, a prudent assessment has made of the likely level of savings which can be delivered

across the identified themes. However, as referenced above, the aim will be to aggressively pursue these savings to deliver the maximum financial benefit which is possible.

136. The table below presents a summary of the high level savings identified to date across the 4 themes. For presentation purposes, the savings are shown on a full year basis from 2016/17 onwards, although the clear intention is to progress the individual strands of work underpinning each theme at the earliest opportunity.

	2016/17	**2017/18**
	£M	**£M**
New Service Delivery Model	1.7	5.7
Services Stopped or reduced	0.6	0.6
Restructure and Streamline Existing Services	1.9	3.1
Cross Cutting	4.9	5.9
Total	**9.0**	**15.2**

137. On the basis of the high level work to date, the current proposals which are being worked up have the potential to contribute £15M towards the Council's overall medium term budget position by 2017/18.

138. It should be noted that at this time the £15M does not include any savings from the delivery of procurement efficiencies. The Council's Management Team are looking to drive out significant savings from third party contracts and is working with Capita to initially identify those contracts which may offer the largest scope for savings.

139. The next steps in the transformation programme are to go to detailed design which should be complete by October 2015, at this stage the programme should have gone some way to addressing the £61M 2 year budget gap and identifying the necessary costs for 2016/17.

RESOURCE IMPLICATIONS

Capital

140. The revenue implications of financing the General Fund Capital Programme are reflected in the 2015/16 estimates presented in Annex A of Appendix10.

Revenue

141. As set out in the report.

Property/Other

142. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

INTRODUCTION

143. It is important that Members are fully aware of the full legal implications of the entire budget and Council Tax making process, when they consider any aspect of setting the Council's Budget. Formal and full advice to all Members of the Council protects Members, both in their official and personal capacity, as well as the Council. If Members have received the appropriate professional legal and financial advice and act reasonably, generally the courts will not interfere in their decisions.

GENERAL POSITION

144. The first and overriding legal duty on Members is their fiduciary duty to weigh the needs of service users against the interests of local taxpayers. In planning the budget, Members are under a fiduciary duty to act prudently, responsibly, in a businesslike manner and in their view of what constitutes the best interests of the general body of local taxpayers. In deciding upon expenditure, the Council must fairly hold a balance between recipients of the benefits of services provided by the Council and its local taxpayers. Members should note that their fiduciary duty includes consideration of future local taxpayers as well as present local taxpayers.

145. There is a general requirement in administrative law that a local authority decision must be rational, authorised by law and must take account of all relevant considerations, whilst ignoring any irrelevant ones. It should also be noted that the concept of proportionality, given great emphasis in the Human Rights Act 1998, is also becoming a relevant factor for determining the reasonableness of any decision and should be borne in mind by Members.

146. An authority commits an illegal act if it acts beyond or in abuse of its statutory powers or in breach of its fiduciary duty. It will also act illegally if it fails to take relevant considerations into account or acts in outrageous defiance of reason

OBLIGATION TO MAKE A COUNCIL TAX

147. The legal significance of the Annual Budget and setting a Council Tax derives from the Council's duty under the Local Government Finance Act 1992 (the 1992 Act) to set a balanced budget and Part 5 Chapter 1 of the Localism Act 2011. This is achieved by calculating the aggregate of:
   i. the expenditure it estimates it will incur in the year in performing its functions in the year (including an allowance for contingencies),
   ii. the payments it estimates it will make in the year in defraying expenditure already incurred and
   iii. expenditure it will incur in funding costs before a transfer of funds is made from the Collection Fund and then deducting such sums as will be paid into the General Fund, (i.e. income). Calculations made under this section must be made before 11 March in the preceding financial year.

148. In order to fulfil this duty, the Council must prepare detailed estimates of its expenditure for the coming year and of the resources which will be available to meet this expenditure. Account must be taken of any deficit brought forward from a previous year and the amount needed to cover contingencies. The resources include income from rents, fees and charges and any available balances. All of these issues must be addressed in the budget report. The

estimation of the detailed resource and expenditure items is the main reason for the budget process. The budget must balance, i.e. proposed expenditure must be met from proposed income from all sources, with any shortfall being the precept on the Collection Fund.

149. Failure to make a lawful Council Tax on or before 11 March could have serious financial results for the Council and make the Council vulnerable to an Order from the Courts requiring it to make a Council Tax.

150. Section 151 of the Local Government Act 1972 places a general duty on local authorities to make arrangements for "the proper administration of their financial affairs'.

151. Information must be published and included in the Council Tax demand notice. The Secretary of State has made regulations, which require charging authorities to issue demand notices in a form and with contents prescribed by these regulations.

152. There is also a duty under Section 65 of the 1992 Act to consult persons or bodies appearing to be representative of persons subject to non-domestic rates in each area about proposals for expenditure (including capital expenditure) for each financial year.

153. In order to fulfil this duty, the Council must prepare detailed estimates of its expenditure for the coming year and of the resources which will be available to meet this expenditure. Account must be taken of any deficit brought forward from a previous year and the amount needed to cover contingencies. The resources include income from rents, fees and charges and any available balances. All of these issues must be addressed in the budget report. The estimation of the detailed resource and expenditure items is the main reason for the budget process. The budget must balance, i.e. proposed expenditure must be met from proposed income from all sources, with any shortfall being the precept on the Collection Fund.

DEFICIT BUDGETING

154. A deficit budget, one which does not cover all anticipated expenditure with resources reasonably expected to be available, is unlawful. Any Council Tax which rests on such a budget will be invalid. Councils are constrained to make a Council Tax before all the separate elements, which will constitute available resources or anticipated expenditure, have been identified and quantified fully. Best estimates have to be employed.

155. Where these best estimates include sums for unallocated savings or unidentified expectations of income, extreme care must be taken to ensure that the estimates are reasonable and realistic and do not reflect an unlawful intention to incur a deficit.

It might be appropriate at budget setting time to require regular monitoring throughout the financial year of such estimated savings or income. Prompt action to reduce spending must be taken, if at any stage it seems likely that a balance between income and expenditure will not be achieved.

BORROWING

156. The rules and regulations governing a local authority's ability to borrow money were altered significantly by the introduction of the Local Government and

Housing Act 1989 and subsequent regulations. This has now been abolished and replaced by the self regulating Prudential Code.

OTHER RELEVANT LEGISLATION

157. The Local Government Finance Act 1988 (the 1988 Act) created the (now repealed) Community Charge and the current National Non- Domestic Rating regime and deals with grants, funds, capital expenditure and the financial administration of a local authority.

158. Under Section 114 (2) and 114 (3) of the 1988 Act, the CFO is required to make a report, if it appears to him/her that a decision or course of action the Council or an officer has agreed or is about to make is unlawful, or that expenditure is likely to exceed resources available.

159. Members have a duty to determine whether they agree with the CFO's statutory report issued under Section 26 Local Government Act 2003. If Members were to disagree, they would need to set out cogent reasons for so doing. Unless such reasons could be set forward, Members' action in disagreeing with the CFO’s views on the basis of his/her professional judgement would be likely to be held unreasonable and constitute wilful misconduct. It should be noted that under the Members’ Code of Conduct, Members are required to take account of any advice issued by CFO (and the Monitoring Officer) acting in their statutory capacities.

160. The Localism Act 2011 contains provisions (Part 5, Chapter 1) which relate to the setting of Council Tax, including the arrangements for Council Tax Referendums.

BEST VALUE: LOCAL GOVERNMENT ACT 1999

161. The Local Government Act 1999 (the 1999 Act) introduced a duty of Best Value, which came into force on 1 April 2000. Members need to be aware of and take account of the impact on the Council of this duty.

THE CONSTITUTIONAL POSITION: LOCAL GOVERNMENT ACT 2000 (THE 2000 ACT)

162. The 2000 Act has had a fundamental effect on the governance of the Council and in particular has resulted in a change to the working arrangements of Council, with the requirement for a Constitution setting out executive (Cabinet) and scrutiny and overview arrangements. The 2000 Act also provides a power for Councils to promote the economic, social and environmental well-being of their areas and develop community strategies. In addition, the 2000 Act establishes an ethical framework.

163. Of particular importance to the Council Tax setting process and Budget Meeting of the Full Council is the Council’s Budget and Policy Framework Procedure Rules set out in Part 4 of the City Council’s Constitution. These provide a legal framework for the decision making process whereby the Budget of the City Council is determined, and the Council Tax is set. In addition, Members need to be aware that these Rules provide a route whereby the Leader may require the Full Council to reconsider their position if they do not accept the Executive’s recommended budget without amendment.

164. In addition, the Constitution contains a range of further material relevant to the setting of the Council Tax and the Budget Setting meeting:

i. Article 12 contains guidance on decision making and the law;
ii. The Council Procedure Rules in Part 4 regulate the conduct of the Full Council meeting (although traditionally, some of the rules relating to the conduct of the debate are suspended to allow different arrangements during the budget debate);
iii. The Members' Code of Conduct must be followed by Members; and

The Officer/Member Protocol contains guidance both on pre-budget discussions, but also on how officers and Members should interact with specific guidance about budget preparation issues.

PERSONAL LIABILITY AND SURCHARGE

165. The 2000 Act abolished the local government surcharge provisions and replaced them with a new statutory offence of 'misuse of public office'. This new statutory offence covers two situations, namely unlawfully incurring expenditure or incurring expenditure as a result of wilful misconduct. It also covers the exercise of a public function in a manner that involves dishonesty or oppression or malice. The Courts (rather than the District Auditor) would impose penalties. The Council could sue for losses/deficiencies sustained.

LEGAL STATUS OF POLITICAL PROMISES AND DOCUMENTS

166. It is appropriate for Members to consider their own position as some Members may have expressed support publicly for policies that are not policies of the Council.

167. Political documents do not represent a legal commitment on behalf of the Council. To treat any political document as a legal commitment by the Council would be illegal. Where there is a valid choice before Members, then, at that stage and only at that stage, Members may take political documents into account.

168. All decisions must be taken within the framework of the formal decision making process of the Authority. Members must take into account all relevant matters and disregard all irrelevant ones. Decisions taken at a political meeting, such as a political group meeting, have no status within this process. A Member, who votes in accordance with a group decision which has been reached, having regard to relevant factors and who has addressed their mind independently to those factors and to the decision itself, will be acting within the law.

169. The Courts have also advised on the balancing exercise to be undertaken by a Council when deciding whether to pursue a particular policy:

A local authority must exercise its statutory powers in the public interest and for the purpose of which those powers have been conferred. Political views, as to the weight to be attached to the various relevant considerations and as to what is appropriate in the public interest in the light of those considerations, may properly influence the exercise of a statutory discretion. A decision will not be *unlawful merely because some political advantage, such as electoral popularity, is expected to flow from it, so long as the decision is made for a legitimate purpose or purposes. Because at some stage in the evolution of a policy an improper political purpose has been espoused, does not mean that the policy ultimately adopted is necessarily unlawful. However, a political purpose extraneous to the statutory purpose can taint a decision with impropriety. Where there is more than one purpose:-*

a) The decision will generally be lawful provided that the permitted purpose is the true and dominant purpose behind the act. This is so even though some secondary or incidental advantage may be gained for some purpose, which is outside the authority's powers.

b) The decision will be invalid if there are two purposes one ultra vires and one intra vires and the ultra vires purpose is a (even if not the) major purpose of the decision. Accordingly a decision substantially influenced by a wish to alter the composition of the electorate would be unlawful.

c) Where there is some evidence justifying enquiry, the Court will consider whether an apparently lawful purpose e.g. home ownership is merely a colourable device to conceal an illegitimate purpose e.g. electoral advantage.

Even if those voting for a particular policy at a Council meeting have perfectly proper reasons in mind, the policy can be tainted by the improper motives of others who have taken part in the formulation of that policy although not actually present to vote. As a matter of law it is possible for a corrupt principal to cause a result through an innocent agent.

Other Legal Implications:

170. The financial forecasts contained in this report have been prepared and are submitted as part of the budget process set out in the Council's Constitution. As part of the review process by the Council's Management Team (CMT), the proposals contained in this report have been checked from a legal viewpoint.

171. It should be noted by both Cabinet and Full Council that the decisions they are making, in terms of 'Budget setting' are effectively preliminary decisions, setting the framework for anticipated spending by the Council for 2014/15 to 2016/17. That framework and the matters set out in the budget influence and inform the strategic direction the Council will take during the budget period but specific proposals will require further implementation decisions (either at Cabinet or Officer decision levels as appropriate) in order to be given effect.

172. The Council, as the decision-maker, will take a preliminary decision in relation to its budget, fully aware that the implementation of proposed policies may have an impact on the affected users and having considered its budget decisions having full regard to the requirements of the Equality Act 2010 and the public sector equality duty, but is not committing itself to the implementation of specific policies within the budget framework until it has carried out a full and detailed assessment of the likely impact as and where necessary. Those decisions will in turn address further equalities, consultation and practical matters without their outcome having been

'predetermined' by the approval of the budget.

173. Decision makers may also receive further representations, and/or choose to undertake further consultation on specific proposals. Decision makers will, as a result of further representations, consultation and other material considerations, be free to approve or reject implementation of specific matters proposed as part of the overall budget framework and it will, as a result, be for Council to determine how to meet any budget gap that may arise as a result of such implementation decisions.

POLICY FRAMEWORK IMPLICATIONS

174. The Medium Term Plan and the Budget are key parts of the Policy Framework of the Council and a Budget and Council Tax for 2015/16 must be proposed by the Executive (Cabinet) for consideration by the Full Council under the Constitution.

KEY DECISION? Yes/~~No~~

WARDS/COMMUNITIES AFFECTED:	ALL

SUPPORTING DOCUMENTATION

Appendices

1.	Budget Consultation and Feedback Analysis
2.	Equality and Safety Impact Assessment
3.	Revised General Fund Revenue Budget 2014/15
4.	Summary of Revenue Pressures
5.	Summary of Efficiencies, Additional Income and Service Reductions
6.	Individual Efficiencies, Additional Income and Service Reductions
7.	2015/16 General Fund Revenue Account
8.	2015/16 Council Tax Calculation
9.	2015/16 Collection Fund Estimates
10.	Medium Term Financial Strategy 2015/16 – 2019/20
11.	Statutory Power To Undertake Proposals In The Report
12.	Chief Financial Officers Statement

Documents In Members' Rooms

1.	Budget Proposals - Equality and Safety Impact Assessment

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	Yes/~~No~~

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	GENERAL FUND REVENUE BUDGET 2015/16 TO 2017/18 – APPROVED BY CABINET ON 17 NOVEMBER 2014	

Appendix 1

2015-2016 BUDGET PROPOSALS CONSULTATION FEEDBACK AND ANALYSIS

INTRODUCTION

1. Southampton City Council's Cabinet published their draft budget proposals for 2015/16 for public consultation on 19 November 2014. Over the last five years the Council has made savings of £72.8 million. In 2015/16 the Council again faces a significant decrease in the funding from central government. Costs are increasing and demand is rising for many of our services.

2. The Council has difficult decisions to make which will impact on the city and has made a commitment to engage and consult as part of the decision making process. This appendix provides details of the consultation undertaken on the draft budget proposals, the feedback received and how the feedback has been acted upon.

THE CABINET'S APPROACH

3. In this difficult financial climate the Cabinet want to protect front line services as much as possible, become fit for the future and deliver a balanced budget. The budget proposals were developed to ensure that the Cabinet are able to deliver the priorities in the Council Strategy 2014-2017. These are:
   - Jobs for local people
   - Protecting vulnerable people
   - Services for all
   - A sustainable council
   - Prevention and early intervention
   - Good quality affordable housing
   - City pride

4. Whilst focusing on delivering the priorities stated above the Cabinet have also sought to deliver the following:
   - Deleting vacancies and protecting jobs
   - Being as efficient as possible
   - Service reductions focusing on lower priority services
   - Supporting transformation.

5. The scale of the challenges faced by the Council has meant that while the Cabinet wanted to encourage genuine ideas for achievable savings from everyone, they were keen to manage expectations. This is because decisions to protect one service will inevitably have an impact on another service.

6. A variety of methods were used to assist a wide range of people to give their views to inform the final budget which is due to be agreed by Full Council on 11 February 2015. This included residents, service users, employees, partners, businesses, community and voluntary sector organisations and other stakeholders. This is in addition to the Council's decision making processes which include feedback from the Overview and Scrutiny Management Committee and Health Overview and Scrutiny Panel.

7. The Cabinet Member for Resources led the consultation on the budget proposals supported by other Cabinet members, the Council's Management Team (CMT), Heads of Service and staff in the Transformation and Performance Division.

CONSULTATION PRINCIPLES

8. Despite having limited resources to undertake consultation, every effort was made to ensure it was:
   - **Inclusive:** so that everyone in the City's has the opportunity to express their views
   - **Informative**: so that people have adequate information about the proposals, what different options mean, and a balanced and fair explanation of the potential impacts, particularly the equality and safety impacts
   - **Understandable**: by ensuring that the language we use to communicate is simple and clear and that efforts are made to reach all stakeholders, for example people who are non-English speakers or disabled people
   - **Appropriate**: by targeting people who are more likely to be affected and using a more tailored approach to get their feedback, complemented by a general approach to all residents, staff, businesses and partners.
   - **Meaningful**: by ensuring decision makers have the full consultation feedback information so that they can make informed decisions.
   - **Reported**: by letting consultees know what we did with their feedback.

CONSULTATION METHODOLOGY

9. Following last year's draft budget consultation the Council considered the feedback received and the reviewed on how the consultation documentation and process could be improved. Key points related to support for the additional explanation documents produced last year, accessibility of the budget information, poor attendance at area based meetings, more details required in the questionnaire and support for the more inclusive approach taken. As a result, in addition to the budget tables, covering paper and equalities impact assessments that are produced every year, the supporting documents produced last year were retained and further developed. These additional materials included:
   - A summary on the background to the budget position and the proposals
   - A video clip from the Cabinet Member for Resources
   - Fact sheets by theme with more detail of each of the proposals
   - A more detailed questionnaire on the proposals.

10. Given that the Council cannot afford to continue to do everything that it currently does and savings have to be made, the consultation process was designed for Cabinet and senior managers to hear views about:
    - The council's approach to delivering savings.
    - Suggestions for making savings and generating income that we have not yet considered.
    - Potential impacts, and action we could take to reduce impacts that we have not already identified or explored.
    - Different ways the council could deliver services such as working with others, including partner organisations and local communities.

11. The consultation aimed to explain what the challenges were and why the council was in this financial position and seek feedback on the proposals that could be used in the decision making process. The consultation was on the draft budget proposals and ran for 12 weeks from 19 November 2014 – 10 February 2015 with the online questionnaire available for 9 weeks from 19 November 2014 until 21 January 2015. Any feedback received after the publication of this report will be reported directly to Cabinet and Full Council.

12. The draft budget proposals questionnaire was conducted using a tick box and open ended question approach. It was available online and paper copies were placed in the city's libraries, GP surgeries, local housing offices and Gateway, the council's customer contact centre. The online questionnaire was promoted in various ways including using the council website, Stay Connected (the council's email alert system) and through a network of partners and community groups. The questionnaire was also made available to all council staff.

13. A community budget consultation meeting was held on 10th January 2015, with nearly 550 community and voluntary organisations from across the City invited. The meeting was attended by 17 people, representing 12 groups and organisations, alongside representatives from the People's Panel, ward councillors, the Leader of the Council and other Cabinet Members. Discussions at the meeting centred on priorities for communities, the overall budget approach, the budget proposals and further ideas for savings and improvement.

14. The Council worked closely with partners and organisations directly affected by the proposals ensuring they were aware and had the opportunity to voice any concerns and suggest alternatives. Comprehensive staff consultation was also undertaken by service managers, led by Human Resources. Guidance for internal staff consultation on specific budget proposals was provided by Human Resources.

15. A full list of consultation activities is outlined in the table below (further details regarding these activities is available in the annexes to this report):

Table 1

Consultees	Methods
Members	Various
Scrutiny	Budget proposals discussed at the meetings of the Overview and Scrutiny Management Committee and the Health Overview and Scrutiny Panel in November 2014 (Annex 1)
Staff and unions	Ongoing and co-ordinated dialogue with Trade Unions on the budget process
	Regular meetings on service specific proposals
	Meetings with individual members of staff to consult them on proposals that affect them (Annex 2)
Residents and all stakeholders	Questionnaire available on the council's website, paper copies in local housing offices GP surgeries and libraries. The questionnaire was also available for all staff (Annex 8)
	Consultation meeting at the Civic Centre (by invitation) (Annex 3)
Partners	Ongoing discussions with partners on proposals that have an impact on jointly provided services or where they serve a common population (Annex 4-5)
Partners and external organisations	Letters to partners and with meetings offered on request
	Briefing for Southampton Connect and Southampton Safe City Partnership
	Letters to relevant organisations who may be affected in specific ways and ongoing regular meetings (Annex 6)
Commercial partners and provider organisations	Letters, meetings, discussions
Service users	For relevant proposals directly affected service users were consulted using relevant methods.

RESPONDENTS

16. More than 700 responses have been received to the draft budget consultation. This is a reduction on the number of responses than in previous year's consultation on the draft budget proposals which were just under 1,000 although the range of methods and approach to the consultation on the draft budget proposals has been consistent. This may reflect the fact that the approach taken to protect front line services has resulted in a high level of internal savings which will have a minimal impact on residents and partners.

17. The following table shows the number of responses received so far via particular consultation methods.

Table 2

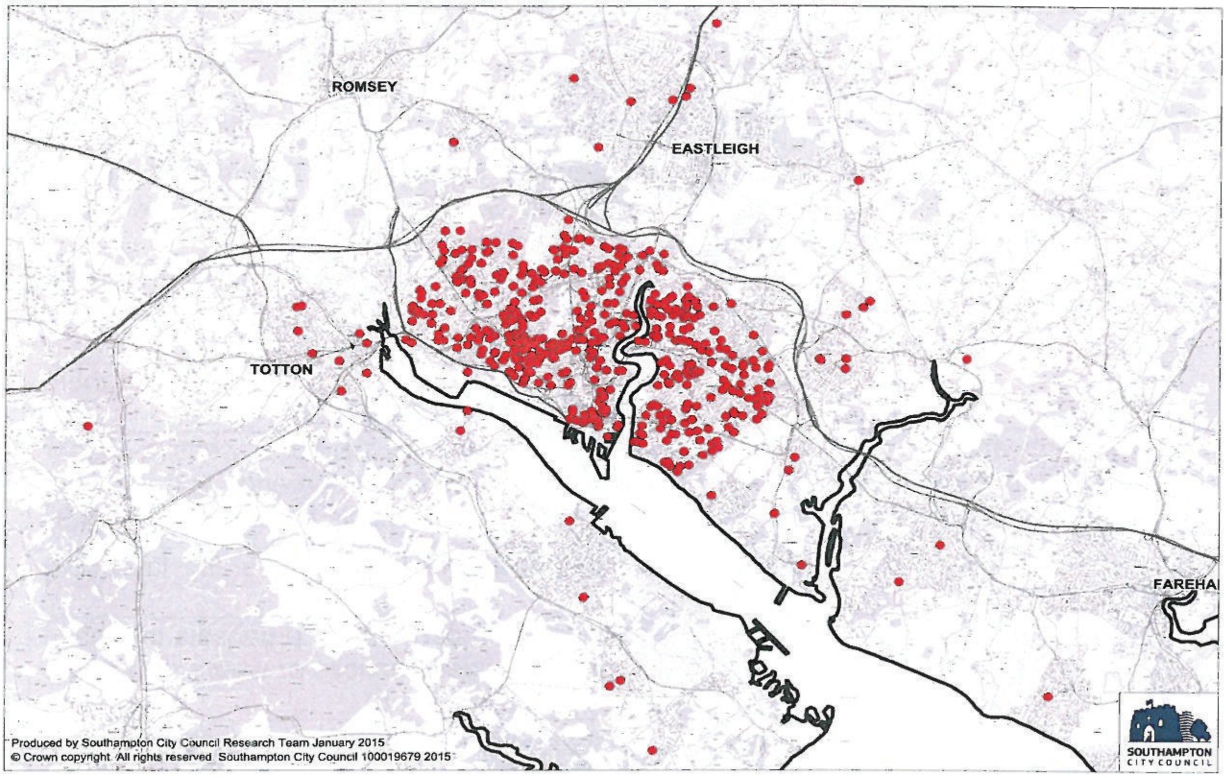
	Approximate Number
Draft budget proposal questionnaire	683
Attendees at community consultation meeting	17
Correspondence from residents and stakeholders	4
Total	**704**

DEMOGRAPHIC DETAILS

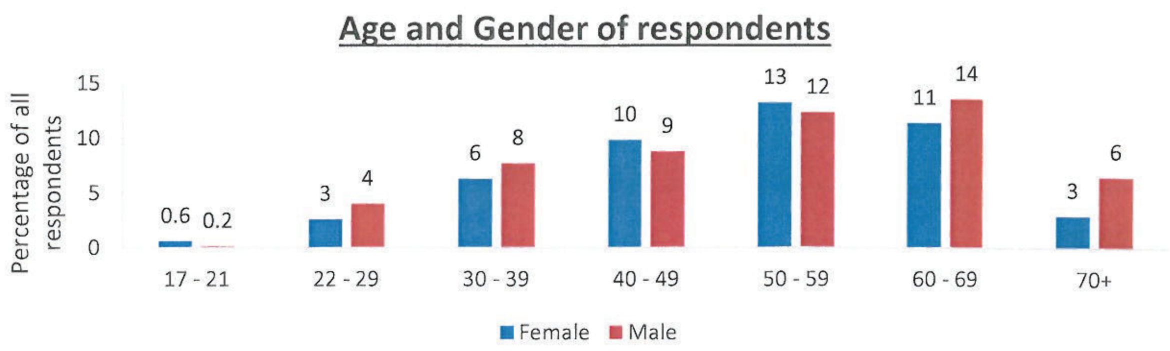
18.

19. Figure 1 below shows a map of respondents to the draft budget consultation.

Figure 1



20. The age and gender distribution of respondents (47% female to 53% male) was as follows:



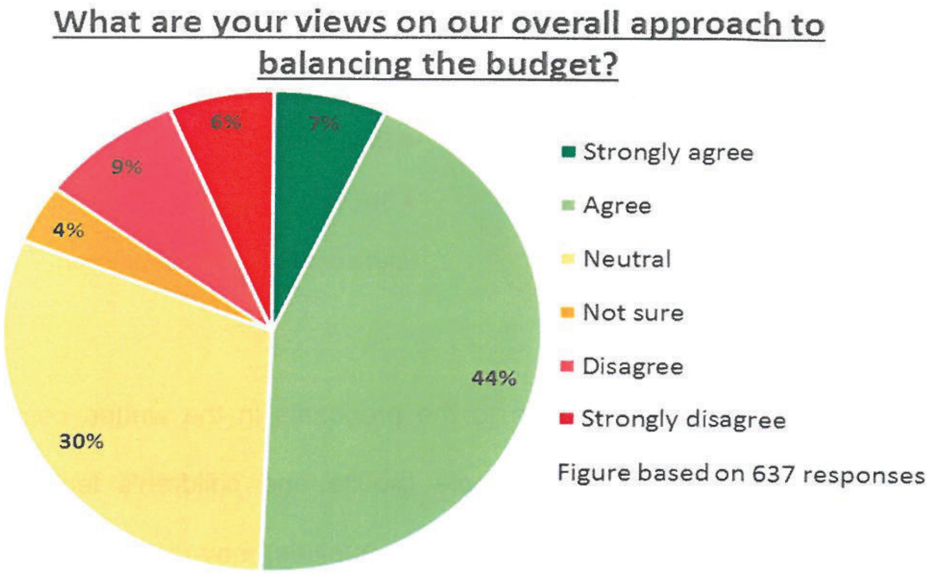
17% of the respondents were Southampton City Council staff.

CONSULTATION RESULTS

21. The questionnaire on the budget proposals was split into seven sections. Each section asked the extent to which the various proposals were supported and also gave the opportunity to comment on the proposal and provide alternative suggestions. There was also a further opportunity to provide comments at the end. Overall, the Council's budget approach was supported and there was some recognition of the financial difficulties faced by the council. However, concerns were raised about several issues.

22. The first section asked about the Cabinet's overall approach to balancing the budget. Overall 51% of respondents agreed with the approach with 15% disagreeing. The detailed response breakdown is shown below in Figure 2.

Figure 2



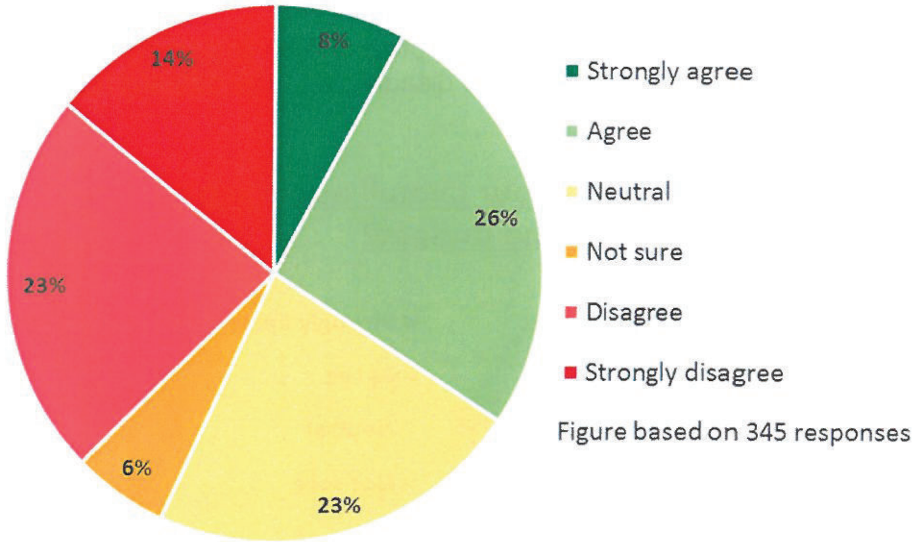
23. Respondents were then given the opportunity to respond on the draft budget proposals relating to each of the following areas:
   - Adult social care – learning disabilities placements
   - Housing related support (Supporting People)
   - Children and family services
   - Community safety
   - Communities
   - Economic development
   - Regulatory services
   - City services (public toilets, parks and city gates)
   - Waste collection and disposal
   - Highways and Transport
   - Internal efficiencies – cost reductions
   - Internal efficiencies – management capacity
   - Internal efficiencies – review of contract
   - Other proposals – (agency spend, overtime, vacancy management, sub £100k procurement)

24. For every area bar one, there was overall support for the proposals although the level of support varied. The areas where the proposals were most strongly supported were the proposal relating to waste collection and disposal where support was 82% and the other proposals – (agency spend, overtime, vacancy management, sub £100k procurement) which received support from 71% of respondents.

25. The area in which the proposals received the least support from respondents was in relation to community safety. 34% or people supported the proposals 29% were neutral about them or did not know and 37% disagreed or strongly disagreed. This is shown below in Figure 3.

Figure 3

What are your views on our proposals for community safety?



26. Key highlighted areas of concern in relation to the proposals in the written comments in the questionnaire were :
    - the proposals may impact vulnerable people (adults and children's learning disabilities proposals, community safety, communities)
    - Some of the proposals (e.g. community safety, communities) may result in increased costs to the Council or partners in the longer term;
    - the importance of ensuring that renegotiated contracts don't define best value for money by only considering costs;
    - the council should encourage contractors to pay the living wage
    - the need to consider other options for public toilets including supporting local businesses to provide access to their facilities.

27. Other key comments and suggestions of areas where savings could be made included:
    - Reducing the number of Councillors, frequency of elections and expenses
    - Currently weekly waste collection is not needed and the frequency should be reduced
    - Concerns about roads and potholes in the city
    - Support for the Council to further develop shared services
    - Reducing the number of managers employed by the Council and high salaries
    - Reducing consultants/interim managers
    - Concerns about air quality in the city
    - Desire for a staff suggestion scheme
    - Better signposting for tourists (including cruise ship passengers) within the city.

28. A summary of the results and comments received, including alternative suggestions in each section of the questionnaire are at Annex 7.

29. The main feedback from the community budget meeting was supportive of the approach. However, there was a consensus that it remains important to maintain a balance between securing future economic growth alongside managing current demand and preventing future need.

30. The top priorities of those who attended were:
    - Ensuring the budget is sustainable for current and future demand
    - Continuing to build relationships, support capacity building and with community / voluntary groups
    - Encouraging more joint working and ensuring an early dialogue on service changes / budget proposals with community / voluntary groups
    - Maintaining economic growth and maximising the unique selling points of the City for investors, employers, residents, employees and visitors.
    - Supporting early intervention and prevention
    - Ensuring innovative approaches to developing and funding City Pride

31. A full summary of the feedback from the area based meeting including details of attendees is at Annex 4. Key suggestions for improvements were
    - To include the voluntary and community groups as part of the future solution
    - Encourage citizens and businesses to be more socially responsible

32. Four items of correspondence were received in relation to the budget proposals from Southampton City Clinical Commissioning Group (CCG), Hampshire Constabulary, Hampshire Fire and Rescue Service and University Hospital Southampton NHS Foundation Trust.

33. The CCG praised the approach taken to the draft budget consultation and the accessible approach to communication. They supported the focus on prevention and early intervention, the priority to protect the vulnerable people along with stimulating investment into the city to create employment. They also support the changes to make reablement more effective. While the CCG understand and support the personalised approach being used to tailor packages of care to meet personal preference and lifestyles, they also encourage the council to ensure that alternative provision identified meet individual choice rather than matching individuals to available resources and that their carer needs are also considered.

34. Issues raised by CCG clinicians included the need to ensure early year's services and access to universal provision for young people are maintained especially in relation to Children's Services transformation and the refocusing of investment within public health. They also suggest that changes to community development should be undertaken with other partners to look at alternative ways of building community capacity. Finally they stated that the City Survey had identified that crime and anti-social behaviour is an important challenge for the city and there is an ongoing need to maintain development and support to community safety.

35. Hampshire Constabulary highlighted that investment in community safety in the City has reduce significantly in previous years but that moving Community Safety within Regulatory Services has enabled the team to deliver a more holistic service when dealing with community issues. However whilst the police have absorbed some of the workload affected by the reductions they cannot do this for all community safety activity. They praise partnership working that has been developed and continues to develop successfully to deliver projects/services such as MASH and Families Matter. The Constabulary's view is that while the reductions provide challenges they do not undermine the Council's ability to deliver its legal requirements.

36. The response from Hampshire Fire and Rescue Services recognises that the reduction in public sector funding will impact on delivery models and that the proposals within the draft budget are sensible. They would welcome opportunity to explore close partnership working to minimise the potential loss of services especially in the economic development and Regulatory Service areas and to ensure that duplicated effort is avoided in the area of community safety and the protection of the vulnerable.

37. University Hospital Southampton NHS Foundation Trust recognise the difficult decisions the Council have to make. However they have sought reassurance about the proposals in relation to domiciliary care and rehabilitation and reablement and their impact on healthcare in the City. They have also requested information regarding how they have been risk assessed.

HOW THE CONSULTATION FEEDBACK WAS USED

38. The Council received its draft funding settlement from the Government for 2015/16 just before Christmas 2014. Initial analysis of this and an increase in costs pressures since the draft budget was published confirm that the future financial forecast position continues to be challenging and the budget gap that needs to be filled has increased.

39. Whilst there has been very little room for manoeuvre the following paragraphs detail how the Cabinet are responding to the feedback received and how suggestions for future savings are being acted upon.

40. **Waste and recycling collection** – A key suggestion for saving money from residents was to move to a fortnightly waste collection. The Council is currently in receipt of a government grant to maintain weekly bin collections. However, the Council will be considering how to modernise the current service whist meeting the needs of residents and ensuring maximum efficiency. It is recognised that in terms of waste collection one size may not fit all and services may need to be different for different parts of the city. The Council will also be considering how to increase recycling further and will look at the option of alternate weekly bin collection if government funding for weekly collections is not maintained. Residents will be consulted on any proposals in the autumn of 2016.

41. **The living wage -** Concerns were raised by respondents about the effect on the salaries of contracted staff as a result of contract renegotiating and outsourcing. They felt that the living wage should be paid. The Cabinet recognises the importance of the living wage and are keen to lead by example and have given a commitment to introducing the living wage for City Council Staff. The Cabinet are currently working with the unions on how this will be introduced and are working with other employers in the city to encourage them to sign up. They will also be looking at how the council's ethical procurement policy can be used to demonstrate its commitment to the living wage.

42. **Public toilet scheme** – several respondents requested that the Council consider other options for public toilets particularly supporting local businesses to provide access to their facilities. Work has been undertaken in the past in developing a public toilet scheme based upon local retailers and similar making their toilets available not just to customers but the wider public. However support from local business for the scheme was limited or they required a high level of recompense. However, if support can be generated from businesses for such a scheme the Council would be happy to pursue this further. The Council will be requesting the local businesses partnership, Future Southampton, to consider this issue.

43. **Road quality and potholes** – Road quality and potholes were raised as an issue by several respondents. The Council recognises the potential for vehicle damage and personal injury arising from potholes and is acutely aware of the worsening of the underlying road condition in certain parts of the city. These problems are due to historical under-investment, varying funding levels from the Department of Transport (DfT) and extreme weather, including the wettest winter on record during 2013/14. In response, the Council intends to significantly increase its expenditure on road resurfacing to more than £6M per year over the next three years, with a particular focus on residential roads.

44. The Council, working with its strategic partner Balfour Beatty, has a strong regime in place to identify and repair potholes to provide greater resilience against extreme weather, ensure that future DfT funding awards are maximised and provide greater resilience against extreme weather. In summary:

- There is further strengthening of the approach to highways asset management through adoption of the Government-endorsed Highways Maintenance Efficiency Programme (HMEP). This will ultimately result in having the most informed set of data and information against which potholed and deteriorated roads in Southampton can be prioritised.

- The above condition information, used in conjunction with results from the Resident Survey conducted in 2014, is being refined to feed directly into the roads programme in future years. Ongoing work will, during February 2015, enable the completion of a proposed 3 year capital roads programme. This will list roads that will undergo a more diverse range of surfacing and types repairs in recognition of having to spread limited funds in a more targeted way
- The robust approach to identifying and repairing potholes in a timely manner means that insurance pay-outs for compensation for personal injury, property and vehicles damage have been significantly reduced since the start of the Council's Highways Service Partnership with Balfour Beatty in 2010.

45. **Shared services** – there was a high level of support for the Council to look to developing shared services with other councils and partners across the region. The Council is considering a range of shared service arrangements with organisations including other local authorities and wider agencies in order to maximise local resources and influence to improve outcomes for our residents. For example, the Council is actively working with Portsmouth City Council and other local authorities in the Urban South Hampshire area to identify opportunities for a Combined Authority to collectively take forward economic development, transport, skills and housing agendas and negotiate devolved funding and powers from central government. Separately, the council is already effectively sharing some functions, for example legal services, with other authorities, and is considering further service options on a case-by-case basis as and where possible and appropriate.

46. **Air quality in the city** – some respondents raised air quality in the city as an issue. A Member panel is currently considering this issue and will be making recommendation to Cabinet in early summer this year. We recognise and share the concerns of residents and these will be taken into account when Cabinet considers its response to the recommendations of the Panel and actions that can be taken.

47. **Staff suggestion scheme** – There was recognition among staff and residents that staff of often best placed to make suggestions about how savings can be made. The Council have recently introduced a staff engagement group called PULSE to better involve staff in decision making, get more detailed feedback on a range of issues and ultimately change the organisation for the better. The group is made up of around 100 staff from all areas of the organisation and at all levels. The group meet with the Chief Executive and the Head of Strategic HR to work on issues and come up with ideas that can be taken on and used as a part of the transformation programme. In the first meeting PULSE reviewed the results of the staff survey and developed an action plan. Included in this were other ways of improving staff involvement in decision making. Some of the actions about capturing staff ideas that have been agreed are to set up a 'Dragon's Den' where staff can pitch suggestions to the chief executive and encourage staff to make suggestions take part in online discussions.

48. **Making the most of tourism (including cruise ship passengers)** – Southampton City Council's Arts and Heritage team are working with Associated British Ports on a shuttle bus transport passengers from the cruise ship terminal to SeaCity and Tudor House museums. This is currently attracting the German cruise market and proposed to run across 32 dates. The shuttle will comprise of a mixture of customer service assistants and volunteers from our team being present at the terminal welcoming visitors and signposting to the free shuttle service. The shuttle was run 10 times last year and we are anticipating a large increase in amount of shuttles in the coming year. Final

confirmation that this will be rolled out is awaited from ABP as they are liaising with the cruise liners directly.

49. The Council has also worked with the Hoteliers Association to establish 6 tourist information points at 6 hotels in and around the city. This included training hotel staff to enable them to support tourists and answer questions. The Council has also expanded its distribution of advertising materials about its museums to attract audiences from a wide geographical area. Key partners have worked together to establish the Discover Southampton website which has integrated information about the city for both residents and tourists in to one place.

50. **School learning disability services** – Following consultation with the School's Forum there have been some changes to the this proposal. There will now be funding for a Southampton Special Educational Needs Outreach service to provide a free core offer to mainstream schools. Schools will also be able to use their existing resources to purchase additional levels of Outreach support from this service as well as purchasing support from the council's Emotional Well-being Development Officers.

51. **Parks and Open Spaces supervisory staff** - consultation with staff has led to a revised proposal that avoids one redundancy but still delivers the required saving next year.

52. **Waste Service management restructure**– to enable the proper consideration of issues raised by staff, the consultation with staff has been extended by 2 weeks

53. The consultation feedback also included information on the impact of some proposals that had not previously been identified. This information has been reflected in the Equality and Safety Impact Assessments and in the Cumulative Impact Assessment published with the council budget papers.

FEEDBACK ON THE CONSULTATION PROCESS

54. In addition to feedback on the budget proposals themselves, comments were also received on the consultation documentation and process. Overall the feedback welcomed the Council's approach and the opportunity to be involved in decision making. However there were concerns that the responses received would not be considered given that no changes had been made as a result of recent the consultation on local elections and decision making. Some respondents felt some of the areas did not give enough detail and the language used could have been easier to understand in place. In some cases the detail requested was available in the supporting documentation but was not included in the questionnaire itself. There were also some respondents who felt the background documents were easy to understand and commended the effort made to engage and consult. There were also requests for alternative proposals to be presented so that residents could choose between options.

55. The Council will consider these issues for next year's consultation process with a view to improving it.

CONCLUSION

56. The 2015/16 budget consultation exercise overall showed support for the Cabinet's proposals. Given the level of budget reductions and the difficulty of competing service priorities much of the feedback outlines potential impacts of proposals that the council was aware of. However, the consultation process and feedback has enabled the wider impacts of proposals to be identified, helpful suggestions to be put forward, and the level of feeling on specific proposals to be better understood.

57. The response to the consultation has informed the Cabinet's consider the draft proposals with a view to mitigating impacts on the most vulnerable and consider saving proposals for the future.

ANNEX 1 - FEEDBACK FROM SCRUTINY

The Overview and Scrutiny Management Committee (OSMC) discussed the budget proposals at their meeting on 13 November 2014. The actions recommended by the OSMC at the meeting, and the Executive's response are as follows:

A. That the Council's spend on consultants in 2014/15 is circulated to the Committee.

- *Response from the Cabinet Member for Resources: Information circulated to the OSMC on 26/11/2014.*

B. That a briefing note clarifying the Council's position regarding highways expenditure is circulated to the Committee.

- *Response from the Cabinet Member for Resources: Information circulated to the OSMC on 02/12/2014.*

C. That officers clarify whether the Street lighting PFI contract has required support from the Risk Fund.

- *Response from the Cabinet Member for Resources: No additional support has been drawn from the risk fund in year in 2013/14 or 2014/15 to date.*

D. That the Cabinet Member gives consideration to the impact of the proposed £1m reduction in agency spend, overtime and vacancy management and reflects whether it should be located in the service reduction column rather than the efficiency column.

- *Response from the Cabinet Member for Resources: This item can be shown as a service reduction in the February Budget Report.*

In addition, at their 27th November 2014 meeting, the Health Overview and Scrutiny Panel (HOSP) discussed with the Cabinet Member the potential longer term impacts of the following Health and Adult Social Care proposals:

- HASC 2 – Learning Disability (Residential placements)
- HASC 3 – Public Health Management and Overheads (Review of Public Health services)
- HASC 4 – Provider Services (Review of options for rehabilitation and reablement services)
- HASC 5 – Adult Disability Commissioning (Review of Supporting People)

No specific recommendations were made at this meeting.

ANNEX 2: DETAILS OF STAFF CONSULTATION

1. The Council takes its obligations under section 188 of the Trade Union and Labour Relations (Consolidation) Act 1992 to provide our employees and their union representatives with information on budget proposals very seriously. In order for the council to meet its obligations as a good employer and also in order to start the process of discharging its obligations under s.188 of the Trade Union and Labour Relations (Consolidation) Act 1992, a detailed staff and union consultation document launched the statutory consultation process for the budget proposals published 10th November 2014, for implementation in April 2015.

2. 12 individual consultation documents with an overarching s188 cover notice included a range of information relating to the budget proposals with implications for employees. It is important to the council, that all employees and union representatives take the opportunity available in a minimum 45 days consultation period to discuss the proposals, including offering a wide range of alternative options to achieve the same budgetary reduction.

3. The council also takes its responsibilities under the Equality Act 2010 very seriously and therefore employees were advised to speak to their manager, HR Pay or their trade union representative at the earliest opportunity if they consider themselves disabled under the Act and required any reasonable adjustments to the consultation and/or the selection process

4. Employees and union representatives were made aware that during the consultation period further information would be given or updated. This reflected the fact that, by the very nature of consultation, not all of the proposals will be fully formed at the point of consultation and it is important that every opportunity is given to contributing to shaping the final proposals.

5. Views and comments from affected employees and trade union representatives were invited throughout the consultation process through a series of team and individual meetings.

6. Meetings with unions have occurred at a council-wide level with Trade Union representatives and at a directorate and service-level with affected staff during a 45 day consultation period.

7. **Environment and Economy (Place) Consultation**
   The majority of consultations within the Directorate have been concluded according to schedule and without any issues. The detail is:

8. Parks and Open Spaces – there has been a change to the original proposal which avoids the need for one of the 2 proposed redundancies and still delivers the cost saving proposed.

9. City Wall Gates – no issues or changes proposed.

10. Waste Service management restructure– to enable the proper consideration of issues raised by staff, the consultation with staff has been extended by 2 weeks

11. Community Safety – no issues or changes proposed, but due to a resignation of a member of the team, this has meant that there are enough roles for remaining staff so no compulsory redundancies are anticipated.

12. Scientific Services – no issues or changes proposed.

13. Environmental Health – no issues or changes proposed.

14. Sustainability – no issues or changes proposed.

15. Place Management Team – no issues or changes proposed.

16. City Development – no issues or changes proposed.

17. School Crossing Patrol – no issues or changes proposed

18. People Consultation
A period of public consultation has been continuing on the provider services proposal and Cabinet is yet to make a decision on which option to pursue before going to formal staff consultation. At the time of writing a decision is imminent. Staff have been kept fully informed during the public consultation process.

19. Corporate Services Consultation

20. The majority of consultations within the Directorate have been concluded according to schedule and without any issues. The detail is:

21. Finance - The consultation has concluded with no further changes to the original proposals.

22. Legal & Democratic Services - The consultation has concluded with no further changes to the original proposals.

23. Transformation and Performance Division
The consultation within the Division have been concluded according to schedule and without any issues. The detail is:

24. Regeneration and City Limits – no issues or changes proposed.

25. Management and salary reductions across the authority
Management reductions – please refer to para 15 within the Place update.

26. Update on proposals contained within the July 2014 budget
This section serves as an update on the proposals that were contained within the budget last July.

27. Business Support – the consultation was paused due to concerns raised by the trade unions with regards to clarity over certain aspects of the original proposals. Once these issues were resolved, consultation was re-started in September. At the time of writing, the consultation period has now concluded and the selection process for staff is well underway.

28. Kennels closure – a tendering process has started for a provider or providers of kennelling for the dogs as a result of the proposed kennel closure. Depending on the number of providers we contract with, this could change the status of staff from all being at risk of redundancy (which was originally proposed) to some or all of the staff being in scope of a TUPE transfer.

29. The other proposals contained within the mini budget are progressing or have concluded.

ANNEX 3: SUMMARY OF COMMENTS FROM COMMUNITY BUDGET MEETING

Southampton Civic Centre, 10th January 2015

ATTENDEES:

Councillors:
Cllr Letts (Leader of the Council and Bitterne Ward); Cllr Barnes-Andrews (Cabinet Member for Resources and Leisure, Bevois Ward); Cllr Matt Tucker (Bargate Ward); Cllr John Inglis (Bitterne Park Ward).

Community Groups:
Friends of Weston Shore; Friends of Southampton Sports Centre; Freemantle Triangle Residents Association; Southampton Federation of Residents' Associations

Faith representatives:
St. Mary Church; Southampton Methodist Church;

Voluntary Services:
Spectrum CIL; Age UK, Solent Credit Union; West Itchen Community Trust; Stepacross;

Three representatives from the People's Panel.

PRIORITIES:
Economic growth whilst maintaining / maximising the City's unique selling points.
Setting a sustainable budget to manage future demand.
Engaging communities in early dialogue on budget proposals and service changes.
Achieving a balance between meeting current needs and early intervention / prevention.
Seeking innovative ways to maintain a focus on developing City Pride.
Developing community capacity and encourage social responsibility.

ISSUES RAISED ON BUDGET PROPOSALS
There was overall support for the budget proposals maximising efficiencies where possible.
Attendees acknowledged that more difficult budget decisions were to come in future years and that changes will need to happen quickly.
The budget information was considered comprehensive and informative, providing a clear explanation of the funding position of the Council and savings to be achieved.
It was felt that the involvement of communities and a joined up city-wide approach with the voluntary sector were a key part of future solutions.
The group welcomed the opportunity to hear about the Council's financial position and budget proposals and suggest potential improvements.

SAVINGS & IMPROVEMENTS PROPOSED
Encourage citizens and businesses to be more socially responsible.
Make better use of 'Community Payback' scheme to help with City Pride initiatives such as park maintenance.
Increase awareness on recycling plastics.
Maximise the City's unique selling points to increase / encourage investment and retain high profile employers.
Encourage city-wide support and training for funding bids and engage in building community capacity in the City.
Ensure access to early intervention services for children's services and health intervention services e.g. mental health and drugs and alcohol services to reduce demand on acute services.

Options to improve air quality through reviewing the fuel used by City buses and enabling traffic flow through a review of traffic light sequences were carried forward into the Air Quality Inquiry, due to be reported to Cabinet in March 2015.

OTHER MATTERS RAISED / DISCUSSED:

The Council's budget takes future demographic and cultural changes into account.

Plans for retail / leisure developments in the future should make a real difference to the economy in the City, however they need to balance with appropriate housing and parking for residents and visitors.

The City has a strong voluntary sector – they can get things done that the Council can't. The City Council and partners need to enable and support this sector to continue to grow.

It was highlighted that current and increased spending on roads in the next three years is a mix of funding from Central Government and the Council's revenue budget

It was clarified that there is no potential for match funding opportunities for community projects e.g. Southampton Sport Centre outside of the grants and Community Chest funding. However, the aim is to develop a common vision for the Southampton Sports Centre.

The Council should work to ensure that engagement with community groups and the voluntary sector continues to mature.

ANNEX 4: TEMPLATE FOR LETTERS TO PARTNERS

CHIEF EXECUTIVE
Southampton City Council
Civic Centre
Southampton
SO14 7LY

Direct dial:
Fax:
Please ask for:

10 November 2014

Dear

I am writing to you as a key partner of Southampton City Council. The Council's Cabinet published their draft budget for next year (financial year 2015/16) on 10 November 2014. We want to ensure that we understand the views of our residents, service users, partners, businesses, community and voluntary sector organisations and other stakeholders, as well as our employees, before we agree our final budget in February 2015.

Like all councils across the country, we must transform radically over the next three years in order to be sustainable in the future. By 2017 we need to have saved at least £75 million and become much less reliant on central government funding. Our challenge is not, however, simply financial, as we want to deliver better outcomes for our residents. We recognise that the needs of our residents are changing, that many residents want to, and can, access services using digital methods and that we need to make it easy for residents to be more self-reliant as much as possible. We are also looking at changing the way in which we deliver services.

These significant challenges require us to think differently. Over the next three years we will accelerate our transformation programme focussing on a council-wide rather than service-specific approach. Although we do not have all the answers yet, we do know that by 2017 we will be different in shape and size and be delivering services in different ways.

As many of the people who use our services are also clients of your services, we are keen to continue to work closely with you to develop new ways of delivering services that would reduce costs for both organisations and in some cases, improve outcomes for our service users. However, we know that transformational change takes time to deliver.

In the meanwhile we have to agree a balanced budget in February 2015 (for 2015/16) and consider how to make significant reductions in budgets we can influence over the next three years. Next year, on top of the £6.8 million of savings that have already been identified and agreed, we need to find a further £14 million. This is in addition to the £72.8 million that we have saved in the last 5 years.

Before making any proposals for service reductions, we have made efforts to identify ways of generating more income and making more efficiencies. We have also consulted with residents, staff and partners about their priorities. However, we simply cannot afford to do everything that we currently do and therefore we will have to make some service reductions. As these may impact on your work and plans, we want to ensure that you are fully aware of our proposals.

Details of our proposed budget can be accessed at:
http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=126&MId=2843&Ver=4.

We would like to work with you to develop a city-wide approach to delivering public services. However, unless alternative solutions can be found it is the Cabinet's intention to submit these proposals to Full Council for implementation next year.

You may be particularly interested in the following specific proposal:

We want to understand your views on our proposals and get your feedback on how the budget proposals may affect your organisation and its members, and any actions we can take with our partners to reduce the impact. We would be grateful for your feedback either by email or if you would like to meet me, please contact Lisa Sillence on telephone number 023 8083 4428.

For information the Council will set its final budget on 11 February 2015 and the deadline for feedback to be included in the Cabinet report is 21 January 2015. Any feedback received after this date will be reported verbally at the Cabinet meeting on 10 February 2015.

Yours sincerely

If you would like this letter sent to you in another format or language, please contact the number at the top of this letter.

ANNEX 5: LIST OF ORGANISATIONS CONTACTED DIRECTLY REGARDING THE BUDGET PROPOSALS

Solent Local Enterprise Partnership
Partnership for Urban South Hampshire
Business South
Future Southampton
Hampshire Chamber of Commerce
Hampshire Constabulary
Hampshire Fire & Rescue Service
Southampton Solent University
University of Southampton
Jobcentre Plus
Southampton Clinical Commissioning Group
Skills Funding Agency
Southampton University Hospitals NHS Trust

Southern Health NHS Foundation Trust
Solent NHS Trust
Southampton Voluntary Services
National Probation Service
Hampshire and Isle of Wight Community Rehabilitation Company

City College
Itchen Sixth Form College
Richard Taunton Sixth Form College
Chair of Southampton's Schools Forum
Chair of Secondary Heads
Chair of Primary Heads
Chair of Special Schools Heads
Consult & Challenge Group
Learning Disability Partnership Board
Southampton Pensioners Forum
Southampton Keep our NHS Public
Healthwatch Southampton
Southampton Mental Health Service Users Network

ANNEX6: TEMPLATE FOR LETTERS TO ORGANISATIONS WHO MAY BE IMPACTED IN SPECIFIC WAYS

Dear

I am writing to you regarding [your contract with/support from] Southampton City Council.

The Cabinet published their draft budget proposals on 10 November 2014. It is important to note that at this stage they are proposals, not decisions. These proposals may be subject to changes when the final decisions are made at the annual budget setting meeting of the council on 11 February 2015. However, unless alternative solutions can be found, it is the Cabinet's intention to submit these proposals for agreement by Council.

Like all councils across the country we face unprecedented financial challenges. By 2017 we need to have saved at least £75 million and become much less reliant on central government funding. We must transform radically over the next three years in order to be sustainable in the future. Our challenge is not, however, simply financial. We also have to look at how we tackle the gap between the changing social and technological needs of our residents, and our current traditional service offer. These significant challenges require us to think differently and over the next three years we will accelerate our transformation programme so that by 2017 we will be different in shape and size and be delivering services in different ways.

In the meanwhile we have to agree a balanced budget in February 2015 and consider how to make significant reductions in budgets we can influence over the next three years. Next year, on top of the £6.8 million of savings that have already been identified and agreed, we need to find a further £14 million. This is in addition to the £72.8 million that we have saved in the last 5 years.

This means that choices will be limited, but it does not reduce the council's commitment to engage and consult before, during and after decisions are made. We have consulted with residents, staff and partners about their priorities and the valuable feedback received has helped shape the budget proposals.

The draft budget includes a proposal/s to [add]. Full details of our proposed budget are available on the council's website at www.southampton.gov.uk.

We want to understand your views on our proposals and get your feedback on how the budget proposals may affect your organisation, and its members, and any actions we can take with our partners to reduce the impact. We would be grateful for your feedback either by email or if you would like to meet, please contact ....

Should you wish to make any specific enquiries or to address Councillors in person at a Council or Cabinet meeting, please email democratic.services@southampton.gov.uk

Please bear in mind that our budget consultation has now started and that the final decision on our 2015/16 budget will be made by Full Council on 11 February 2015. We will consider each and every representation up to and including 21 January 2015. However, you may wish to make representations earlier in the process.
If you would like this or future correspondence sent to you in Braille, Large Print, on Tape or translated into another language please contact the number at the top of the page.

Annexe 7- Consultation on the draft budget 2015/16
Summary of the feedback in the survey

Total number of responses – 684

Question	Key themes	Alternative suggestions
What are your views on our overall approach to balancing the budget?		
Strongly agree = 7%, Agree = 44%, Neutral = 30%, Disagree = 9%, Strongly disagree = 6%, Not sure = 4%		
Why do you disagree with the overall approach to balancing the budget?	Concerns the proposals hit the most vulnerable people Services for all is important Don't see the council's role as creating 'jobs for all' City pride and affordable housing shouldn't be priorities The council should already be as efficient and sustainable as possible Concerns about the approach taken to planning and buildings across the city What does supporting transformation mean? Please protect libraries What about consultation on the other remaining savings? By reducing support for lower priority needs are you are reducing prevention	Decrease Councillor numbers Stand up to the government – fight the cuts Reduce pay and expenses for councillors and staff Increase income – charge more for services Focus on what we need not 'nice to have' Increase Council Tax Focus on early intervention Introduce a cyclical rather than hierarchical structure within public services, inclusive of Chief Executive positions
What are your views on our proposals for ASC – learning disabilities placements		
Strongly agree = 11%, Agree = 42%, Neutral = 17%, Disagree = 17%, Strongly disagree = 8%, Not sure = 5%		
Do you have any comment or suggestions?	Residential placements are important role of local government Residential placements are usually 24/7 and well-staffed. There must be appropriate support networks in place to support people in new accommodation Those affected must be well informed, consulted and listened to	Provide accommodation for the people affected to live together to help combat loneliness Provide direct funding to individuals to decide on their care/residence Once people are living more independently they should be encouraged to volunteer in the community

	Concern that community placements would not be suitable for all It will allow people to become more independent over time If this is well planned, and thought out it will save money and meet individual needs Concern that moving people from residential care homes is just shifting the responsibility elsewhere Regular assessments to ensure adults are coping and to monitor any changes in condition Bespoke housing won't reduce costs; it may cost more Consider the additional costs of advocacy for these individuals and any necessary applications to the Court of Protection Better, modern approach Choice is important and placements should continue to reflect the specific needs of the individual.	
Impacts	More pressure may be placed on parents / carers Concern that staff have to spread themselves and their time over a wide area resulting in less time spent with an individual May need additional staff or staff will have to cover wider geographic areas Concern that people may receive less support Concern that people may become increasingly isolated and lonely if they are moved away from friends/family Concern about increased vulnerability (e.g. victims of crime)	
What are your views on our proposals for housing related support? Strongly agree = 11%, Agree = 50%, Neutral = 21%, Disagree = 8%, Strongly disagree = 5%, Not sure = 5%		
Do you have any comment or suggestions?	Ensure best value is most important rather than the cheapest offer Why were contracts not negotiated well in the first place	Consider how much it would cost to bring the services in-house Do continual checks and monitor on the organisations/ housing associations to ensure certain standards. To make sure the council doesn't pay unnecessarily Consider offering generic advice or adapting the tendering process so as to not disadvantage existing local providers?

	Care taken to ensure quality of service not reduced It will be difficult to lower the price of the service without affecting delivery Should be no further cuts as already stretched Already fewer day services / activities for the elderly Not done to enhance vulnerable peoples' lives, just to save money Communication with service users is important Contracts should be better negotiated at the beginning Reductions in this service may result in increased costs in the long term	
Impacts	Concern than renegotiating contract prices will result in poor services Likely to affect front-line workers' pay Vulnerable people may suffer as a result Smaller local providers will struggle with the tendering process	
What are your views on our proposals for children and family services? Strongly agree = 12%, Agree = 47%, Neutral = 20%, Disagree = 12%, Strongly disagree = 5%, Not sure = 4%		
Do you have any comments or suggestions?	Like to understand more about the allocated funding process; whether some schools receive more funding than others Lack of understand over the role of Emotional Wellbeing Development officers Confusion over the additional school places – whether or not specifically for children with learning disabilities (which is supported) Concern over the schools using the resource effectively	Put more in to preventative / early help to reduce the need at more critical levels Cluster support with schools in geographical areas Deliver jointly with the County/other Local Authority Don't provide the service directly. Schools to contract with other providers The overall cost of the services should be negotiated by the council and not on a case by case basis. This would ensure best price for the service and consistency across the schools. The schools would then be able to access the best prices therefore saving money and creating additional school places

	Concern that schools might spend some of the money on other things rather than its intended purpose. Council should monitor it How will equality of provision be ensured? Quality needs to be monitored More is required support for children in other areas. e.g. for learning English or for children with serious challenging behaviour Any internal market/trading will increase costs	
Impacts	Could be more costly to schools Concern the quality services for children may be affected	
What are your views on our proposals for community safety? Strongly agree = 8%, Agree = 26%, Neutral = 23%, Disagree = 23%, Strongly disagree =14%, Not sure = 6%		
Do you have any comment or suggestions?	3 community safety officers does not sound like enough All community safety incidents should be a priority Cuts should not be made where community safety is put at risk May result in increased costs in the long term Low-level incidents are still significant; especially for vulnerable people. High level anti-social behaviour and problems. Reducing will not improve service. Duty of the police, want to avoid overlap	Have zero tolerance approach to crime Reduce number of councillors to keep more front line staff Collectively manage with police to share costs Mixed views on increase the number of CSOs rather than reduce them and not having any CSOs at all Do not provide if not statutory Use volunteers, work with charities, and re-introduce neighbourhood wardens
Impact?	Low-level incidents may escalate if not dealt with. Police spend time dealing with more low level incidents. People may suffer from more anti-social behaviour. How will this effect vulnerable members of the community, victims of ASB, self-neglect.	
What are your views on our proposals for communities? Strongly agree = 9%, Agree = 29%, Neutral = 24%, Disagree = 24%, Strongly disagree = 9%, Not sure = 5%		

Do you have any comment or suggestions?	These cuts will affect the most vulnerable and may result in future costs Many people do not have access to media channels - particularly those most at risk of isolation Face to face contact is important for a lot of people Will it be possible to attract additional regeneration funding?	Involve charities and the voluntary sector to find solutions and help run consultations Attract funding from big business (i.e. supermarkets) for community projects Use people on community service to help Give community development resources to the voluntary sector Work with housing providers on community engagement Free newspaper, leaflet that could be produced every quarter going through what's going on in the main areas if the city, this could paid for via advertising space for example from local businesses
Impacts	May result in future costs Will not help integrate communities Many residents are not 'on-line'	
What are your views on our proposals for economic development? Strongly agree = 11%, Agree = 30%, Neutral = 21%, Disagree = 22%, Strongly disagree = 12%, Not sure = 4%		
Do you have any comment or suggestions?	Concern that reducing investment in this area will reduce the benefits to the council in the long term through economic growth. The saving is small How do you not know the impact of the proposal? Concern the proposals do not offer anything for local small businesses Some concerns raised about recent developments not being 'useful' or well designed It is vital that we attract trade and tourism to the city and ensure we have a well maintained and attractive city for those people and residents It is more important for the residents of Southampton to keep much needed services than it is to have more shops and entertainment built There appears to be too much emphasis on these big projects	Merge this function with planning Seek local business support to pay for things Obtain sponsorship from businesses within the city or hold a local Southampton lottery Economic Development should be all delivered across Hampshire and South West Region not just Southampton Developers could jointly fund VIP staff when projects are underway Suggestion to sell off the sea city museum instead The projects are critical to the future of the city, but perhaps other staff can share the load Tourism could be made more attractive at little cost - better signing and maintenance of heritage sites, better communication with cruise passengers and fewer vanity projects Focus not just on the city centre but the districts too Surely this sort of cost can be covered through the planning process Approach Local Chamber of Commerce for views and proposals Streamline the process for development applications and offer online public consultations

	This will impact on job creation This area underpins everything in the budget consultation	
Impact	Long term impact on economic prosperity Might mean reduced capacity to judge value for money of future project proposals or greater risks in projects in the future Loss of status for Southampton as an attractive place for businesses	
What are your views on our proposals for regulatory services? Strongly agree = 13%, Agree = 49%, Neutral = 21%, Disagree = 7%, Strongly disagree = 4%, Not sure = 6%		
Do you have any comment or suggestions?	A number of comments were made on the need to address air quality in the city and that this should be a priority of the council. A number of respondents questioned the rationale behind integrating the Scientific Services Team with the Transport Policy Team. Sensible to re-direct service provision and to raise income, as long as the income is generated	Opportunity for local businesses and the voluntary sector to provide more support in this area. Combine services, such as Scientific Services, with Hampshire County Council Port Health should be self-financing. Port operator should pay to meet all port related costs incurred by the council. Central Government should be more directly involved with port inspections.
Impact	Concerns that Trading Standards will no longer be viable / effective. If air quality in the city is not addressed then there could be a significant financial penalty imposed by Europe and extra money will have to be spent on healthcare. Proposals will make savings in health budgets in the long term. Proposals will drive out rogue contractors. What happens after the FSA grant expires?	
What are your views on our proposals for City Services? Strongly agree = 18%, Agree = 40%, Neutral = 16%, Disagree = 15%, Strongly disagree = 8%, Not sure = 3%		
Do you have any comment or suggestions?	Toilet provision should be in place Acknowledge poor state of current toilet provision, but want to know what the alternative provision would be Would pay a small reasonable fee for use of toilets (although some protest), provided they are properly maintained and constantly in operation Concern pay toilet in Bittern has been out of service for some time	Pay for facilities should have a concealed cash box works in other countries Strong consensus that cafes, pubs, restaurants, supermarkets etc. should be encouraged to make their toilet facilities more available to the wider public. Introduce a public toilet scheme Position toilets in a way that people can be seen coming and going it might deter trouble Let a private company refurbish them, run them and then let them use the inside and outside walls as bill boards so they can sell advertising space to cover their costs in running these facilities.

	City walls should be kept open for as long as possible, ensure that the responsibility is with whoever is going to be there earliest and keys also available for whoever is going to be there latest Having the walls locked is not a good tourism offering Proud of parks and open spaces, especially when maintained properly Acknowledged that parks and open spaces are victim to littering and vandalism Concerns about litter in the City	Partnership with local colleges and/or garden centres to help maintain parks as part of training people in the landscaping industry. More work could be done by residents and friends of parks to maintain and develop, by accessing grants as community groups. Ask an environmental officer to give talks in schools about the knock on effects of litter such as rats and other vermin. Put some responsibility on shops/fast food shops. It reflects badly on their business too. Ask them to keep the outside of their premises clean. Why not ask private firms to sponsor open spaces and parks which would give some income. I am willing to do litter picks and if you advertise other people will too. Councillors should lead by cutting costs in their control, e.g. cheaper travelling options.
Impact	Concerns for older people, disabled, children, pregnant women and those with medical issues if toilet provision removed. Removing toilets will protect vulnerable people against being abused in these locations. May adversely affect public health. Many toilets are covered in graffiti, close and improve the public realm rapidly to prevent further decline of the neighbourhood. Alternative offer of toilet provision to be well sign posted and accessible.	
What are your views on our proposals for waste collection and disposal? Strongly agree = 26%, Agree = 56%, Neutral = 9%, Disagree = 3%, Strongly disagree = 4%, Not sure = 2%		
Do you have any comment or suggestions?	Anything to reduce fly tipping should be encouraged. This is a sensible proposal. Willing to pay a sensible fee for bulky waste collections. General support for recycling. Allow vans into the civic amenity sites. Recycling and Environmental consciousness stimulates the Economy. Will increase costs to charities.	Many suggested fortnightly collection of general waste/recycling. If using recycling bins correctly, their general waste will reduce. Other areas are coping with fortnightly collections More publicity about recycling Could you allow two collections at a reduced cost and then further unlimited collections at a higher cost? Promote and sell services the council provide Charge universities, pubs and clubs for the littering that occurs as a result of their services Look at 'freecycle' as an alternative Schools and other places which are council controlled should be encouraged to compost Introduce food waste collections Has WRAP been consulted about efficiencies using recycling http://www.wrap.org.uk/category/subject/recycling ? Trades could pay a yearly licence fee to use a recycling site

		Use idea from the BBC programme 'Don't Mess With Me'. The scheme in Essex encouraged residents to put rubbish in bins by donating some of the money saved to charity Free garden waste collection, which is then turned into fertiliser and sold on.
Impact	Council will need to monitor the impact on fly tipping. Concerns this will encourage more fly tipping from HMO's, others with small businesses and those in deprived areas.	
What are your views on our proposals for highways and transport? Strongly agree = 14%, Agree = 46%, Neutral = 21%, Disagree = 9%, Strongly disagree = 7%, Not sure = 3%		
Do you have any comment or suggestions?	Lot of concerns about traffic in the City Unhappy with traffic management system Support for permit scheme on road works. Fees should be dependent on how long they take, suggest holding a deposit to ensure work completed on time and to standard and other suggestions around making good the roads associated with fee Permit scheme should be managed in house Support a more co-ordinated approach to road works Improve pot hole repairs, patching does not last long Arguments for and against removal of SCP's fairly equal SCPs needed on busy roads but not where pelican crossing Parents should teach their children road safety Roads need repairing. Pot holes are an issue	Across the city on all residential roads resident car parking schemes should be introduced which will increase income and assist in maintaining all roads Share Highway Maintenance staff and Contractors with Hampshire County Council, savings to be made in Winter Road gritting and other areas of Maintenance. Parents/Senior children/PCSOs could monitor SCPs Parents could contribute a small fee to ensure the safety of their children Have pelican crossings on all SCP roads Council and police should seek to enforce cars that park illegally making it unsafe for where the children cross Where SCPs removed; spot checks by police to ensure driver / traffic behaviours SCP discontinued in all areas that don't meet the threshold Introduce a Park and Ride Scheme Reduce load on the road by providing better cycle route provision Review the road network and traffic lights
Impact	Fears fees will be passed to customers from utility companies.	

	Don't want Balfour Beatty to make profit from residents, will they be subject to the scheme also? Concerns SCP's will not impact on households equally. Comments from those both for and against SCP removal about putting child safety first.	
What are your views on our proposals for internal efficiencies – cost reductions? Strongly agree = 19%, Agree = 42%, Neutral = 22%, Disagree = 6%, Strongly disagree = 4%, Not sure = 7%		
Do you have any comment or suggestions?	General support The maintenance fund for the civic centre should not be neglected as it will probably result in future crises relating to repairs The explanation for some of these cost reductions is unclear. Confusion over why the council are vacating OGS after buying the property Need more details on rehab and reablement	Legal Services could look to create a joint service with Eastleigh, New Forest DC or Winchester DC Reduce duplication of work across the council and ensure all departments are joined up Outsourcing the financial data to a bureaux and save on in-house costs of managing the financial system Remove costs that do not ultimately contribute to services Reduce number of managers and councillors, frequency of elections and salaries Some services could be run by the County Council/shared with other Councils for economies of scale
Impact	Concerned at the prospect of less support from legal services for Council projects Concerns of impact on services provided. The working conditions will be unacceptable and not good for those on the autistic spectrum Impacts on staff morale	
What are your views on our proposals for internal efficiencies – management capacity? Strongly agree = 22%, Agree = 39%, Neutral = 21%, Disagree = 9%, Strongly disagree = 3%, Not sure = 6%		
Do you have any comment or suggestions?	Should already be as efficient as possible Ensure effective managers and staff in post Unclear about various roles What is the impact for remaining staff? Leadership and supervision is also important	Could the Open spaces/waste and cleaning team that work in neighbourhoods be transferred to work under the housing office? This way the Housing manager/ senior warden would be able to line manage the staff, reducing number of mangers, improve the neighbourhood etc.... Reduce councillors Reduce high salaries Reduce managers More income could be made from environmental health by heavy penalties to restaurants / takeaways which fail inspection. More volunteers for their own areas in parks etc with small incentives Parks and Open Spaces should be paid for by sponsorship of the parks and open spaces Use technology to monitor staff activity Services should be combined over the region/country

Impact	Concerns surrounding negative impact on services	
What are your views on our proposals for internal efficiencies – contracts? Strongly agree = 25%, Agree = 44%, Neutral = 18%, Disagree = 6%, Strongly disagree = 2%, Not sure = 5%		
Do you have any comment or suggestions?	Not all information understood or not enough information to comment It is crucial that where contracts are out sourced that it is the level of service and not the cheapest option that should be most important factor Ensure those managing the contracts and contract processes are experienced and are effective in their jobs Highways contract seems poor value for money This should be business as usual	Value in bringing services back into the council? Contracts should be awarded to living wage employers only Improve contract monitoring Share resources including IT with others Bring in private sector skills
Impact	Concerns of impact on services when constantly renegotiating contracts. Impact on health and wellbeing (active nation).	
What are your views on our other proposals? Strongly agree = 28%, Agree = 43%, Neutral = 16%, Disagree = 7%, Strongly disagree = 3%, Not sure = 3%		
Do you have any comment or suggestions?	Insufficient detailed plans or information Ensure sufficient permanent staff to make this work Agency staff are very expensive – but can work as a short term solution Why only looking at sub 100k procurement? The council should be an excellent employer	Stop using consultants Ask staff to identify efficiencies Reduce expenses for staff and councillors Share back office services with other councils Reduce high salaries Manage public works better No more interim managers Purchase good in consortium – with the council and region Identify and manage 'off contract' spend.
Impact	Additional stress and work for existing staff. May affect morale. May impact on service delivery. Will this increase charges to residents?	
Further Comments on the 2015/16 proposals?	Welcome consultation but concerns consultation is not listened to – i.e. elections	The most frequent comments relate to reducing the frequency of rubbish collections, reducing the number of councillors. Reduce middle and senior management Reduce wages

	Appreciation difficulties in setting the budget Lots of concern about traffic flow in the City Need to review traffic lights Keep more tourists from cruise ships in the City Better sign posting Why is libraries not included Pleased with consultation and background documents easy to follow but more details needed in places. Information sheets difficult to find. Ensure contactors pay minimum wage Ensure contracts are the best value for money – rather than just the cheapest Need to prioritise support for vulnerable people Not all proposals have impact assessments CE to be more visible Some things you are asking about have already been done i.e. moving out of OGS/Marlands, closing toilets No unfair increase charges for services to be passed onto residents Understand cuts need to be made, but strongly disagree if they affect voluntary services that will be gone forever if cut.	Reduce councillor allowance and frequency of elections 20mph speed limit in residential areas Ask government for more money, lobby against cuts Combine/share services with other councils Generate more income and revenue More advertising opportunities on City assets Raise council tax to pay for better services (there are also comments which disagree with this proposal) Increase the role of communities and voluntary sector Reduce costs of school transport for special needs children Opportunities offered by working with the university of Southampton Listen to staff suggestions Sell or display art work Contact the Council by email rather than phone Respond to online forms Stop translating and printing all documents in various languages Is glass collection cost effective? Stop the use of outside private consultation companies and other companies that employ people from outside the Southampton so money is reinvested locally. Build more affordable housing rather than student housing

ANNEX 8 BUDGET QUESTIONNAIRE

APPENDIX 1

ANNEX 8

Your city, Your say

SOUTHAMPTON CITY COUNCIL

Consultation on draft budget 2015-2016

This survey is your opportunity to give your views on the draft budget proposals, suggest other areas for savings and tell us about the impact you think these proposals may have on the city. It contains a summary of the proposals in the draft budget, we would encourage you to look at the more detailed information available at **www.southampton.gov.uk/budget15-16** before you complete the survey. This will help you better understand the draft budget proposals before giving your views. Please use additional sheets if required.

Please take a few moments to give us your views on the draft budget proposals.

Background

The council is in a difficult financial position. We need to transform the way we deliver services and make difficult decisions about what we continue to provide.

Financial pressures include:

- less income from government
- increasing costs of goods and services
- increasing demand for certain services as a result of rising populations of older people and children.

The combination of these means that Southampton City Council need to make savings of £31.4m in 2015/16. It is a legal requirement for the council to set a balanced budget. The breakdown of how it is proposed to make these savings is shown in the chart below.

The Cabinet published their draft budget proposal on November for consultation until 10 February 2015

£18.5m

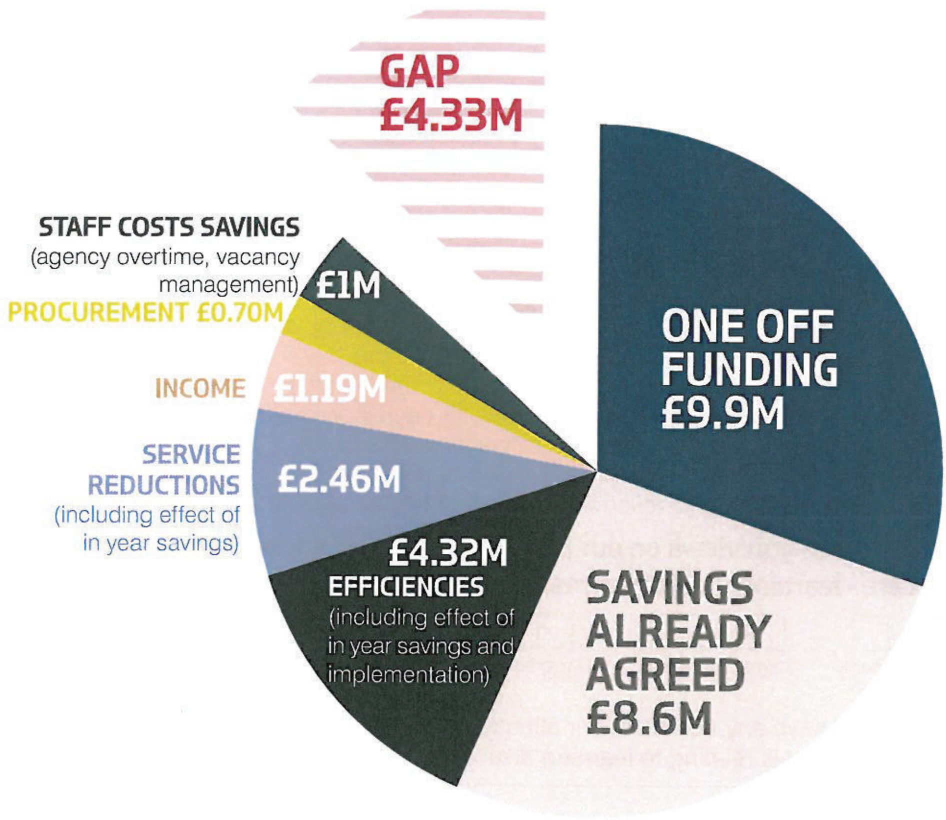
£18.5m has already been found through one off funding and savings already agreed.

! £1.1m

However, a further £1.1m of funding pressures has been identified.

£9.7m

The draft budget includes proposals to save a further £9.7m.



A plan is still being developed for the remaining savings.
The Cabinet have until the end of January 2015 to finalise these proposals.

Our approach to balancing the budget

The budget proposals have been developed to ensure that we are able to deliver the priorities in the council strategy:

- Jobs for local people
- Prevention and early intervention
- Protecting vulnerable people
- Good quality and affordable housing
- Services for all
- City pride
- A sustainable council

+

- Deleting vacancies and protecting jobs
- Being as efficient as possible
- Service reductions focusing on lower priority services
- Supporting transformation

What are your views on our overall approach to balancing the budget?

☐ Strongly agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐ Not sure

Please tell us why you disagree with the proposals or if you have any alternative suggestions?

Adult social care

learning disabilities (Information sheet 1 - saving £750,000)

Review of Learning Disability high cost residential placements This is a 2 year project to rehouse 58 people with learning disability and complex needs, who are currently in high cost residential placements. The intention is to develop bespoke housing solutions for each individual working with a range of housing associations. This is not a service reduction but a project to move people from residential placements to individual community placements.

What are you views on our proposals for adult social care - learning disabilities residential placements?

☐ Strongly agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐ Not sure

Do you have any comments or alternative suggestions on the proposals relating to learning disabilities?

Housing Related Support (Information sheet 2 - saving £480,000)

Review of Housing Related Support (Supporting People) The review will involve working with existing providers to renegotiate contract prices to maximise alternative funding and rationalise provision.The aim is to protect housing related support provided to vulnerable people by focusing on achieving better value for money across contracts. The impact on individuals will be limited by focusing on the contracting arrangements and rationalising administration costs. This includes ensuring that services better support and underpin the statutory service provision. While most services have previously been tendered, there is room for further negotiation on prices for the future.

What are your views on our proposals for Housing Related Support (Supporting People)?

☐ Strongly agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐ Not sure

Do you have any comments or alternative suggestions on the proposals relating to Housing Related Support (Supporting People)?

Children and family services

(Information sheet 3 - saving £1,000,000)

Reprioritise the use of grant funding, by trading with schools for learning disability services The Dedicated Schools Grant has been used to pay for outreach work to schools for children and young people with learning disabilities and Emotional Wellbeing Development Officers. Schools have now been allocated dedicated funding to procure these services directly. The council will continue to provide learning disability services, with the provision reliant on school take up of these services. The unspent Dedicated School Grant funding will now be used to create additional school places.

What are your views on our proposals for children and family services?

☐ Strongly agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐ Not sure

Do you have any comments or alternative suggestions on the proposals relating to children and families service?

Community safety

(Information sheet 4 - saving £102,000)

The Community Safety team will reduce from five to three Community Safety Officers who will be aligned more closely with Environmental Health Officers. The new team will prioritise protecting vulnerable people.
The team will continue to work in partnership with other agencies to deal effectively with anti-social behaviour. The community trigger was launched in November 2014 and gives victims of anti-social behaviour and communities the right to require a multi-agency review to ensure action is taken where an ongoing, persistent problem has not been addressed. Lower level community safety incidents will not be a priority.funding will now be used to create additional school places.

What are your views on our proposals for community safety?

☐ Strongly agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐ Not sure

Do you have any comments or alternative suggestions on the proposals relating to community safety?

Communities

(Information sheet 5 - saving £80,000)

Regeneration

The reduction in support staff will reduce the team's capacity to undertake regeneration projects, which are reviewed annually. The projects may impact on services to support vulnerable and disadvantaged communities, although this will be mitigated through seeking additional external funding.

Community development

The reduction of supplies and services across the Transformation and Performance division will reduce the ability to support community based consultation activities and translation. This will be mitigated through greater use of other media channels instead of face to face contact.

What are your views on our proposals for communities?

☐ Strongly agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐ Not sure

Do you have any comments or alternative suggestions on the proposals relating to communities?

Economic development

(Information sheet 6 - saving £50,000)

The City Development team manage the Very Important Projects (VIP) identified in the City Centre Master Plan, which aim to achieve greater economic prosperity and growth within the City. Examples of VIP projects currently underway include the New Arts Complex, Chapel Riverside and Watermark West Quay.

Savings will be implemented by a staffing reduction leading to less activity to facilitate the development of physical regeneration projects in the city. The reduced capacity may limit the level of support available for future developments.

The team work with developers and investors rather than individuals and therefore there will be no direct impact to residents. However, the long term indirect impact of a reduced level of development projects on the economic prosperity of the city is unknown. Work is underway to ascertain how the impact of these changes will be monitored and mitigated.

What are your views on our proposals for economic development?

☐ Strongly agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐ Not sure

Do you have any comments or alternative suggestions on the proposals relating to economic development?

Regulatory services

(Information sheet 7 - saving £120,000)

Efficiencies:

The Scientific Services Team will be integrated within the Transport Policy Team, and will generate additional income through schools and other activities. This will include the integration of a sustainability post to deliver the Air Quality Low Emission Strategy and recover costs through a provision of Water Quality Audit Service for Housing.

Increasing Income

Increased Port Health income will be generated through from additional port activity at border control. Trading Standards will no longer carry out the 'Buy With Confidence' scheme, as the function is now administered by Hampshire County Council. The existing staff recourses will be transferred to support the inspection of animal feed coming into the port, which will be grant funded by the Food Standards Agency.

What are your views on our proposals for regulatory services?

☐ Strongly agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐ Not sure

Do you have any comments or alternative suggestions on the proposals relating to regulatory services?

City services - public toilets, parks, city gates

(Information sheet 8 - saving £82,000)

Efficiencies:

Savings within Parks and Open Spaces will be as a result of efficiencies within the mowing fleet and the reconfiguration of other operations in Park Developments with no reduction in service standards.

The role of locking the city walls will transfer to the City Centre Clean Team and will result in the redundancy of a part time member of staff.

A member of staff from the Schools Team in Parks and Open Spaces will transfer to the Trading Arm, where their costs can be recovered from work undertaken for schools.

Service reductions

The proposals relate to public toilets in Portswood and Woolston district centres, which are ageing, outdated and subject to regular vandalism, resulting in high maintenance costs and unattractive facilities for local residents.

The facility in Portswood is located in Westridge Road car park, and is in urgent need of refurbishment and modernisations if it is to continue in effective operation. In addition, as it is away from the main High Street there is limited opportunity to deter undesirable behaviours. It is subject to ongoing anti-social and criminal behaviour and vandalism. The Police are aware of these persistent problems that that have periodically resulted in temporary closure. Visitors to Portswood will be signposted to alternative provision.

A new pay facility will be provided in Woolston.

What are your views on our proposals for city services?

☐ Strongly agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐ Not sure

Do you have any comments or alternative suggestions on the proposals relating to city services?

Waste collection and disposal

(Information sheet 9 - saving £85,000)

Currently the bulky household waste collection scheme restricts customers to two service requests per year at a cost. The proposal changes the pricing structure for household bulky waste collections so that an unlimited service will be available to customers at a more reasonable price. It is anticipated that the changes will lead to increased demand and reduce fly tipping.

Increased net income through the Commercial Waste Collection Service will be achieved through increasing usage by existing customers and expanding the business to new business customers.

Reduction in the operational costs in the Bring Bank recycling centres service will be achieved through increased charges and closer working with suppliers and charity organisations using the site. Charges will ensure appropriate costs are allocated to those organisations making use of the centres. There will be no change to this recycling provision for residents.

What are your views on our proposals for waste collection and disposal?

☐ Strongly agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐ Not sure

Do you have any comments or alternative suggestions on the proposals relating to waste collection and disposal?

Highways and transport

(Information sheet 10 - saving £410,000)

A Highways Permit Scheme is being developed which will apply to all works on roads and will require a fee to be paid by those undertaking the works. The Southampton Permits Scheme will be administered by the council's Highways contractor, Balfour Beatty and will provide a new way in which activities in the public highway can be better managed, enabling authorities to minimise disruption from street and road works. The new proposal reduce the officer time, accommodation and other costs associated in administering the current scheme.

Additional savings within Highways and Transport will be achieved through the review of budgets and reconfiguration of the service with no impact on the service delivery and standards. There are no anticipated impacts on residents as a result of this proposal.

Historically, School Crossing Patrols (SCPs) have been provided at most school sites, with many above the statutory requirement. SCPs are not required at senior schools, where traffic lights are implemented or where the site does not meet the national criteria. We are discontinuing SCPs in areas where they do not meet the required threshold and are already not being provided due to a vacant post.

What are your views on our proposals for highways and transport?

☐ Strongly agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐ Not sure

Do you have any comments or alternative suggestions on the proposals relating to highways and transport?

Internal efficiencies

Cost reductions (Information sheet 11 - saving £2,288,000)

The proposals will be achieved through changes within internal support services including legal services, customer relations, finance, human resources (HR) and information technology (IT) and the vacation of buildings occupied by the council. There will not be any impact on services to residents.

The efficiencies include:

- Legal services case management system
- Redirection of resources within Creditors
- Developing flexible mechanisms within HR & IT
- Vacation of Marland House and One Guildhall Square
- One year suspension of maintenance fund contributions for One Guildhall Square and the Civic Centre
- Reduction in the level and input of resources by Legal and Customer Relations
- Strategic review of rehabilitation and reablement servicebeing provided due to a vacant post.

What are your views on the proposals for internal efficiencies cost reductions?

☐ Strongly agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐ Not sure

Do you have any comments or alternative suggestions on the proposals relating to internal efficiencies cost reductions?

Management capacity (Information sheet 12 - saving £793,000)

Where possible, savings are being sought from a reduction in supervisory and management positions to minimise the impact on front line services these include:

- Parks and Open Spaces supervisory staff
- Public Health management and overheads review
- Waste Service management restructure
- Environmental Health team leader post
- Place Directorate management restructure
- Deletion of Sustainability Manager post
- Change in funding and work priorities for the Communities and Improvement Manager post

What are your views on the proposals for internal efficiencies - management capacity?

☐ Strongly agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐ Not sure

Do you have any comments or alternative suggestions on the proposals relating to internal efficiencies - management capacity?

Review of contracts (Information sheet 13 - saving £1,050,000)

The proposals seek to renegotiate the terms of existing contracts, without affecting the level of service provided, to minimise the impact on front line services. The contracts being looked at are:

- Review of the Highways Contract
- Waste Disposal Contract
- Waste Recycling Centre Contract
- School Private Finance Initiative (PFI)
- Commissioning management review of contracts
- Active Nation / Live Nation contracts
- External Audit Fees

(See also Housing Related Support Information Sheet 2)

What are your views on the proposals for internal efficiencies - review of contracts?

☐ Strongly agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐ Not sure

Do you have any comments or alternative suggestions on the proposals relating to internal efficiencies - review of contracts?

Other proposals

(Saving £1,700,000)

Reducing staff budgets by £1,000,000 by making savings in agency spend, overtime and vacancy management

Saving £700,000 by improving the way we purchase goods and services particularly those worth less than £100,000.

What are your views on the other proposals?

☐ Strongly agree ☐ Agree ☐ Neutral ☐ Disagree ☐ Strongly disagree ☐ Not sure

Do you have any comments or alternative suggestions on the other proposals?

Further comments on the 2015/16 budget proposals

Do you have any further comments on our approach or suggestions for balancing the council budget?

For all proposals we conduct an equalities and safety impact assessment, we also undertake a cumulative impact assessment, which looks at all the collective impact of all the individual proposals. These are available to view on the budget pages of the website.

If you feel there are any impacts or equality issues we have overlooked in the formation of the budget proposals, please outline them below.

Finally a few questions about you

Which age category do you fit within?

Under 10 ☐ 11 - 16 ☐ 17 - 21 ☐ 22 - 29 ☐ 30 - 39 ☐ 40 - 49 ☐ 50 - 59 ☐ 60 - 69 ☐ 70+ ☐

What is your gender? Male ☐ Female ☐

Do you work for Southampton City Council? Yes ☐ No ☐

Please enter your home postcode (this will not be used to contact you in any way)

This survey can be put Ballot boxes in all libraries, Gateway and the Civic Centre reception or send it by post to:
Consultations, Southampton City Council, 1st Floor, Municipal Block, Civic Centre, Southampton, SO14 7LY

Closing date is 21 January 2015. Thank you for your time

Any personal information you give to us will always be processed in accordance with the UK Data Protection Act 1998. We will only use the personal information you provide to deliver the services you have requested, or for our lawful, disclosed purposes. We will not make your personal details available outside our organisation without your consent, unless obliged by law..

APPENDIX 2

SOUTHAMPTON CITY COUNCIL

Budget Proposals 2015/16
Equality and Safety Impact Assessment

2nd February 2015

Equality and Safety Impact Assessment - Introduction and Overview

Introduction

1. Southampton City Council, in line with its statutory responsibilities, undertakes Equality and Safety Impact Assessments (ESIAs). ESIAs provide a systematic way of assessing the impact of policies, strategies, programmes, projects, services or functions on different equality groups - and on poverty and community safety. During the annual budget cycle, ESIAs are completed for all proposals identified as requiring them to inform decision making.

2. This document draws in one place, a summary of the Equality and Safety Impact Assessments for the 2015/2016 budget proposals.

3. It should be noted some proposals are dependent on service reviews or wider policy changes. This means the full impact will not be known for some time.

4. It is important to highlight there have been fewer impacts identified in the Cumulative Impact Assessment 2015/2016 compared to previous years. This is because:

    - A large proportion of the proposals are efficiencies and do not have any disproportionate impact for people within the equalities legislation.
    - A large proportion of the budget proposals for 2015/2016 affect mainstream, universal or back office services by delivering efficiencies and generating additional income. Mitigating actions include re-shaping services to target more efficiently and to reduce the potential of disproportionate impacts on equalities groups, poverty and community safety.
    - ESIAs will be completed and made available for proposed reviews as part of each review process.
    - Consultation was undertaken with residents and stakeholders on the draft budget proposals between November 2014 and January 2015. Feedback has been incorporated into the relevant individual Equality and Safety Impact Assessments and reflected in this Cumulative Impact Assessment.

5. It is important to fully understand the impact of the budget proposals on equalities groups (identified in paragraph 11) and on poverty and community safety. The City Council, working with others, will need to take action to mitigate the collective impact of any such proposals.

6. This assessment is being carried out against the backdrop of the welfare reforms, a number of which have been implemented since 2011 and the programme continues through to 2017, when the roll out of Universal Credit is scheduled to be fully implemented. Southampton with be part of the Universal Credit Roll-Out programme from March 2015.

7. In general, the welfare reforms affect households with working age people on benefits - including people in work on low incomes. There are data limitations around claimant information which mean analysis of the cumulative impact of the reforms on households with particular characteristics is not possible at a local level, but available evidence indicates that young people, those who are homeless or vulnerably housed, larger families, households with a disabled person and women are some of the 'hardest hit'.

Legal Framework – Equalities

8. The Equality Duty, section 149 of the Equality Act, came into effect on 5th April 2011 and places a duty on all public bodies and others carrying out public functions.

9. The Act was designed to ensure public bodies consider the needs of all individuals in their day to day work, including: shaping policy, delivering services, and employment of employees. It requires public bodies, such as local councils not to discriminate against any person on the basis of a protected characteristic such as disability. The legislation strengthened existing provisions about discrimination to also include associative and perceptive discrimination as well as direct and indirect discrimination.

10. Direct discrimination occurs when a rule, policy or practice offers less favourable treatment to a group and indirect discrimination occurs by introducing a rule, policy or practice that applies to everyone but particularly disadvantages people who have a protected characteristic. Direct discrimination will always be unlawful. Indirect discrimination will not be unlawful if it can be justified, for instance it can be shown that the rule, policy or practice was intended to meet a legitimate objective in a fair, balanced and reasonable way.

11. In considering whether or not any indirect discrimination is justified, the council must consider whether or not there is any other way to meet their objective that is not discriminatory or is less likely to disadvantage those with protected characteristics. This may well mean setting out clearly whether or not consideration has been given to other ways of achieving these objectives.

12. The Public Sector Equality Duty (the Equality Duty) replaced three previous public sector equality duties – for race, disability and gender, and broadened the breadth of protected characteristics to include:

    - Age
    - Disability
    - Gender reassignment
    - Marriage and civil partnership, but only in respect of the requirements to have due regard to the need to eliminate discrimination.
    - Pregnancy and maternity
    - Race – ethnic or national origins, colour or nationality
    - Religion or Belief – including lack of belief
    - Sex (Gender)
    - Sexual orientation.

13. The Equality Duty does not impose a legal requirement to conduct an Equality Impact Assessment, rather it requires public bodies to demonstrate their consideration of the Equality Duty and the conscious thought of the Equality Duty as part of the process of decision-making. This entails an understanding of the potential effect the organisation's activities could have on different people and a record of how decisions were reached. Producing an Equality Impact Assessment post decision making is non compliant with the Equality Duty. For this reason the council requires adherence to the existing impact assessment framework.

Legal Framework - Community Safety

14. Community Safety is a broad term. It refers to the protection of local communities from the threat and consequence of criminal and anti-social behaviour by achieving reductions in relation to both crime and the fear of crime.

15. Section 17 of the Crime and Disorder Act 1998, as amended by the Police and Justice Act 2006, requires responsible authorities to consider crime and disorder, including antisocial behaviour and other behaviour adversely affecting the local environment; and the misuse of drugs, alcohol and other substances in the exercise of all their duties, activities and decision-making. This means consideration must be given to the likely impact on crime and disorder in the development of any policies, strategies and service delivery. This responsibility affects all employees of the council.

16. This responsibility is summed up by guidance issued by the Home Office. This guidance describes the legal responsibility as: *'a general duty on each local authority to take account of the community safety dimension in all of its work. All policies, strategies, plans and budgets will need to be considered from the standpoint of their potential contribution to the reduction of crime and disorder'.*

Scope and our approach

17. This assessment identifies areas where there is a risk that changes resulting from individual budget proposals for 2015/2016, may have, when considered together, a negative impact on particular groups.

18. It is important to note that this is an ongoing process. As individual budget proposals are developed and implemented, they will be subject to further assessment. This assessment also describes mitigating actions that will need to be considered.

19. The council's approach on impact assessment is designed to demonstrate that the council has acted over and above its statutory duties. This is reflected in including poverty in the ESIA, as the council is committed to addressing the impact on poverty for people in work and unemployed and for other low income households.

20. In order to inform decision-making on the budget proposals, the council has taken the following steps:

    - Managers have identified proposals which in their view require an Equality and Safety Impact Assessment (ESIA).
    - All the budget proposals were screened independently by a group of officers to check whether or not an ESIA was required. This was based on an assessment of whether or not they were likely to have a disproportionate equalities impact on particular groups of residents, or have implications for community safety or increasing poverty.
    - This resulted in a list of proposals for which an ESIA was clearly required and those for which further detail was needed to be gathered before making a decision.
    - As a result of the screening, ESIAs have been produced for every proposal assessed as requiring one. These primarily focus on the impact of proposals on residents and service users.
    - An initial high level Cumulative Impact Assessment of the budget proposals was published on 19 November 2014 to give an early indication of likely cumulative impacts on particular groups, along with community safety and poverty implications.

- This Cumulative Impact Assessment has been updated and developed based on the final proposals and detail of individual ESIAs. It has also be informed by the feedback from residents and stakeholders as part of the public budget consultation.

City Profile

21. This Cumulative Impact Assessment must be considered in light of the city's profile, service users and non-users, staffing profiles as well as the proportion of the council's budget that is currently spent on targeted groups or communities.

22. The 2011 Census provides a range of data about the city that is not collected elsewhere. This census was the first opportunity since the last census in 2001, to look at the ethnicity of residents in detail. Southampton has a diverse population with a higher proportion of residents born outside the UK than any of our comparator cities.

    - According to the Census 2011, the city's population profile comprised 236,900 total residents (the most recent population data was for 2013 and estimated the population to be 242,141).
    - There are 117,400 females and 119,500 males, a 49.6% to 50.4% split
    - 77.7% of residents are white British (compared to 88.7% in 2001)
    - Our 'Other white' population, which includes migrants from Europe, has increased by over 200% (from 5,519 to 17,461)
    - The largest percentage increase is in our 'other Asian' population, which has increased from 833 to 5,281 people
    - It is estimated that there are 26,929 residents whose main language is not English; of these 717 cannot speak English at all and a further 4,587 do not speak it well
    - 4,672 residents in Southampton are aged 85 or over, of whom 834 are in bad or very bad health AND have a long term illness or disability
    - The proportion of households in privately rented accommodation has increased from 15.6% to 23.4%
    - We have low rates of owner occupation and high rates of social housing and private renting.
    - The percentage of 16-74 year olds who were economically active increased from 64.4% in 2001 to 68.4% by 2011
    - The city has low proportions in managerial and professional occupations; higher proportions in elementary occupations and relatively low proportions of unemployed people.

23. People's vulnerability to, and experience of, poverty differs significantly. The Index of Multiple Deprivation (IMD) 2010 focuses on the geographical profile of poverty but there is also a link between equality strands and risk factors for poverty. Overall, Southampton is ranked 81st out of 326 Local Authorities in England, with the rank of 1 being the most deprived. 23% of the city's population lives in the most deprived Lower Super Output Areas (LSOA) in England. Between 2007 and 2010, 63% of the Lower Super Output Areas have not changed, whilst 16% have become less deprived and 23% more deprived.

24. While it is recognised that the IMD 2010 is now dated and reflects 2008 data, the main features of deprivation are unlikely to have changed significantly and may have been compounded by the local impact of the current programme of welfare reforms. Therefore, it is assumed that the most deprived geographical areas are in Bevois, Redbridge, Millbrook, Woolston (Weston) and Bitterne (Thornhill) wards. Bevois ward has a higher

percentage of people from Black and Minority Ethnic (BME) communities than other areas in the city.

25. Income deprivation is also identified in the IMD 2010, as a major factor affecting older people in Southampton, with seven geographical areas in the city falling into the worst 10% for England, with poverty being linked to isolation and poor health. The city also has a high proportion of 50 – 64 year old men in Southampton who are economically inactive, 33.2% compared to 24.6% nationally.

26. The city has high levels of child poverty. HM Revenue and Customs produces child poverty data at a local level. The most recent data is for August 2012 and estimates that 9,830 or 23.4% for children (under 16) - in some areas of the city it is as high as 40%. This compares to an average of 19.2% in England. In Southampton, 85% of children in poverty in the city are in households claiming Jobseekers Allowance or Income Support and 72% are in lone parent households.

27. There is also a higher percentage of residents claiming key out-of-work benefits. In December 2014, 12.1% (20,160) compared to the South East average of 9.4% (however, this is also lower than the national average of 12.9%). It is these groups who have been some of the hardest hit by changes to welfare benefits.

28. More detail about the city's population and analysis of needs can be found in the Southampton Statistics and in the Equalities Profile .

Public Consultation

29. An extensive programme of consultation will was undertaken between the 19th November 2014 and 21st January 2015. A variety of methods was used including an online survey (paper copies also available), meetings and briefings, to enable a wide range of people to give their views to inform the final budget. Participants included residents, service users, employees, partners, businesses, community and voluntary sector organisations and other stakeholders.

30. Every effort will be made to ensure consultation is:
    - Inclusive: so that everyone in the city had the opportunity to express their views.
    - Informative: so that people had adequate information about the proposals, what different options mean, and a balanced and fair explanation of the potential impacts, particularly the equality and safety impacts.
    - Understandable: by ensuring that the language we used to communicate is simple and clear and that efforts were made to reach all stakeholders, for example people who are non English speakers or disabled people.
    - Appropriate: by targeting people who are more likely to be affected and using a more tailored approach to get their feedback, complemented by a general approach to all residents, staff, businesses and partners.
    - Meaningful: by ensuring decision makers had the full consultation feedback information so they can make informed decisions.
    - Reported: by letting consultees know what we have done with their feedback.

31. The full detail of the consultations aims, principles, timetable and methodology, along with the analysis of the feedback are now available.

Proposals based on reviews of current services

32. The budget proposals included reviews of several contracts and services including:
    - Review of delivery options for highways and transport (E &T 4)
    - Strategic review of options for rehabilitation and reablement services across the whole system including community health services and those provided by SCC (HASC 4)
    - Review of Public Health services provided across the council based on a prioritisation of Children's Centres (HASC 3).

33. In addition, there are major reviews underway relating to Public Libraries and Adult Services.

Impact by equalities groups:

34. Equality and Safety Impact Assessment have been undertaken on the following budget proposals and have been updated based on the feedback given from the public consultation.

ESIA	Summary of Proposal	Feedback on Impacts from Public Consultation
COM 1: Efficiencies resulting from the integration of the Community Safety Team with Environmental Health	The current Community Safety Team of 5 full time equivalent to be reduced to 3 and merge with Environmental Health.	• Low-level incidents may escalate if not dealt with. • Police spend time dealing with more low level incidents. • People may suffer from more anti-social behaviour.
E &T 19: Reductions in School Crossing Patrols (SCP) to reflect consistent 20% vacancy levels due to; recruitment issues, sites where a SCP no longer meets the national benchmark requirements, and to remove historical elements or budget provision that are no longer needed.	The proposal would eventually result in the sites that are managed, being only those that meet the national benchmark for the provision of SCPs: Infant, Junior and Primary schools with a PV2 score above 4m, and no alternative crossing systems in place – as well as, Only school start time and finish time patrols at each qualifying site.	• Concerns SCP's will not impact on households equally. • Those both for and against SCP removal put child safety first. • May impact on road safety.
E &T 20: Closure of Woolston and Portswood Public Toilets	Closure of public toilets removing a public facility available to members of the pubic in these areas.	• Concerns for older people, disabled, children, pregnant women and those with medical issues if toilet provision removed. • Removing toilets will protect vulnerable people against being abused in these locations. • Many toilets are covered in graffiti, close and improve the

ESIA	Summary of Proposal	Feedback on Impacts from Public Consultation
		public realm rapidly to prevent further decline of the neighbourhood. • Alternative offer of toilet provision to be well sign posted and accessible.
HASC 2: Complex Learning Disability Housing Project	Outcomes of a review of all current hospital placements for people with learning disability and complex needs, placements outside the area and those are risk of admission. This is also part of the development of a joint plan to ensure high quality support services for all people with learning disabilities or autism and mental health conditions or behaviour described as challenging. These reviews have identified 58 individuals who may benefit from rehousing outside of residential care settings.	• Bespoke housing won't reduce costs; may cost more. • More pressure may be placed on parents / carers. • Concern that staff have to spread themselves and their time over a wide area resulting in less time spent with an individual. • May need additional staff. • Concern that a person would receive less help and suffer. • Concern that a person may become increasingly isolated and lonely. • Concern of increased vulnerability (e.g. victims of crime).
LEAD 3: Deletion of the City Development Manager Post	Reduced support for city development projects which could result in projects taking longer to deliver.	Feedback relating to Economic Development included: • Long term impact on economic prosperity. • Might mean reduced capacity to judge value for money of future project proposals or greater risks in projects in the future. • Areas of the city are run down and need developing. Who will focus on these areas if there is less resource put into development? • Loss of status for Southampton as an attractive place for businesses.

35. The consultation feedback also included more general comments of relevance. These include concerns that the proposals hit the most vulnerable people, that they will not help integrate communities and may result in future costs. There were also concerns about residents not being on-line.

36. **Age – Older people**

COM 1: Efficiencies resulting from the integration of the Community Safety Team with Environmental Health.
The findings of our City Survey 2014, identified older people are less likely to feel safe at night compared to other age groups. The proposal for the integration of the Community Safety Team with Environmental Health will need to consider perceptions of crime and the current profile of anti-social behaviour reporting in its service development.

The integration of the Community Safety Team with Environmental Health and closer working with the Police, will provide a more resilient response to community safety issues. The recent introduction of the Community Trigger - which gives victims and communities the right to require a multi-agency review will ensure that effective action is taken where an ongoing problem of persistent anti-social behaviour has not been addressed.

E &T 19: Reductions in School Crossing Patrols (SCP) to reflect consistent 20% vacancy levels due to; recruitment issues, sites where a SCP no longer meets the national benchmark requirements, and to remove historical elements or budget provision that are no longer needed.
Older people may have greater risks in crossing the road and use School Crossing Patrols in their local area (although the service is primary targeted at school children and is only operational Mon-Fri and at limited times).

Sites will be reviewed annually using the PV2 formula scoring which gives an assessment based on the number of cars and pedestrians and other risk factors. Where the site does not meet the national criteria and there are staff vacancies, the SCP site will be removed from the scope of the service. Current sites with PV2 scorings which continue to meet the national benchmark for the provision of a SCP will not be affected.

E &T 20: Closure of Woolston and Portswood Public Toilets.
The reduction of immediate availability of toilet provision may have greater impact on older people. This was highlighted in the public consultation feedback. Among this demographic there is a higher percentage of people who may suffer from a frequent and urgent need for toilet facilities. Alternative toilet provision already exists in Portswood and an Automated Public Toilet is now installed at Woolston.

HASC 2: Complex Learning Disability Housing Project.
Individuals directly affected by this proposal are all adults under 60 years of age. However, people with learning disabilities experience a number of health conditions at an earlier stage than the general population. All of the service users have complex needs which impacts significantly on their lifestyle and life expectancy. Family members may be in the older people group. This was highlighted in the public consultation feedback. By moving adults back to Southampton, they will be nearer (in most circumstances) to their family. Local care management staff will also have greater involvement.

LEAD 3: Deletion of the City Development Manager Post. No impacts have been identified for this group.

Next steps:
A joint discussion will be held between the relevant Heads of Service or their nominated representatives on the potential impact, and any further mitigating actions and consultation requirements.

37. **Age - Children and young people**

COM 1: Efficiencies resulting from the integration of the Community Safety Team with Environmental Health.
Young people can be victims of anti-social behaviour, they can also be reported for anti-social behaviour (this can occur where young people gather socially and where children play in streets and communal areas).

The proposal for the integration of the Community Safety Team with Environmental Health will need to consider perceptions of crime and the current profile of anti-social behaviour reporting in its service development. The integration of the Community Safety Team with Environmental Health and closer working with the Police, will provide a more resilient response to community safety issues. The recent introduction of the Community Trigger - which gives victims and communities the right to require a multi-agency review will ensure that effective action is taken where an ongoing problem of persistent anti-social behaviour has not been addressed.

E &T 19: Reductions in School Crossing Patrols (SCP) to reflect consistent 20% vacancy levels due to; recruitment issues, sites where a SCP no longer meets the national benchmark requirements, and to remove historical elements or budget provision that are no longer needed.
This proposal has a potential impact on children and young people. Feedback from the public consultation highlighted:

- Concerns SCP's will not impact on households equally.
- Those both for and against SCP removal put child safety first.
- May impact on road safety.

Sites will be reviewed annually using the PV2 formula scoring which gives an assessment based on the number of cars and pedestrians and other risk factors. Where the site does not meet the national criteria[1] and there are staff vacancies, the SCP site will be removed from the scope of the service. Current sites with PV2 scorings which continue to meet the national benchmark will not be affected. Other possible solutions/mitigating actions include: pedestrian safety training for school age children, promotion of 'Safe journey to School'.

E &T 20: Closure of Woolston and Portswood Public Toilets.
The reduction of immediate availability of toilet provision could impact on parents with babies or young children that require toilet or nappy changing facilities. This was

[1] School Crossing Patrol Guidelines. ROSPA. November 2013.

highlighted in the public consultation feedback. Alternative toilet provision already exists in Portswood and an Automated Public Toilet is now installed at Woolston.

HASC 2: Complex Learning Disability Housing Project. No specific impacts have been identified for this group.

LEAD 3: Deletion of the City Development Manager Post. No specific impacts have been identified for this group.

Next steps:
A joint discussion will be held between the relevant Heads of Service or their nominated representatives on the potential impact, and any further mitigating actions and consultation requirements.

38. **Disability**

COM 1: Efficiencies resulting from the integration of the Community Safety Team with Environmental Health.

National research identifies disabled people are more likely to experience crime and anti-social behaviour. The proposal for the integration of the Community Safety Team with Environmental Health will need to consider perceptions of crime and the current profile of anti-social behaviour reporting in its service development. The integration of the Community Safety Team with Environmental Health and closer working with the Police, will provide a more resilient response to community safety issues. The recent introduction of the Community Trigger - which gives victims and communities the right to require a multi-agency review will ensure that effective action is taken where an ongoing problem of persistent anti-social behaviour has not been addressed. Local mechanisms for reporting Hate Crime and Harassment are not affected by this proposal.

E &T 19: Reductions in School Crossing Patrols (SCP) to reflect consistent 20% vacancy levels due to; recruitment issues, sites where a SCP no longer meets the national benchmark requirements, and to remove historical elements or budget provision that are no longer needed. Disabled people may have greater risks in crossing the road. Sites will be reviewed annually using the PV2 formula scoring which gives an assessment based on the number of cars and pedestrians and other risk factors. Where the site does not meet the national criteria and there are staff vacancies, the SCP site will be removed from the scope of the service. Current sites with PV2 scorings which continue to meet the national benchmark will not be affected. Other possible solutions/mitigating actions include: pedestrian safety training for school age children, promotion of 'Safe journey to School'.

E &T 20: Closure of Woolston and Portswood Public Toilets.
The reduction of immediate availability of specifically designed toilet provision, and reduced provision for those suffering health conditions that require consistent and immediate access to toilet facilities, could impact on disabled people. This was highlighted in the public consultation feedback. Alternative toilet provision already exists in Portswood and an Automated Public Toilet is now installed at Woolston.

HASC 2: Complex Learning Disability Housing Project.
This proposal will affect 58 individuals who may benefit from rehousing outside of residential care settings.

The following was highlighted in the feedback from the public consultation:
- Bespoke housing won't reduce costs; may cost more.
- More pressure may be placed on parents / carers.
- Concern that staff have to spread themselves and their time over a wide area resulting in less time spent with an individual.
- May need additional staff.
- Concern that a person would receive less help and suffer.
- Concern that a person may become increasingly isolated and lonely.
- Concern of increased vulnerability (e.g. victims of crime).

Many of the individuals involved in this project will require specialist adaptations to properties they are moving into. All assessments of individuals will include mobility or disability adaptations and these will be built into the housing specification. Individuals will ensure that the move is in their best interest and additional resources have been identify to support people to access local community resources to suit their need and avoid isolation. Moves will not be rushed and individuals will be supported in a person centred way. Carers needs will also be taken into account as part of the assessment process.

LEAD 3: Deletion of the City Development Manager Post. No impacts have been identified for this group.

Next steps:
A joint discussion will be held between the relevant Heads of Service or their nominated representatives on the potential impact, and any further mitigating actions and consultation requirements.

39. **Race**

COM 1: Efficiencies resulting from the integration of the Community Safety Team with Environmental Health.
Findings from our City Survey (2014) identified that Black and Minority Ethnic residents do not feel as safe at night in their local area compared with White British residents, and are more likely to believe that crime has increased in the last 12 months.

The proposal for the integration of the Community Safety Team with Environmental Health will need to consider perceptions of crime and the current profile of anti-social behaviour reporting in its service development.

The integration of the Community Safety Team with Environmental Health and closer working with the Police, will provide a more resilient response to community safety issues. The recent introduction of the Community Trigger - which gives victims and communities the right to require a multi-agency review will ensure that effective action is taken where an ongoing problem of persistent anti-social behaviour has not been addressed.

Local mechanisms for reporting Hate Crime and Harassment are not affected by this proposal.

E &T 19: Reductions in School Crossing Patrols (SCP) to reflect consistent 20% vacancy levels due to; recruitment issues, sites where a SCP no longer meets the national benchmark requirements, and to remove historical elements or budget provision that are no longer needed.
No specific impacts have been identified for this group.

E &T 20: Closure of Woolston and Portswood Public Toilets.
No specific impacts have been identified for this group.

HASC 2: Complex Learning Disability Housing Project.
A number of individuals have diverse ethnic heritage. Individuals will be supported to develop a Person Centred Plan which will inform the support plan provided by a care provider. These plans will take into account the persons preferences and wishes - including culture.

LEAD 3: Deletion of the City Development Manager Post.
No specific impacts have been identified for this group.

Next steps:
A joint discussion will be held between the relevant Heads of Service or their nominated representatives on the potential impact, and any further mitigating actions and consultation requirements.

40. **Gender - Women**

COM 1: Efficiencies resulting from the integration of the Community Safety Team with Environmental Health.
Findings from our City Survey (2014) identified that just of half of the women surveyed felt unsafe at night.

The proposal for the integration of the Community Safety Team with Environmental Health will need to consider perceptions of crime and the current profile of anti-social behaviour reporting in its service development. The integration of the Community Safety Team with Environmental Health and closer working with the Police, will provide a more resilient response to community safety issues. The recent introduction of the Community Trigger - which gives victims and communities the right to require a multi-agency review will ensure that effective action is taken where an ongoing problem of persistent anti-social behaviour has not been addressed.

E &T 19: Reductions in School Crossing Patrols (SCP) to reflect consistent 20% vacancy levels due to; recruitment issues, sites where a SCP no longer meets the national benchmark requirements, and to remove historical elements or budget provision that are no longer needed.
This proposal has a potential impact on the parents of children and young people. The withdrawal of SCP sites that do not meet the national benchmark may result in parents perceiving that unaccompanied journeys to school are of greater risk. Sites will be reviewed annually using the PV2 formula scoring which gives an assessment based on the number of cars and pedestrians and other risk factors. Where the site does not meet the national criteria and there are staff vacancies, the SCP site will be removed from the scope

of the service. Current sites with PV2 scorings which continue to meet the national benchmark will not be affected. Other possible solutions/mitigating actions include: pedestrian safety training for school age children, promotion of 'Safe journey to School'.

E &T 20: Closure of Woolston and Portswood Public Toilets.
Reduced availability of toilet provision may have a greater impact on women. This was highlighted in the public consultation feedback. Alternative toilet provision already exists in Portswood and an Automated Public Toilet is now installed at Woolston.

HASC 2: Complex Learning Disability Housing Project.
No specific impacts have been identified for this group.

LEAD 3: Deletion of the City Development Manager Post.
No specific impacts have been identified for this group.

Next steps:
A joint discussion will be held between the relevant Heads of Service or their nominated representatives on the potential impact, and any further mitigating actions and consultation requirements.

41. **Gender – Men**

COM 1: Efficiencies resulting from the integration of the Community Safety Team with Environmental Health.
No specific impacts have been identified for this group.

E &T 19: Reductions in School Crossing Patrols (SCP) to reflect consistent 20% vacancy levels due to; recruitment issues, sites where a SCP no longer meets the national benchmark requirements, and to remove historical elements or budget provision that are no longer needed.
This proposal has a potential impact on the parents of children and young people. The withdrawal of SCP sites that do not meet the national benchmark may result in parents perceiving that unaccompanied journeys to school are of greater risk. Sites will be reviewed annually using the PV2 formula scoring which gives an assessment based on the number of cars and pedestrians and other risk factors. Where the site does not meet the national criteria and there are staff vacancies, the SCP site will be removed from the scope of the service. Current sites with PV2 scorings which continue to meet the national benchmark will not be affected. Other possible solutions/mitigating actions include: pedestrian safety training for school age children, promotion of 'Safe journey to School'.

E &T 20: Closure of Woolston and Portswood Public Toilets. No specific impacts have been identified for this group.

HASC 2: Complex Learning Disability Housing Project. No specific impacts have been identified for this group.

LEAD 3: Deletion of the City Development Manager Post. No specific impacts have been identified for this group.

Next steps:
A joint discussion will be held between the relevant Heads of Service or their nominated representatives on the potential impact, and any further mitigating actions and consultation requirements.

42. **Other protected characteristics**
We are aware that there is limited reference to some protected characteristics in this process. In particular, Gender Reassignment, Marriage and Civil Partnership, Pregnancy and Maternity, Religion or Belief (including lack of belief) and Sexual Orientation. This may be because; these groups are not affected by our proposals; we have gaps in our information (as highlighted in our Equalities Profile) which we are seeking to fill; or because we have not yet identified these impacts. We welcome any views on the impacts of our proposals on these equalities groups as part of our consultation on the budget. In parallel with this, we are looking at relevant national information and seeking to improve our local knowledge.

COM 1: Efficiencies resulting from the integration of the Community Safety Team with Environmental Health.
The proposal for the integration of the Community Safety Team with Environmental Health will need to consider perceptions of crime and the current profile of anti-social behaviour reporting in its service development.

Those with the following protected characteristics: Sexual Orientation, Gender Reassignment and Religion and Belief may be more likely to experience the impact of anti-social behaviour than the general population. Local mechanisms for reporting Hate Crime and Harassment are not affected by this proposal.

E &T 20: Closure of Woolston and Portswood Public Toilets.
Reduced availability of toilet provision may have a greater impact in relation to pregnancy and maternity. This was highlighted in the public consultation feedback. Alternative toilet provision already exists in Portswood and an Automated Public Toilet is now installed at Woolston.

HASC 2: Complex Learning Disability Housing Project.
Religion and belief will be an integral part of individual Person Centred Plans which will inform the support plan provided by a care provider. These plans will take into account the person preferences and wishes relating to culture and traditions.

LEAD 3: Deletion of the City Development Manager Post. No specific impacts have been identified for this group.

Next steps:
A joint discussion will be held between the relevant Heads of Service or their nominated representatives on the potential impact, and any further mitigating actions and consultation requirements.

43. **Community Safety**

COM 1: Efficiencies resulting from the integration of the Community Safety Team with Environmental Health.
The proposal for the integration of the Community Safety Team with Environmental Health will need to consider perceptions of crime and the current profile of anti-social behaviour reporting in its service development.
Feedback from the public consultation highlighted:
- Low-level incidents may escalate if not dealt with.
- Police spend time dealing with more low level incidents.
- People may suffer from more anti-social behaviour.

The integration of the Community Safety Team with Environmental Health and closer working with the Police, will provide a more resilient response to community safety issues. The recent introduction of the Community Trigger - which gives victims and communities the right to require a multi-agency review will ensure that effective action is taken where an ongoing problem of persistent anti-social behaviour has not been addressed.

Local mechanisms for reporting Hate Crime and Harassment are not affected by this proposal.

E &T 19: Reductions in School Crossing Patrols (SCP) to reflect consistent 20% vacancy levels due to; recruitment issues, sites where a SCP no longer meets the national benchmark requirements, and to remove historical elements or budget provision that are no longer needed.
Changes to SCPs could potentially increase the risk of road traffic accidents. This proposal has a potential impact on the parents of children and young people. The withdrawal of SCP sites that do not meet the national benchmark may result in parents perceiving that unaccompanied journeys to school are of greater risk. Sites will be reviewed annually using the PV2 formula scoring which gives an assessment based on the number of cars and pedestrians and other risk factors. Where the site does not meet the national criteria and there are staff vacancies, the SCP site will be removed from the scope of the service. Current sites with PV2 scorings which continue to meet the national benchmark will not be affected. Other possible solutions/mitigating actions include: pedestrian safety training for school age children, promotion of 'Safe journey to School'.

E &T 20: Closure of Woolston and Portswood Public Toilets.
The following was highlighted in the feedback from the public consultation:
- Removing toilets will protect vulnerable people against being abused in these locations.
- Many toilets are covered in graffiti, close and improve the public realm rapidly to prevent further decline of the neighbourhood.

Closed, derelict toilet buildings may attract vandalism and anti-social behaviour. This could be mitigated by seeking to dispose of buildings following closure.

HASC 2: Complex Learning Disability Housing Project.
A very small number of service users may have forensic needs. Assessment and care plans will take into account individual needs.

LEAD 3: Deletion of the City Development Manager Post. No specific impacts have been identified for this group.

Next steps:
A joint discussion will be held between the relevant Heads of Service or their nominated representatives on the potential impact, and any further mitigating actions and consultation requirements.

44. **Poverty**

COM 1: Efficiencies resulting from the integration of the Community Safety Team with Environmental Health.
Findings from our City Survey (2014) reinforce the view that perceptions toward crime and anti-social behaviour are strongly linked to socioeconomic deprivation. The proposal for the integration of the Community Safety Team with Environmental Health will need to consider perceptions of crime and the current profile of anti-social behaviour reporting in its service development.

The integration of the Community Safety Team with Environmental Health and closer working with the Police, will provide a more resilient response to community safety issues. The recent introduction of the Community Trigger - which gives victims and communities the right to require a multi-agency review will ensure that effective action is taken where an ongoing problem of persistent anti-social behaviour has not been addressed.

E &T 19: Reductions in School Crossing Patrols (SCP) to reflect consistent 20% vacancy levels due to; recruitment issues, sites where a SCP no longer meets the national benchmark requirements, and to remove historical elements or budget provision that are no longer needed.
Reliance on walking to school and public transport may be higher for children from low income households. This may result in greater impacts on this group. This proposal has a potential impact on the parents of children and young people. The withdrawal of SCP sites that do not meet the national benchmark may result in parents perceiving that unaccompanied journeys to school are of greater risk. Sites will be reviewed annually using the PV2 formula scoring which gives an assessment based on the number of cars and pedestrians and other risk factors. Where the site does not meet the national criteria and there are staff vacancies, the SCP site will be removed from the scope of the service. Current sites with PV2 scorings which continue to meet the national benchmark will not be affected. Other possible solutions/mitigating actions include: pedestrian safety training for school age children, promotion of 'Safe journey to School'.

E &T 20: Closure of Woolston and Portswood Public Toilets.
Lack of available free facilities may impact more on people on low incomes. Permission to use facilities within food or drink retail premises is usually dependent on product purchase.

HASC 2: Complex Learning Disability Housing Project. No specific impacts have been identified for this group.

LEAD 3: Deletion of the City Development Manager Post. No specific impacts have been identified for this group.

Next steps:
A joint discussion will be held between the relevant Heads of Service or their nominated representatives on the potential impact, and any further mitigating actions and consultation requirements.

42. **Other significant impacts**
For HASC 2: Complex Learning Disability Housing Project – there will be challenges for individuals who have experienced long term institutional care to more independent models of care and support. Placements will be bespoke and project plans developed to ensure moves are not rushed and individuals are supported in a person centred way.

Next steps:
A joint discussion will be held between the relevant Heads of Service or their nominated representatives on the potential impact, and any further mitigating actions and consultation requirements.

43. **Staffing**
As stated earlier, an initial cumulative impact on staffing is being completed and will be reviewed once all budget related structures and role changes have been developed and consulted on. However, in the meantime, Tables 1 and 2 provide information about the council's workforce. Data in both tables has been rounded to the nearest decimal point.

Table 1: Employee Profile

Employee Profile	Total	Percentage
Total Workforce	3477	100%
No. of BME employees	132	4%
No. of Disabled employees	95	3%
No. of Women employees	2228	64%

Table 2: Top 5% of Earners

Directorate	Total of Top 5% of Earners	Women	Disabled	Ethnic Minority
Corporate Services	51	37%	4%	2%
People	71	55%	3%	1%
Place	47	40%	0%	2%
Transformation & Performance	10	60%	0%	20%
Total Number of Employees	179	46%	2%	3%
	Number	83	4	5

Calculated by dividing the number of women, disabled or ethnic employees in Directorate falling into Top 5%, by the total number of employees in Directorate in Top 5%, multiplied by 100 to obtain percentage.

GENERAL FUND 2014/15 - REVISED BUDGET

	Working Budget £000	Revised Budget £000	Variance £000
Portfolio Total	**211,347**	**214,609**	**3,262 A**
Levies & Contributions			
Southern Seas Fisheries Levy	31	31	0
Flood Defence Levy	40	40	0
Coroners Service	560	560	0
	631	**631**	**0**
Capital Asset Management			
Capital Financing Charges	11,988	10,388	1,600 F
Capital Asset Management Account	(24,513)	(24,513)	0
	(12,525)	**(14,125)**	**1,600 F**
Other Expenditure & Income			
Direct Revenue Financing of Capital	100	100	0
Net Housing Benefit Payments	(758)	(758)	0
Non-Specific Government Grants	(70,721)	(71,719)	998 F
Contribution to Transformation Fund	3,000	3,000	0
Business Rates	(40,456)	(40,456)	0
Collection Fund Surplus	(1,782)	(1,782)	0
Open Space and HRA	436	436	0
Risk Fund	1,359	0	1,359 F
Contingencies	242	242	0
	(108,580)	**(110,937)**	**2,357 F**
NET GF SPENDING	**90,873**	**90,178**	**695 F**
Draw from Balances:			
To fund the Capital Programme	(100)	(100)	0
Draw from Balances (General)	(16,627)	(15,933)	695 F
Draw from Strategic Reserve	(679)	(679)	0
	(17,406)	**(16,712)**	**695 F**
COUNCIL TAX REQUIREMENT	**73,467**	**73,467**	**0**

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SUMMARY OF REVENUE PRESSURES

Portfolio Ref	Service Activity	Description of Item	Impact / Issues	Recurring or One Off (R or O)	2015/16 £000	2016/17 £000	2017/18 £000	Head of Service
	Health & Adult Social Care Portfolio							
HASC 6	Long Term care	Care Act - Increase in assessments and impact on infrastructure to meet demand	New to 2015/16 Councils will be required to undertake assessments for Carers. In addition Councils will need to provide assessments to new clients in readiness for the introduction of Care Accounts and change of capital thresholds in 2016/17. There will be a grant available for this pressure, however there is a risk that it will be insufficient.	R	800.0	800.0	400.0	Mark Howell
HASC 7 (New)	Long Term Care	The number of clients receiving long term care has increased during 2014/15. This increase has created a financial pressure in year which will in turn generate a greater pressure in 2015/16 due to the full year impact.	This increase has been reviewed and agreed as realistic cost pressure based on current actual volumes.	R	2,400.0	2,400.0	2,400.0	
		Health & Adult Social Care Portfolio Total			**3,200.0**	**3,200.0**	**2,800.0**	
	Children's Services Portfolio							
CS3 (New)	Children's Services Various	The care packages for disabled and looked after children currently exceed the volume allowed for within the budget limit. The need to maintain safe and appropriate placements for these children mean that the volume will not reduce sufficiently in 2015/16 to avoid a pressure.	This pressure is predominantly from the costs arising from an increase in the number of looked after children against a previously planned reduction in volume. Much of the pressure is against the budget for Independent Fostering Placements. In addition there are pressures from the requirement to maintain fostering placements, (Staying Put) up to the age of 25 and from the known increase in volume of Residential placements required for 2015/16.	R	3,100.0	3,100.0	3,100.0	
		Children's Services Portfolio Total			**3,100.0**	**3,100.0**	**3,100.0**	
	Environment & Transport Portfolio							
E&T 21	Waste Disposal	Charges to schools	Current legislation does not allow Schools to be charged for waste disposal.	R	100.0	100.0	100.0	Mitch Sanders
E&T 22	Planning	CIL Administration income	Regulations have changed, reducing yield	R	105.0	105.0	105.0	Mike Harris
		Environment & Transport Portfolio Total			**205.0**	**205.0**	**205.0**	
		GRAND TOTAL			**6,505.0**	**6,505.0**	**6,105.0**	

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SUMMARY OF REVENUE BIDS

Portfolio Ref	Service Activity	Description of Item	Impact / Issues	Recurring or One Off (R or O)	2015/16 £000	2016/17 £000	2017/18 £000	Head of Service
	Resources & Leisure Portfolio							
LEAD 6 (New)	Finance & IT	Establishment of permanent Web Support Team.	As a result of a recent review of web activity tasks undertaken across the council it is proposed to create a permanent centralised web support team to support this function.	R	126.0	126.0	126.0	Andy Lowe
		Resources & Leisure Portfolio Total			**126**	**126**	**126**	
		GRAND TOTAL			**126**	**126**	**126**	

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APPENDIX 6a

SUMMARY OF EFFICIENCIES, ADDITONAL INCOME AND SERVICE REDUCTIONS 2015/16

Portfolio	Efficiencies	Income	Service Reductions	Total
	£000	£000	£000	£000
Children's Services	(470.0)	(1,000.0)	0.0	(1,470.0)
Communities			(251.0)	(251.0)
Environment & Transport	(1,238.0)	(190.0)	(43.0)	(1,471.0)
Health & Adult Social Care	(2,840.0)			(2,840.0)
Housing & Sustainability	(40.0)			(40.0)
Leaders	(44.0)		(154.0)	(198.0)
Resources & Leisure	(1,211.0)		(649.0)	(1,860.0)
Place Directorate	(150.0)			(150.0)
Sub-Total	**(5,993.0)**	**(1,190.0)**	**(1,097.0)**	**(8,280.0)**
Council Wide Savings:				
Procurement	(700.0)			(700.0)
Reduction in Agency Spend, overtime and increased vacancy management			(1,000.0)	(1,000.0)
Net Savings Total	**(6,693.0)**	**(1,190.0)**	**(2,097.0)**	**(9,980.0)**

IMPACT OF PROPOSALS ON STAFFING

Portfolio	FTE In Post	FTE Vacant	FTE Total
Children's Services	0.00	0.00	0.00
Communities	3.00	1.00	4.00
Environment & Transport	4.36	2.10	6.46
Health & Adult Social Care	186.60	19.26	205.86
Housing & Sustainability	1.00	0.00	1.00
Leaders	6.86	0.00	6.86
Resources & Leisure	0.00	1.40	1.40
Place Directorate	0.00	1.00	1.00
Total	**201.82**	**24.76**	**226.58**

SUMMARY OF EFFICIENCIES, ADDITIONAL INCOME AND SERVICE REDUCTIONS

APPENDIX 6b

Portfolio Ref	Service Activity	Description of Item	2015/16 £000	2016/17 £000	2017/18 £000	Net Reduction In Posts FTE In Post	Net Reduction In Posts FTE Vacant	Head of Service
	Children's Services - Efficiencies							
CS1	Infrastructure	Review of the School PFI contractual costs in partnership with Department for Education.	(200.0)	(200.0)	(200.0)			Ed Harris
CS4 (New)	Portfolio Wide	A review of Social Worker market supplements, that were awarded in 2011/12, will be undertaken.	(270.0)	(270.0)	(270.0)			Alison Elliot
		Sub-total	**(470.0)**	**(470.0)**	**(470.0)**	**0.0**	**0.0**	
	Children's Services - Income							
CS2	School Support	Maximise use of the Dedicated Schools Grant - removal of council funding for Special School outreach contract and Emotional Well-being Development Officers, to be replaced by trading contracts directly with schools. Reduction in funding for early years development.	(1,000.0)	(1,000.0)	(1,000.0)			Ed Harris
		Sub-total	**(1,000.0)**	**(1,000.0)**	**(1,000.0)**	**0.00**	**0.00**	
		Children's Services Portfolio Total	**(1,470.0)**	**(1,470.0)**	**(1,470.0)**	**0.00**	**0.00**	
	Communities - Reductions							
COM1	Regulatory Services & City Services	Efficiencies resulting from the integration of the Community Safety team with Environmental Health	(102.0)	(102.0)	(102.0)	2.00	1.00	Mitch Sanders
COM2	Transformation and Performance	The Communities & Improvement Manager post is leading on the business support project and CAT, The post will therefore need to be funded through the Transformation Fund until these projects are completed.	(69.0)	(69.0)	(69.0)			Suki Sitaram
COM3	Transformation and Performance	Reduce the supplies & services expenditure across the division. This will reduce the ability to support community based consultation activities, translations etc. – but this will be mitigated with greater use of other channels instead of face to face	(58.0)	(58.0)	(58.0)			Suki Sitaram
COM4	Regeneration and City Limits	Reduced staffing costs, less resource to support regeneration projects.	(22.0)	(22.0)	(22.0)	1.00		Denise Edghill
		Sub-total	**(251.0)**	**(251.0)**	**(251.0)**	**3.00**	**1.00**	
		Communities Portfolio Total	**(251.0)**	**(251.0)**	**(251.0)**	**3.00**	**1.00**	

SUMMARY OF EFFICIENCIES, ADDITIONAL INCOME AND SERVICE REDUCTIONS

APPENDIX 6b

Portfolio Ref	Service Activity	Description of Item	2015/16 £000	2016/17 £000	2017/18 £000	Net Reduction In Posts FTE In Post	Net Reduction In Posts FTE Vacant	Head of Service
	Environment & Transport - Efficiencies							
E&T1	Regulatory Services & City Services	Introduce efficiencies within the mowing fleet to reduce operational costs and downtime.	(23.0)	(23.0)	(23.0)			Mitch Sanders
E&T2	Regulatory Services & City Services	Efficiencies in Parks Development budgets.	(15.0)	(15.0)	(15.0)			Mitch Sanders
E&T3	E&T Contracts Management	Review of Highways Contract with Network Management Service, reduction in revenue lump sum.	(100.0)	(100.0)	(100.0)			Rob Harwood
E&T4	E&T Contracts Management	Highways Permit Scheme - reduction in officer time, premises and other attributable costs allocated to the scheme.	(80.0)	(80.0)	(80.0)			Rob Harwood
E&T5	Regulatory Services & City Services	Reduction of Supervisory Staff within Parks & Open Spaces.	(44.0)	(53.0)	(53.0)	2.00		Mitch Sanders
E&T6	Regulatory Services & City Services	Reduce cost associated with locking the city wall gate.	(6.0)	(6.0)	(6.0)	0.36		Mitch Sanders
E&T7	Regulatory Services & City Services	Savings from the extension of the Waste Disposal Contract until 2030.	(500.0)	(500.0)	(500.0)			Mitch Sanders
E&T8	Regulatory Services & City Services	Savings from the extension of the Household Waste Recycling Centre Contract until 2030.	(40.0)	(40.0)	(40.0)			Mitch Sanders
E&T9	Regulatory Services & City Services	Management restructure of the waste service.	(50.0)	(50.0)	(50.0)	1.00		Mitch Sanders
E&T10	Regulatory Services & City Services	Restructure Scientific Services Team to include the integration of a Sustainability post to deliver the Air Quality Low Emission Strategy and increase income through the provision of a Water Quality Audit Services for Housing.	(40.0)	(40.0)	(40.0)			Mitch Sanders
E&T11	Highways & Transport	Review of budgets across the Highways & Transport Services.	(300.0)	(300.0)	(300.0)			Stuart Love
E&T12	Regulatory Services & City Services	Management Restructure within Environment Health to remove a Team Leader post.	(40.0)	(40.0)	(40.0)	1.00		Mitch Sanders
		Sub-total	**(1,238.0)**	**(1,247.0)**	**(1,247.0)**	**4.36**	**0.00**	

SUMMARY OF EFFICIENCIES, ADDITIONAL INCOME AND SERVICE REDUCTIONS

APPENDIX 6b

Portfolio Ref	Service Activity	Description of Item	2015/16 £000	2016/17 £000	2017/18 £000	Net Reduction In Posts FTE In Post	Net Reduction In Posts FTE Vacant	Head of Service
	Environment & Transport - Income							
E&T13	Regulatory Services & City Services	Increase in Port Health income.	(50.0)	(50.0)	(50.0)			Mitch Sanders
E&T14	Regulatory Services & City Services	Transfer of a member of staff from the Parks & Open Spaces Schools Team to the Trading Arm where costs are covered by income.	(25.0)	(25.0)	(25.0)			Mitch Sanders
E&T15	Regulatory Services & City Services	Changes to the charging framework for the collection of bulky household waste to increase demand and reduce fly tipping.	(10.0)	(10.0)	(10.0)			Mitch Sanders
E&T16	Regulatory Services & City Services	Increased net income from the Commercial Waste Collection Service.	(35.0)					Mitch Sanders
E&T17	Regulatory Services & City Services	Reduction in the operational costs of "Bring Bank" Recycling centres through increased charges and working more closely with suppliers and charities.	(40.0)	(40.0)	(40.0)			Mitch Sanders
E&T18	Regulatory Services & City Services	Additional government funding to support Trading Standards work.	(30.0)	(30.0)	(30.0)			Mitch Sanders
		Sub-total	**(190.0)**	**(155.0)**	**(155.0)**	**0.00**	**0.00**	
	Environment & Transport - Reductions							
E&T19	Transport	Reduction in School Crossing Patrols budget to reflect consistent 20% vacancy levels due to recruitment issues.	(30.0)	(30.0)	(30.0)		2.10	Paul Walker
E&T20	Regulatory Services & City Services	Close Woolston and Portswood Public Toilets to encourage the use of more suitable alternative provision.	(13.0)	(13.0)	(13.0)			Mitch Sanders
		Sub-total	**(43.0)**	**(43.0)**	**(43.0)**	**0.00**	**2.10**	
		Environment & Transport Portfolio Total	**(1,471.0)**	**(1,445.0)**	**(1,445.0)**	**4.36**	**2.10**	

APPENDIX 6b

SUMMARY OF EFFICIENCIES, ADDITIONAL INCOME AND SERVICE REDUCTIONS

Portfolio Ref	Service Activity	Description of Item	2015/16 £000	2016/17 £000	2017/18 £000	Net Reduction In Posts: FTE In Post	Net Reduction In Posts: FTE Vacant	Head of Service
	Health & Adult Social Care - Efficiencies							
HASC1	Commissioning Management	ICU to review existing contracts to make further efficiencies	(100.0)	(200.0)	(200.0)			Stephanie Ramsey
HASC2	Learning Disability	ICU savings - Review of LD high cost residential placements. Moving clients into supported living arrangements from out of city placements.	(750.0)	(900.0)	(900.0)			Mark Howell / Stephanie Ramsey Lead
HASC3	PH Management & Overheads	Review of Public Health services provided across the Council. The saving is based on a prioritisation of Childrens Centres. This will increase the level of Public Health funding for Children's Centres and therefore protect these services.	(400.0)	(400.0)	(400.0)			Andrew Mortimore / Stephanie Ramsey
HASC4	Provider Services	ICU savings - A strategic review of options for rehabilitation and reablement services is due to be undertaken across the whole system including community Health services and those provided by SCC. Greater integration and reduction in duplication is expected to achieve savings for the Council and the CCG.	(400.0)	(800.0)	(800.0)	113.00	3.46	Mark Howell / Stephanie Ramsey
HASC5	Adult Disability Commissioning	ICU Savings - Review of Supporting People contracted services.	(480.0)	(850.0)	(850.0)			Stephanie Ramsey
HASC8 (New)	Provider Services	Restructure of Southampton Day Services including the reduction of number of internally provided bases of provision.	(270.0)	(700.0)	(700.0)	43.50	5.64	Mark Howell / Stephanie Ramsey
HASC9 (New)	Provider Services	Proposed closure of Kentish Road residential respite service for clients with Learning Disablity.	(100.0)	(200.0)	(200.0)	7.20	4.00	Mark Howell / Stephanie Ramsey
HASC10 (New)	Provider Services	Closure of Woodside Lodge Residential Home.	(200.0)	(300.0)	(350.0)	22.90	6.16	Mark Howell / Stephanie Ramsey

SUMMARY OF EFFICIENCIES, ADDITIONAL INCOME AND SERVICE REDUCTIONS

APPENDIX 6b

Portfolio Ref	Service Activity	Description of Item	2015/16 £000	2016/17 £000	2017/18 £000	Net Reduction In Posts: FTE In Post	Net Reduction In Posts: FTE Vacant	Head of Service
HASC11 (New)	Portfolio Wide	A review of Social Worker market supplements, that were awarded in 2011/12, will be undertaken.	(140.0)	(140.0)	(140.0)			Alison Elliot
		Health & Adult Social Care Portfolio Total	**(2,840.0)**	**(4,490.0)**	**(4,540.0)**	**186.60**	**19.26**	
	Housing & Sustainability - Efficiencies							
HS1	Regulatory Services & City Services	Management of the elements of the Sustainability Team, through alternative relevant service areas, making the Manager's Post Redundant.	(40.0)	(40.0)	(40.0)	1.00		Mitch Sanders
		Sub-total	**(40.0)**	**(40.0)**	**(40.0)**	**1.00**	**0.00**	
		Housing & Sustainability Portfolio Total	**(40.0)**	**(40.0)**	**(40.0)**	**1.00**	**0.00**	
	Leaders - Efficiencies							
LEAD1	Legal Services & Customer Relations	Net efficiencies achieved through introduction of Case Management system.	(34.0)	(34.0)	(34.0)	2.00		Richard Ivory
LEAD 5 (New)	Members Allowances	Implementation of recommedations from Remuneration Panel for reduction in members allowances.	(10.0)	(10.0)	(10.0)			Richard Ivory
		Sub-total	**(44.0)**	**(44.0)**	**(44.0)**	**2.00**	**0.00**	
	Leaders - Reductions							
LEAD2	Legal Services & Customer Relations	Reduction in the level of general service provided and legal input to projects across the organisation.	(104.0)	(104.0)	(104.0)	4.00		Richard Ivory
LEAD3	Development & Economy	Reduction in support/enabling of city development projects.	(50.0)	(50.0)	(50.0)	0.86		Barbara Compton
		Sub-total	**(154.0)**	**(154.0)**	**(154.0)**	**4.86**	**0.00**	
		Leaders Portfolio Total	**(198.0)**	**(198.0)**	**(198.0)**	**6.86**	**0.00**	

SUMMARY OF EFFICIENCIES, ADDITIONAL INCOME AND SERVICE REDUCTIONS

APPENDIX 6b

Portfolio Ref	Service Activity	Description of Item	2015/16 £000	2016/17 £000	2017/18 £000	Net Reduction In Posts FTE In Post	Net Reduction In Posts FTE Vacant	Head of Service
	Resources & Leisure - Efficiencies							
R&L1	Corporate Management	25% reduction in External Audit Scale Fees from 2015/16 as notified in October 2014	(60.0)	(60.0)	(60.0)			Andy Lowe
R&L2	Finance Service	Redirection of resources within the Creditors Function. Will require a redirection of work within the Creditors Team.	(14.0)	(14.0)	(14.0)		1.40	Andy Lowe
R&L3	Partnership	Potential savings from flexible mechanisms (HR & IT). The mechanism reflects reduction of headcount of staff not FTE. This reflects an assumed reduction of 300 staff from 2015/16.	(50.0)	(120.0)	(250.0)			Andy Lowe
R&L[illegible]	Property Services	Vacation of Marland House - Mothballing costs of £139k p.a. will need to be deducted if sale of building is delayed. Implementation costs to enable vacation have already been approved by Cabinet and form part of wider budgets to enable the implementation of the next phase of the Accommodation Strategy.	(178.0)	(178.0)	(178.0)			John Spiers
R&L6	Property Services	Vacation and lease of OGS - Final income figure dependent on signed lease. Implementation costs to enable vacation have already been approved by Cabinet and form part of wider budgets to enable the implementation of the next phase of the Accommodation Strategy.	(859.0)	(1,024.0)	(1,024.0)			John Spiers
R&L7	Leisure & Heritage	Review of Other Contracts (Active Nation / Live Nation).	(50.0)	(50.0)	(50.0)			Stuart Love / Rob Harwood
		Sub-total	**(1,211.0)**	**(1,446.0)**	**(1,576.0)**	**0.00**	**1.40**	

SUMMARY OF EFFICIENCIES, ADDITIONAL INCOME AND SERVICE REDUCTIONS

APPENDIX 6b

Portfolio Ref	Service Activity	Description of Item	2015/16 £000	2016/17 £000	2017/18 £000	Net Reduction In Posts FTE In Post	FTE Vacant	Head of Service
	Resources & Leisure - Reductions							
R&L9	Property Services	Suspend annual sinking fund contributions for OGS and Civic for 14/15 and 15/16 - Impact on managed approach to future building repairs & maintenance.	(649.0)	0.0	0.0			John Spiers
		Sub-total	**(649.0)**	**0.0**	**0.0**	**0.00**	**0.00**	
		Resources & Leisure Portfolio Total	**(1,860.0)**	**(1,446.0)**	**(1,576.0)**	**0.00**	**1.40**	
	Place Directorate Efficiencies							
	Directorate Wide	Management Restructure	(150.0)	(150.0)	(150.0)		1.00	Stuart Love
		Sub-total	**(150.0)**	**(150.0)**	**(150.0)**	**0.00**	**1.00**	
		Place Directorate Total	**(150.0)**	**(150.0)**	**(150.0)**	**0.00**	**1.00**	
		GRAND TOTAL	**(8,280.0)**	**(9,490.0)**	**(9,670.0)**	**201.82**	**24.76**	

2015/16 GENERAL FUND REVENUE ACCOUNT

Portfolios	2015/16 Forecast £000	Revenue Pressures £000	Revenue Bids £000	Savings & Income £000	2015/16 Budget £000
Children's Services	55,096.0	3,100.0		(1,470.0)	56,726.0
Communities	2,090.7			(251.0)	1,839.7
Environment & Transport	36,218.1	205.0		(1,471.0)	34,952.1
Health & Adult Social Care	67,443.4	3,200.0		(2,840.0)	67,803.4
Housing & Sustainability	2,791.2			(40.0)	2,751.2
Leader's Portfolio	5,126.3			(198.0)	4,928.3
Resources & Leisure	29,891.5		126.0	(1,860.0)	28,157.5
Corporate & Directorate Savings	0.0			(1,850.0)	(1,850.0)
Sub-total for Portfolios	**198,657.2**	**6,505.0**	**126.0**	**(9,980.0)**	**195,308.2**
Levies & Contributions					
Southern Seas Fisheries Levy	32.4				32.4
Flood Defence Levy	39.8				39.8
Coroners Service	560.0				560.0
	632.2	**0.0**	**0.0**	**0.0**	**632.2**
Capital Asset Management					
Capital Financing Charges	13,334.8				13,334.8
Capital Asset Management Account	(24,503.4)				(24,503.4)
	(11,168.6)	**0.0**	**0.0**	**0.0**	**(11,168.6)**
Other Expenditure & Income					
Direct Revenue Financing of Capital	0.0				0.0
Trading Areas (Surplus) / Deficit	(6.6)				(6.6)
Net Housing Benefit Payments	(758.2)				(758.2)
Non-Specific Government Grants & Other Funding	(50,975.3)				(50,975.3)
Business Rates	(50,135.2)				(50,135.2)
Council Tax Collection Fund (Surplus) / Deficit	(3,205.5)				(3,205.5)
Business Rates Collection Fund (Surplus)/Deficit	(2,368.7)				(2,368.7)
Open Spaces and HRA	435.7				435.7
Risk Fund	4,502.5				4,502.5
Contingencies	250.0				250.0
	(102,261.3)	**0.0**	**0.0**	**0.0**	**(102,261.3)**
NET GF SPENDING	**85,859.5**	**6,505.0**	**126.0**	**(9,980.0)**	**82,510.5**
Draw from Balances:					
Addition to / (Draw From) Balances	(7,130.4)				(7,130.4)
Addition to / (Draw From) Reserves	1,889.5				1,889.5
To Fund the Capital Programme	0.0				0.0
	(5,240.9)	**0.0**	**0.0**	**0.0**	**(5,240.9)**
Revenue Pressures	6,505.0	(6,505.0)			0.0
Net Gap in Budget After Pressures	**9,854.0**	**0.0**	**126.0**	**(9,980.0)**	0.0
COUNCIL TAX REQUIREMENT	**77,269.6**	**0.0**	**0.0**	**0.0**	**77,269.6**

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COUNCIL TAX CALCULATION 2015/16 TO 2017/18

2015/16	**2014/15**	**2015/16**	**Change**	
	£M	**£M**	**£M**	%
Budget Requirement (a)	**183.5**	**191.0**	**7.6**	**4.12%**
Less NDR	(45.6)	(46.5)		
Less Top Up Payment	(1.6)	(1.6)		
S31 Grants	(2.0)	(2.0)		
Less RSG	(59.4)	(51.0)		
Contribution/(Draw) To/From Balances	(8.4)	(7.1)		
Aggregate External Finance	(116.9)	(108.2)	8.7	-7.43%
Deficit/(Surplus) on Council Tax Collection Fund	(1.8)	(3.2)		
Deficit/(Surplus) on Business Rates Collection Fund	8.6	(2.4)		
Net Grant Income (b)	(110.0)	(113.8)	(3.8)	3.42%
Amount to be met from Council Tax (a - b)	**73.5**	**77.3**	**3.8**	**5.18%**
Tax base	57,044.0	58,825.0	1,781.0	3.12%
Basic amount of Council Tax (Band D)	**1,287.90**	**1,313.55**	**25.65**	**1.99%**
Last years Council Tax		1,287.90		
Increase (Cash)		25.65		
Increase (Cash per Week)		0.49		
Increase (%)		1.99%		

2016/17	**2015/16**	**2016/17**	**Change**	
	£M	**£M**	**£M**	%
Budget Requirement (a)	**191.0**	**159.8**	**(31.3)**	**-16.38%**
Less NDR	(46.5)	(47.4)		
Less Top Up Payment	(1.6)	(1.7)		
S31 Grants	(2.0)	(2.0)		
Less RSG	(51.0)	(32.4)		
Contribution/(Draw) To/From Balances	(7.1)	2.5		
Aggregate External Finance	(108.2)	(80.9)	27.2	-25.18%
Deficit/(Surplus) on Council Tax Collection Fund	(3.2)	0.0		
Deficit/(Surplus) on Business Rates Collection Fund	(2.4)	0.0		
Net Grant Income (b)	(113.8)	(80.9)	32.8	-28.85%
Amount to be met from Council Tax (a - b)	**77.3**	**78.8**	**1.5**	**1.99%**
Tax base	58,825.0	58,825.0	0.0	0.00%
Basic amount of Council Tax (Band D)	**1,313.55**	**1,339.74**	**26.19**	**1.99%**
Last years Council Tax		1,313.55		
Increase (Cash)		26.19		
Increase (Cash per Week)		0.50		
Increase (%)		1.99%		

2017/18	**2016/17**	**2017/18**	**Change**	
	£M	**£M**	**£M**	%
Budget Requirement (a)	**159.8**	**149.5**	**(10.2)**	**-6.40%**
Less NDR	(47.4)	(48.4)		
Less Top Up Payment	(1.7)	(1.7)		
S31 Grants	(2.0)	(2.0)		
Less RSG	(32.4)	(21.1)		
Contribution/(Draw) To/From Balances	2.5	4.0		
Aggregate External Finance	(80.9)	(69.2)	11.8	-14.57%
Deficit/(Surplus) on Council Tax Collection Fund	0.0	0.0		
Deficit/(Surplus) on Business Rates Collection Fund	0.0	0.0		
Net Grant Income (b)	(80.9)	(69.2)	11.8	-14.57%
Amount to be met from Council Tax (a - b)	**78.8**	**80.4**	**1.6**	**1.99%**
Tax base	58,825.0	58,825.0	0.0	0.00%
Basic amount of Council Tax (Band D)	**1,339.74**	**1,366.38**	**26.64**	**1.99%**
Last years Council Tax		1,339.74		
Increase (Cash)		26.64		
Increase (Cash per Week)		0.51		
Increase (%)		1.99%		

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APPENDIX 9

COLLECTION FUND ESTIMATES 2015/16

	2014/15 £000	2015/16 £000	Change £000	Change %
Southampton City Council Precept	73,467.0	77,269.6	3,802.6	5.18%
Hampshire Police Precept	8,627.9	8,897.3	269.4	3.12%
Fire and Rescue Services Precept	3,501.4	3,610.7	109.3	3.12%
Income due from Council Tax Payers	85,596.3	89,777.5	4,181.3	4.88%
Tax Base for Area	57,044.0	58,825.0	1,781.0	3.12%
Basic Amount of Tax for Band D Property	**1,500.53**	**1,526.18**	**25.65**	**1.71%**

Council Tax increase per Property Band 2015/16

	SCC Band Charge		Change	
Band	**2014/15**	**2015/16**	**£**	**%**
A	£858.60	£875.70	£17.10	1.99%
B	£1,001.70	£1,021.65	£19.95	1.99%
C	£1,144.80	£1,167.60	£22.80	1.99%
D	£1,287.90	£1,313.55	£25.65	1.99%
E	£1,574.10	£1,605.46	£31.36	1.99%
F	£1,860.30	£1,897.36	£37.06	1.99%
G	£2,146.50	£2,189.26	£42.76	1.99%
H	£2,575.80	£2,627.11	£51.31	1.99%

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MEDIUM TERM FINANCIAL STRATEGY 2015/16 to 2019/20

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1 INTRODUCTION

1.1 Aims and Purpose of the Medium Term Financial Strategy

The Medium Term Financial Strategy (MTFS) is a core part of the Council's strategic framework and plays a pivotal role in translating the Council's strategic plans and ambitions into action.

The MTFS focuses on determining the financial position for the next five years and takes into account major issues affecting the Council's finance's, including international and national economic influences as well as local factors and priorities.

This forecast forms part of the base assumptions for developing the overall budget, together with unavoidable service pressures agreed by the Council Management Team (CMT) that need to be taken into account in the overall budget deliberations.

The Council's Medium Term Financial Strategy has been developed in order to secure a forward looking approach and long term sustainability in service provision. The strategy concentrates on the principles that will provide a strong direction for the medium term.

An overarching MTFS is not only good practice, but is required to provide the strategic financial framework for the authority at a time of considerable pressure and change, be this delivering key priorities and ongoing efficiency gains, closer budget scrutiny, the management of financial pressures, or political change.

The key overriding financial objective of the MTFS is therefore:

> **'To provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the Council's key strategic objectives and service priorities'**

In addition to its key objective further objectives of the MTFS are to:

- Provide the parameters within which budget and service planning should take place;
- Ensure that the Council sets a balanced and sustainable budget;
- Focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources;
- Ensure that the Council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;
- To plan the level of local taxation in line with levels that the Council regard as being necessary, acceptable and affordable to meet the Council's aims, objectives, policies and priorities;
- Ensure that the Council's long term financial health and viability remain sound.

The MTFS therefore aims to move the Council on from the historical position of setting annual budgets in isolation to future years, to integrated service and financial planning over the medium term

The MTFS recognises the key role that financial resources play in the future delivery of services, and enabling the effective planning, management and delivery of those services. A sustainable MTFS is therefore key to the effective delivery of the Council's overall aims

The MTFS does not however represent a committed budget, but provides the framework within which decisions relating to future service provision can be made. The detailed budget, taking account of constantly changing circumstances, will continue to be considered by the Council on an annual basis.

1.2 Key Influencing Strategies And Plans

There are a number of strategies, policies and plans which impact on the direction of the Council and the day to day operations therefore impacting on the MTFS. The main items are detailed below along with the elements which impact on the MTFS

1.2.1 Southampton City Strategy 2015-25

The MTFS is framed by the City Strategy 2015-2025, and the City Vision, which has been developed by Southampton Connect, a partnership group consisting of representatives from business, the public, voluntary and education sectors and the city council.

The city vision is 'Southampton – City of opportunity where everyone thrives'. This goal is to achieve prosperity for all. We want to build on Southampton's unique sea city location with exceptional transport links, its strong position nationally for economic growth, excellent reputation for teaching and learning, strong business community, good regional specialist hospital, varied retail offer, night time economy, vibrant voluntary and student communities, and rich diversity and cultural mix.

The City Strategy identifies three key priorities:

- Economic Growth with social responsibility
- Skills and Employment
- Healthier and safer communities.

It also includes 4 cross cutting themes:

- Fostering City Pride and Community capacity
- Delivering whole place thinking and innovation
- Improving mental health
- Tackling poverty and inequality

Southampton Connect will work closely with the key city partnerships to deliver against the vision, priorities and themes: Future Southampton, Employment, Skills and Learning Partnership, Health and Wellbeing Board and Safe City Partnership.

1.2.2 Southampton City Council Strategy 2014-17

The City Strategy is a long term document, setting out priorities and themes which all partners will work together to achieve. Southampton City Council will have a key role to play in this. In the shorter term, the council has also set out its priorities for the next three years in the Council Strategy 2014-17.

The Council has agreed 7 main priorities within the Council Strategy. These are:

- Jobs for Local People
- Prevention and Early Intervention
- Protecting Vulnerable People
- Good Quality and Affordable Housing
- Services for all
- City Pride
- A Sustainable Council

We expect the shape of the Council, including the types of services we deliver and how we will deliver them, will be very different by 2017. The Council Strategy sets out that by 2017 we expect changes in terms of:

- Commissioning Services
- Community Ownership
- Better Customer Experiences
- More flexible ways of working
- A wide range of service delivery models
- Listen and improve learning from our mistakes
- Increased focus on digital capabilities of customers

Transformation Programme and New Operating Model

Published alongside this strategy is an update paper on the Transformation Programme and the New Operating Model. This sets out the how the Council will need to operate going forward to address the gap and meet agreed priorities, and statutory responsibilities thereby making the Council sustainable in the medium term.

The priorities of the Transformation programme are:

- Implementation a new operating model by 2017 which is focussed on delivering outcomes and priorities
- Reduce year on year overspends as well as reducing the costs and demand for social care services for our vulnerable children and adults
- Develop a list of council services that will have to be stopped or reduced
- Reduce the level of resources in our front and back office functions
- Further reduce our procurement spend on external supplies and services and a review of all contracts
- Significantly reduce our management layers and widen our spans of control
- Become more commercially focussed in how we do business and use innovation to reduce costs and generate more income.

Further detail on how this helps address the gap is contained within Section 3.10.

1.2.3 **Other Major Strategies and Policies**

As well as the overarching City Strategy and the Southampton City Council Strategy, there are a range of other strategies and policies and work programmes which will influence the MTFS.

The two other key financial strategies are detailed below:

1.2.3.1 **Capital Strategy**

The Council has a separate Capital Strategy that details the priorities of the Council in terms of capital expenditure and provides a framework for the Council's capital plans to be delivered within.

Section 3.8 reflects this strategy. Further detail on individual projects and how they will be managed can be seen in the General Fund Capital Programme 2014/15 to 2017/18 Report

1.2.3.2 **Treasury Management Strategy**

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Chief Financial Officer to make decisions on the management of the City Council's debt and investment of surplus funds.

The City Council is able to borrow on a long term basis to finance capital and on a short term basis to manage cash flow fluctuations. The Council is also able to invest surplus funds.

The core elements of the 2015/16 strategy are :

- To continue to make use of short term variable rate debt to take advantage of the current market conditions of low interest rates.
- To constantly review longer term forecasts and to lock in to longer term rates through a variety of instruments, as appropriate during the year, in order to provide a balanced portfolio against interest rate risk.
- To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.
- To invest surplus funds prudently, the Council's priorities being:
    - Security of invested capital
    - Liquidity of invested capital
    - An optimum yield which is commensurate with security and liquidity.
- To maintain borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries

Annual Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £66M and £125M, and are expected to be maintained between £70M and £100M in the forthcoming year, which is lower than previous years due to falling balances

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

Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2015/16. This is especially the case for the estimated £35M that is available for longer-term investment. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, and money market funds. This diversification will therefore represent a substantial change in strategy over the coming years.

In order to limit exposure to risk the TMS puts in place a series of investment limits which are detailed in Table 1. In setting these limits the authority needs to be mindful of the level of reserves available to cover investment losses. The level of useable reserves available at the 31 March 2015 are forecast to be £40M

Table 1 – Investment Limits

	Cash limit or %
Any single organisation, except the UK Central Government	£10M each
UK Central Government	unlimited
Any group of organisations under the same ownership	£10M per group
Any group of pooled funds under the same management	£10M per manager
Negotiable instruments held in a broker's nominee account	£50M per broker
Foreign countries	£10M per country
Registered Providers	£5M in total
Loans to unrated corporates	£0.5M in total
Money Market Funds	£10M per fund and no more than 50% of investments in total

Borrowing Strategy

The Authority currently holds £256M of loans, a decrease of £18M on the previous year (£274M), as part of its strategy for funding previous years' capital programmes. The balance sheet forecast identifies a need to borrow and the Authority expects to borrow up to £4M in 2014/15 and up to £77M between 2015/16 and 2017/18 to fund the capital programme (£54M) and to cover the expected fall in balances and cash flow requirements. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead

By doing so, the Authority is able to reduce net borrowing costs (despite reducing investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Our Advisors will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2015/16 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and its successor body
- Local authorities
- Any institution approved for investments
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Hampshire County Council)
- Capital markets bond investors (stock issues, commercial paper and bills)
- Local Capital Finance Company and other special purpose companies created to enable joint local authority bond issues

Further detail is available within the Treasury Management Strategy and Prudential Limits 2015/16 to 2017/18.

1.2.3.3 Below is a sample of further strategies that have been considered in drawing up the MTFS:

- Solent Economic Plan 2014-20
- Solent Inward Investment Strategy 2014
- Housing Revenue Account Business Plan 2015/16 to 2044/45
- Joint Health and Wellbeing Strategy
- Better Care Plan
- Corporate Property Strategy and Asset Management Plan
- Human Resources Strategy
- Local Transport Plan and Transport Asset Management Plan
- Safe City Strategy
- Housing Strategy 2011 - 2015

It should be noted at this stage that an exercise is currently underway to review and rationalise the strategies and policies that are currently in place. Once this is complete the MTFS will need to be updated to reflect any new financial consequences of these.

1.3 National and External Factors

The MTFS is set within the context of national economic and public expenditure plans, and takes into account the national legislation setting out the City Council's ability to borrow and to raise income from council tax and other sources.

The Government's austerity measures aimed at addressing the UK budget deficit have created significant financial pressures across the public sector. Local government has borne a higher proportion of government funding reductions than other public services and the National Audit Office (NAO) estimates that by 2016, government funding for local government will have dropped in real terms by 37% since 2010.

The future for public sector finances looks even more challenging. The Office for Budget Responsibility (OBR) points out that the UK is now in the fifth year of what is projected to be a 10-year fiscal consolidation. Around 40 per cent of the cuts projected for public services have been delivered during this Parliament, with about 60 per cent to come in the next Parliament.

Parliament approved an updated Charter for Budget Responsibility in January 2015. This Charter sets a number of financial targets for government spending up to 2017-18. The Treasury forecasts that to meet these targets a new government would have to make additional tax rises or spending cuts of around £30bn over the following two years, 2016-17 and 2017-18.

The political parties have begun to outline how they would meet the required budgetary targets if they formed the next government. Given the budget deficit and the commitment to protect the NHS, local government funding will, irrespective of the formation of the next government, continue to be reduced.

Spending plans beyond 2017/18 are not available but the Coalition Government have outlined targets to have an overall budget surplus of £23bn by 2019/20. Forecasters have indicated that to deliver this target the Chancellor would have to increase the level of cuts to at least £48bn a year by 2019/20. Non-protected government departments, such as the Department for Communities and Local Government would expect to bear the brunt of the implied cuts in public spending.

Comprehensive Spending Review and 2015/16 provisional settlement

At present there are no firm dates of when the next Comprehensive Spending Review will be undertaken, however the current Government has undertaken a spending review each year when determining the settlement figures for each authority.

The salient points from the provisional 2015/16 settlement announcement are:

- Local authorities increasing Council Tax by **2% or above** will be required to hold a local referendum. This applies to local authorities, fire authorities and police authorities.
- Local authorities freezing or lowering Council Tax level in 2015/16 will receive a Council Tax Freeze Grant equivalent to a 1% increase in Council Tax
- Council Tax Freeze Grant for 2014/15 is now included within the Settlement Funding Assessment for 2015/16.
- Rural funding has increased to £15.5m (previously £11.5m). This funding is now

all within Revenue Support Grant (RSG) – previously, £9.5m was in RSG and £2.0m was paid as Rural Services Delivery Grant.

- A deduction of £23.4m has been made from RSG to fund the Improvement and Development Agency.
- The £9.4m in Efficiency Support Grant payments for 2014/15 will be rolled into the Settlement Funding Assessment for 2015/16.
- Revenue Support Grant was identified as including £129.6m for Local Welfare Provision. **It is important to note that this is not new or additional funding.** The DCLG have decided to split out an element of RSG to reflect what it believes should reflect Local Welfare Provision. However, this amount was previously paid as a Specific Grant in 2014/15, with **no additional funding added to RSG for 2015/16**.
- The loss in funding as a result of the 2% cap on the 2015/16 Business Rates Multiplier (announced at Autumn Statement 2014) will be refunded to local authorities through a S31 grant payment (in the same way as the 2014/15 2% cap)
- The City Council's Revenue Support Grant was reduced by 28%

As can be seen from the points above whilst the Revenue Support Grant is reducing the ability to close any budget gap from council tax increases is also being restricted with the 2% referendum cap. Recently press and media coverage suggests this cap could be reduced going forward to 1%.

Combined Authorities

The Government has recently announced its intention to support an enhanced Greater Manchester Combined Authority, with an elected mayor model, and at the same time encouraging other authorities to look down this route

1.4 Key Assumptions

Local Authority budgeting is by its very nature difficult to forecast with absolute certainty since there are so many variables that need to be assessed and so much of the information is not known until very late in the process.

Summary of Key Assumptions

Table 2 summarises the key assumptions made at arriving at the financial figures that are presented in Section 3. Figures in brackets represent a reduction.

Table 2 – Summary of Key Assumptions

Item	2015/16	2016/17	2017/18	2018/19	2019/20
Business Rates	Increase of 2% per annum				
Council Tax	Increase 1.99% per annum				
Revenue Support Grant	(28.5%)	(29.2%)	(36.1%)	(50.4%)	(52.55%)
Other Grants	(12.0%)	(12.0%)	(12.0%)	(12.0%)	(12.0%)
Consumer Price Index (CPI)	2.5%	2.0%	2.0%	2.0%	2.0%
Retail Price Index	2.9%	3.4%	3.7%	3.7%	3.7%
Pay Award	2.2%	2.0%	2.0%	2.0%	2.0%
Superannuation	13.1%	13.1%	13.1%	13.1%	13.1%

Business Rate Retention Scheme

The Business Rate Retention (BRR) Scheme was introduced in April 2013 and represented a major change in the way in which local government is funded. It is seen by the government as providing a direct link between business rates growth and the amount of money local authorities have available to spend on local services.

Councils are now able to retain a proportion of their growth in business rates and will also be taking the risk for reductions in business rates, although there are 'safety net' arrangements in place to protect against very large reductions.

The scheme as it currently stands means whilst Southampton has no influence over the rateable value, rates charged or the percentage increase each year, it does retain almost half the risk from the volatile nature of the receipts. The one element that the local authority can influence is the economic growth within the region which may result in increased revenues from Business Rates.

The Valuations Office is undertaking a reset of rateable values from 2017/18. This means the level of volatility off business rates in 2017 is at the moment even higher until the outcome of the reset exercise is known.

Businesses can appeal against the rateable value given, and under the new scheme the Council carries approximately half the risk if values are reduced. Appeals can be backdated and as a consequence of this the Council has set aside a provision to deal with this element of the financial impact. In December 2014 the Government announced it was closing the appeals window and that appeals received on or after 1 April 2015 will only be backdated until this date.

The current assumption built into the MTFS is fairly neutral, with a 2% increase per annum reflecting the uplift set by government. At this stage, no assumptions have been made about growth. This is not because there will be no growth, but because it is difficult to model real growth against downside reductions for displacement, reduced gross rateable value overall due to impact of appeals and business closure. As our evidence base builds on business rates, we anticipate that our modelling will become more sophisticated over time.

Council Tax

The tax base for 2014/15 reflected the required adjustments as a result of the localisation of Council Tax Benefits and changes to associated funding which was implemented from 2013/14.

A new Local Council Tax Scheme was introduced in 2013/14 which, as a result of the localisation of Council Tax Benefits, allows the Council to set its own criteria for offering reduced Council Tax for those eligible.

The changes to discounts, exemptions and LCTS are now in place, and the LCTS administration grant has been confirmed and included in the forecast position.

As set out in Table 2 above, the assumption is that Council Tax rises will be set at just below the 2% referendum limit in future years, at 1.99%. There remains a risk that the Government could impose a lower Council Tax referendum threshold.

Revenue Support Grant

Historically a major source of funding for the Council has been the Revenue Support Grant (RSG), however since the austerity measures have been introduced this grant has been reduced drastically with the Council seeing a 28.5% reduction in 2015/16. As set out earlier in this document, the National Audit Office has calculated that in real terms RSG has reduced by 37% since 2010.The MTFS assumes that by 2019/20 there will be only a small contribution from this grant circa £5m. This assumption is based on LGA predictions and soft market intelligence regarding the likely level of Government funding that will be available to support council's by the 2020.

Housing Benefit Administration Subsidy

In addition to the changes resulting from the localisation of Council Tax Benefits, Housing Benefit is to be phased out and replaced by Universal Credit. As such there was an expectation that Housing Benefit Administration Subsidy, which is funding towards the cost of administering Housing Benefit, may cease from 2015/16.

Confirmation has now been received from the Department for Work & Pensions (DWP) that this funding will continue into 2015/16 whilst the delivery plans for the introduction of the Universal Credit are reviewed. The funding will however exclude funding for the Single Fraud Investigation Service Project (SFIS) as this has now transferred to the DWP in 2014/15. It should be noted that there is no proposed change to the 2014/15 funding assumptions as a result of this transfer.

A further £1.4M of non-recurrent grant funding has therefore been assumed in setting the forecast position for 2015/16.

Public Health Grant

The Public Health Grant that was introduced in April 2013 will continue to be a ring-fenced grant to Local Authorities into 2015/16. The Southampton grant award has remained at the same level as 2014/15 with 0% growth. The current assumption is that there will continue to be 0% growth for the foreseeable future.

However for 2015/16, in addition to the Public Health responsibilities that transferred from April 2013, Local Authorities will take responsibility for commissioning children's public health services from pregnancy through to five years. The Council's responsibility for these services will commence from 1 October 2015. The funding will be included as an additional sum within the Public Health Grant. It has been assumed that the funding level agreed by the Council with NHS England and Solent NHS Trust as part of a baselining exercise conducted in September 2014 will be sufficient to fund these services, (Health Visiting Service and Family Nurse Partnership).

Care Act

The Care Act 2014 will come into force from 1 April 2015. The Act deals with the reform of adult social care and support legislation. The introduction of the Act will be phased over two years with changes including the rights of Carers, a national eligibility criteria and universal Deferred Payments coming into force on 1 April 2015. From 1 April 2016 the funding reforms will be introduced which will see the arrival of the Care Account and a new Capital limit threshold for client contributions.

The current assumption is for the cost of this new burden to be met by the funding allocation provided within the Better Care Fund and the new Carers and Care Act Implementation grant.

There has not been an announcement in respect of allocations of additional funding for the cost of implementing the funding reforms in 2016/17. It is however anticipated that additional funds will be allocated. The true cost of these reforms have been modelled but are very difficult to predict with any degree of accuracy. At this current time it is assumed that the additional pressure will be met, entirely from the Government Grant however an allowance has been within the budget due to the uncertainty involved.

New Homes Bonus

To encourage an increase in the number of homes available in the UK, the Government in 2011 brought in a grant payable to local authorities referred to as the New Homes Bonus. This grant was calculated based on the amount of extra council tax revenue raised for new build homes, conversions and long term empty homes brought into use, with an additional payment for affordable homes. This grant was payable for 6 years.

Recent advice from the LGA suggests this grant may be brought to an end earlier than originally anticipated and should therefore be removed from council's financial planning totals.

The MTFS does not assume any payment of this grant post 2015/16.

Other grants

The Council receives a variety of other grants from Government and the MTFS assumes these will decline over the life of the forecast to circa £1M

The result of these assumptions is that the Council will receive minimal levels of funding from Central Government by the end of the term of the MTFS. This is in line with LGA and other authorities assumptions about the level of grant moving forward.

Pay Inflation

Assumptions have been made in the forecast about the likely level of pay inflation that will apply from April 2015. As a large proportion of the Council's expenditure is pay related, this can have a significant impact if actual rates are much higher than predicated.

The award, approved in November 2014, has been incorporated in the 2015/16 and future years budget position. This is an increase of 1.2% on the previously assumed pay award of 1% giving an overall award of 2.2% increase effective from January 2015 covering the period to March 2016. In addition a 0.45% lump sum payment was given on all scale points in December 2014. This is not a cumulative payment and therefore only impacts on 2014/15. In 2015/16 this has given rise to an additional pressure of 0.19% over the cumulative inflation assumptions of 1% per annum for 2014/15 and 2015/16. This was managed within the existing provision for general inflation.

The forecast for pay inflation is for a 2% per annum increase from 2016/17 onwards.

Ending of Contracted out Pensions Schemes

Provision has also been made for the financial impact of changes made to the national pension arrangements which no longer allow National Insurance Rate reductions to public sector employees who opt out of SERPS from 2016/17.

This has been based on the assumption the current staffing levels will continue.

General Inflation

Assumptions have been made in the forecast about the likely level of general inflation that will apply from April 2015. If inflation were to increase at a higher rate than anticipated then this would have an impact on the Council, not least because the Council's major outsourced/partnership contracts are uplifted by indexation linked to inflation on an annual basis.

However, current indications are that in the short term an increase is unlikely. However, the risk has been mitigated by the inclusion of amounts in the Risk Fund to cover key elements of inflation, for example in relation to fuel and energy costs, which can be volatile.

Beyond this provision, it is likely that this would be managed as an 'in year' issue and that Directorates would be expected to absorb the difference.

Pension Fund Issues

Employer contributions to the Hampshire Local Government Pension have been reviewed as part of the triennial revaluation process. The outcome of the review undertaken by the Actuary resulted in rates for both past and future service being set which are lower than previously anticipated. The revised position has been included within the forecast for 2015/16 to 2016/17. Rates for the period 2017 onwards will be determined by the outcome of the next triannual valuation.

Investment and Debt Portfolio Position and Projections

The MTFS is based on the projections contained within the Treasury Management strategy around the councils net borrowing position, detailed in the following table 3:

Table 3 – Council Net Borrowing Position

	31-Mar-14 Actual £M	31-Mar-15 Approved £M	Current Portfolio £M	31-Mar-15 Current Estimate £M	31-Mar-16 Current Estimate £M	31-Mar-17 Current Estimate £M	31-Mar-18 Current Estimate £M
External Borrowing:							
Fixed Rate – PWLB Maturity	139	148	139	143	192	207	220
Fixed Rate – PWLB EIP	81	81	73	70	58	46	35
Variable Rate – PWLB	35	35	35	35	35	35	35
Variable Rate – Market	9	9	9	9	9	9	9
Long Term Borrowing	**264**	**273**	**256**	**257**	**294**	**297**	**299**
Short Term Borrowing							
Fixed Rate – Market	10	10	0	20	30	30	30
Other Long Term Liabilities							
PFI / Finance leases	62	61	62	67	65	62	60
Deferred Debt Charges	16	17	16	16	15	14	14
Total Gross External Debt	352	361	334	360	404	403	403
Investments:							
Managed In-House							
Deposits and monies on call and Money Market Funds	(66)	(40)	(53)	(35)	(25)	(25)	(25)
Financial Instruments	(3)	(3)	(18)	(30)	(30)	(30)	(30)
Managed Externally							
Pooled Funds			(5)	(5)	(5)	(5)	(5)
Total Investments	(69)	(43)	(76)	(70)	(60)	(60)	(60)
Net Borrowing Position	**283**	**318**	**258**	**290**	**344**	**343**	**343**

KEY RISKS

1.5 There is a significant degree of risk and uncertainty, arising from both internal and external factors, which could have a significant impact on the key assumptions made within the MTFS. The macro financial systems within which the Council operates is complex and highly sensitive to a range of variables. It is therefore important that those key risks, that could have a material effect on the financial position of the Council, are identified and understood in terms of the potential impact (positive or negative) and the likelihood of occurrence. The foregoing recognises that it is vital to have adequate mechanisms to manage risks if financial stability is to be achieved.

Factors that can have a material effect on the financial position of the Council include:

- The lack of certainty in future years' government support;
- Changes in function;
- Changes in how services are funded;
- Changes in the economy;
- Changes in members priorities;
- Unmanaged service pressures;
- Council tax policy;
- Changes in legislation;

- Level of future pay awards;
- Adequacy of the Risk Fund in any one period; and
- Business Rate Volatility

Risks to the MTFS can clearly therefore arise from both external and internal factors, and it is therefore vital to have adequate mechanisms to manage risks if financial stability is to be achieved.

It is important to note that the revised forecast represents the most realistic forecast position moving forward. However, there are a number of risks associated with these revised forecasts, the main risks being as follows:

1. **Financial Risk** – the majority of the future years strategy and model is based on a series of assumptions, the further into the future you look the higher the risk of these assumptions are inaccurate.
2. **Political Risk** – with the forthcoming election there is a risk the national picture and policies could change. This could impact on all aspects of this strategy in particular to the funding available
3. **Treasury Risk**- the MTFS is based on a stable global financial position going forward with early indications of a recession in the last year of the strategy being taken into account. If this changes it may have a major impact on the financial position of the Council particularly around business rate income, and interest payments.
4. **Transformational Change** – It is essential that the council undergoes transformational change to ensure the organisation is sustainable. There is a degree of risk associated with this type of change, particularly as the management capacity to drive this change through reduces, and as we seek to deliver significant change against a backdrop of constrained funding.

HORIZON SCANNING

2 Key issues affecting council services and finances. Detailed below are the key issues which are currently having a major impact on the Council's budget in the short and medium term, whilst Annex C provides further context of the demographic and system wide social-economic factors which undoubtedly impact the residents of Southampton and have an impact on the services which the City Council and its partners deliver across the city. Table 6 sets out the financial resources included in the Medium Term Financial Forecast in Annex A to address the factors detailed below, where it has been possible to make a financial assessment at this time. The financial consequences of these items will be reassessed during the MTFS update in September.

2.1 Demographics

Looking at population forecasts, in Southampton as nationally, average life expectancy is increasing and as a consequence more people are living longer. The fastest growing sector of the population is that aged 65 years and over. Forecasts made using known residential development plans predict the over 65s will rise by 11% between 2011 and 2018 whilst the number of people over 85 years is forecast to grow from 5,300 to 6,000, an increase of 13%. Longer term projections, based on past trends, predict a 42%

increase in over 65's in Southampton between 2010 and 2035 with the number of residents in the city aged over 85 reaching 10,000 by 2035.

The increasing proportion of older people creates challenges for individuals and policy makers alike, and it increases pressures on social care resources and other public services. Medical advances are meaning people who previously might have died at a young age are living longer, often into adulthood, but frequently with long-term conditions and needs which require support to help them live as independently as possible. Likewise, with old age being extended, demands for social care and support are increasing. At the same time, the proportion of the population of working age is steadily declining and this may impact on availability of informal and community care.

In 2011/12, 213 older people per 1,000 were in receipt of social services in Southampton compared to a national average of just 113.5 per 1,000. As more people live longer the number of people living with dementia will continue to rise. It is anticipated that as techniques for diagnosing dementia improve, this will add to the total number of individuals requiring support. In 2011/12 there were 1,439 Southampton residents recorded on GP registers as having dementia; this has increased from 1,022 in 2006/07. This increase represents increasing prevalence and the ageing of the population as well as increased diagnosis and recording by GPs.

2.2 **National and Local Policy**

Welfare reforms and introduction of Universal Credit

Southampton with be in the first tranche of the national roll out of Universal Credit (currently planned or March 2015 and focusing on new claims only). Once Universal Credit is fully implemented, Local Authorities will be asked to provide 3 main services, mainly to the most vulnerable claimants who have complex support needs. These are:

- Supported on-line access, where claimants need one-to-one support to access the UC claimant portal on gov.uk website or to complete the UC on-line application or both.
- Personal Budgeting Support, where the UC claimant needs support to manage financial affairs on a monthly basis.
- Support for the UC Service Centre for administering the housing element of UC. This includes queries about Housing Benefit and the more complex housing issues that may arise.

'Universal Services – Delivered Locally' will provide the 'partnership framework agreement' for this. Although there have been a range of pilots and projects linked to Universal Credit, it is difficult to predict the direct and indirect impacts locally at this time.

The withdrawal of Central Government funding for Local Welfare Provision will also have an impact on the support the local authority and other key services in the city can provide for individuals and household in crisis and for crisis prevention.

Better Care Fund

The Better Care Fund will commence from 1 April 2015. The purpose of this fund is to ensure closer integration between health and social care. Locally Councils and Clinical

Commissioning Groups are required to set a pooled budget under S75 of the National Health Service Act 2006 to achieve this aim.

The Southampton Better Care Plan has been approved following the Nationally Consistent Assurance Review which identified no areas of high risk within the plan and means that Southampton can now progress its plan with establishment of a Better Care pooled fund by 1 April 2015.

The Southampton Better Care Fund pools funding for a significantly greater number of services than the minimum required which is consistent with the ambition locally to integrate and pool resources at a scale to significantly transform its health and care services. Furthermore, there is an ambition to further increase the pool and the services provided in future years.

The Southampton Better Care Plan has identified key areas where greater integration between Health and Social Care will make system wide efficiencies that will benefit both organisations. For the Council these efficiencies have been included within the medium term financial forecast. After the initial set up and development of the plan it is intended that further opportunities for efficiencies will be generated.

2.3 **Socio- Economic Factors**

Children Looked After

There has been an on-going increase in the referrals of children and young people at risk of abuse or neglect over the past few years. Over the period 2009 to 2013 the rate of children in care increased by 58% in Southampton compared to an 11% increase nationally. In the year ending March 2013, Southampton City Council carried out 285.7 Section 47 Child Protection investigations for every 10,000 children (compared with 111.5 per 10,000 nationally) and the city had 91.6 per 10,000 children subject to an initial child protection conference compared with 52.7 per 10,000 nationally. These high rates in Southampton reflect both the level of need in the City and children's service provision. To ensure that children's needs are met at the earliest stage, a children's services transformation programme was initiated in September 2013. Historically, economic hardship has been linked to pressure on families and increased demand for safeguarding services so there is a very real risk of a worsening situation as the global economic recession and national welfare reforms start to impact.

The financial implications for the city of the number of children in care has continued to be an issue and to date there has not been a decline. The number of Children looked after in the City, for which the Council make a financial contribution for the cost of their care has increased by 44% since April 2011. Significantly within this increase the number of fostering placements made with independent fostering agencies, (IFA) has increased by 169% whilst the number of placements made within the Council's own fostering service has increased by 21%. The cost of an IFA is, on average three times more expensive than an internal placement. This has created and continues to create a significant pressure on the Children Services budget.

The growth in overall looked after children has slowed marginally in the last two years. However the number of IFA placements as increased by 61% over the same period and now represents a more significantly larger proportion of all looked after children.

The medium term financial forecast incorporates the impact of a reduction in cost of the number of looked after children over the next three years. For 2015/16 the planned trajectory of fostering placement numbers is shown in the table 4 below.

Table 4 - LAC trajectory 2015/16

	Actual	Projected		Change		
	Nov-14	Apr-15	Mar-16	Nov 14 - Apr 15	Apr 15 - Mar 16	Nov 14 - Mar 16
Fostering up to 18	300	285	254	-15	-31	-46
Independent Fostering Agencies	148	134	109	-14	-25	-39
Independent Fostering Agencies Parent and Baby	6	6	6	0	0	0
Total Under 18 Fostering				**-29**	**-56**	**-85**
Staying Put	35	32	56	-3	24	21

Should this projection or an equivalent not be achieved there will be an additional pressure that is not currently allowed for within the councils medium term financial forecast.

2.4 **Physical-environmental factors**

Housing. There are many issues in respect of housing. In Southampton 25% of households live in privately rented housing compared with 17% nationally. Over 7,000 are HMOs. Around 38% or 28,000 private owned or rented homes do not meet the decent homes standard. Nearly a quarter of all homes are in the social rented sector with 17,000 managed by the Council. But it has 14,000 households on its housing waiting list. The cost of housing has increased significantly and there is an affordability issue (house cost-to-average pay ratio). The number of new affordable homes available needs to be increased.

2.5 **Political Environment**

Key known events impacting on the political environment during 2015:

- Final Budget before the General Election delivered by the Chancellor - March 2015
- Publication of election manifestos – Late March or early April 2015
- General and local elections - 7 May 2015
- Queens Speech setting out the government's legislative programme for 2015/16 - May or June 2015
- Comprehensive Spending Review (Coalition Government has committed to giving local authorities and CCGs indicative multi-year budgets after the next Spending Review) – Likely to be between July and September 2015
- Autumn Statement – December 2015
- Local government settlement for 2015-16 and beyond – December 2015

2.6 **Wider Partnership Working**

Southampton has trialled a Community Budgeting approach across skills, employment and criminal justice agencies to meet defined collective outcomes on a PBR basis, and the mechanism is still in place to respond to opportunities. The City Deal employment programmes will also be delivered through this route. However, Combined Authority/devolution outcomes are more likely to provide the governance and processes for Community Budgeting in the future.

<u>One Public Estate</u>

Southampton has been involved in the One Public Estate programme that looks to reduce accommodation and work with our public sector partners through the One Public Estate programme. Key achievements have been:

- The vacation of the One Guildhall Square building and leasing it to Southampton University from January 2015 which provides an annual income of £0.9M,
- Saving of £0.1M per year from Castle Way,
- A capital receipt of £1.8M from Marland House.

3 THE FINANCIAL CHALLENGE

3.1 Forecast Financial Position 2015/16 – 2019/20

The Councils financial position is detailed below and will need to be updated following the next Comprehensive Spending Review, each settlement, implementation of the transformation agenda and any revision to the Council Strategy.

Where possible factors described in the preceding sections have been built into the financial modelling to ascertain the forecast financial position. The graph below demonstrates the funding gap to 2019/20.

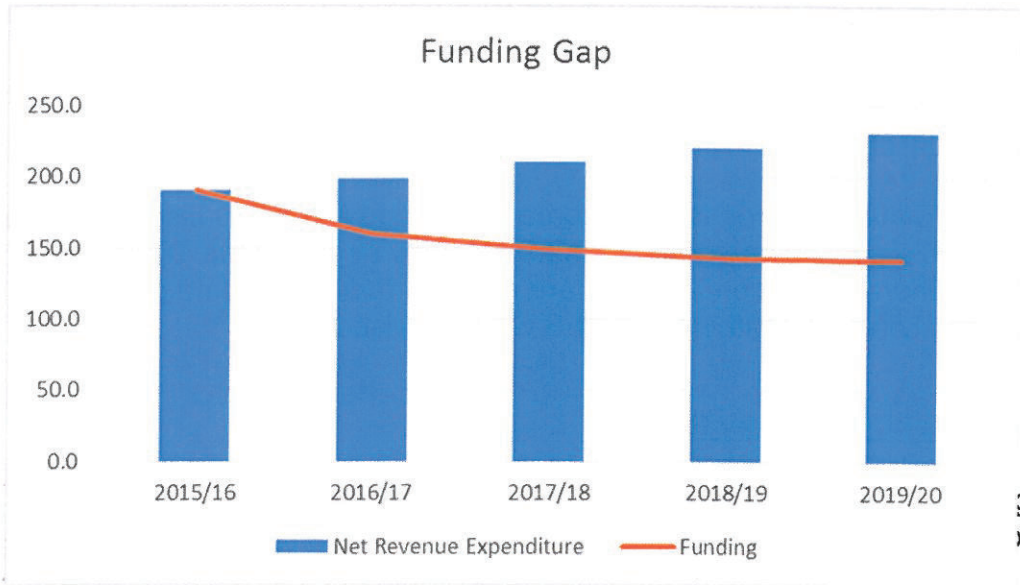

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Table 5 – Summary of Savings Requirements

	2015/16	2016/17	2017/18	2018/19	2019/20
	£M	£M	£M	£M	£M

Net Expenditure	201.1	210.1	221.6	232.3	243.1
Baseline Funding	(191.1)	(159.8)	(149.6)	(143.2)	(141.6)
Savings	(10.0)	(11.2)	(11.4)	(11.4)	(11.4)
GAP	0	39.1	60.7	77.7	90.1

3.2 **Pressures**

Table 6 below summarises the pressures included in the forecast from the issues described in the preceding sections as well as pressures that have been identified via the individual service areas through regular financial monitoring and budget setting.

Table 6 – Summary of Pressures

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£M	**£M**	**£M**	**£M**	**£M**
Demographic	3.6	4.0	4.4	4.4	4.4
National/Policy	1.4	1.6	1.3	1.3	1.3
Socio- Economic	3.8	3.8	3.8	3.8	3.8
Physical-Environment	0.3	0.3	0.4	0.4	0.4
Total	**9.1**	**9.7**	**9.9**	**9.9**	**9.9**

3.3 **New Initiatives**

As well as experiencing pressures the Council have also identified a number of new initiatives that it wishes to undertake to help stimulate the economy. In the main these are being achieved by capital and third party investment in the city for example Cultural Quarter and Watermark.

£3M has been set aside to deliver the Transformation Agenda within the 2015/16 budget

3.4 **Income Generation**

The Council's approach regarding income generation is to maximise opportunities where possible and income generation forms a key strand of the Transformation programme therefore once proposals are more certain the income generation assumptions contained within the MTFS will be revised.

3.5 **Key Financial Commitments**

The council has in previous years entered into a number of strategic contracts which have resulted in ongoing financial commitment. Whilst these contracts can be monitored and performance managed to ensure they are value for money, it can be lengthy and more difficult to renegotiate these contracts to reduce expenditure.

The current commitments are

A) PFI Schools

A PFI contract was approved by the Government to significantly improve the quality of the buildings in three of the City's secondary schools and to provide additional places in two of them. The contract with Pyramid Schools (Southampton) Ltd started on the 29 October 2001 and will terminate on 31 August 2031. The annual fee (Unitary Charge) is £6.372M supported by an income stream (PFI credits from Government) of £3.856M. The DfE are supporting the Council in reviewing the PFI contracts with the aim of driving out savings.

B) Hampshire Waste Contract

In 1996 the Council entered into a tri-partite arrangement with Hampshire County Council and Portsmouth City Council, in respect of Waste Management Services from Veolia Environment Services. The contract involved the building and running of three Energy Recovery Facilities, two Material Recycling Facilities and the provision of waste management services. The contract is for a 25 year period and runs until 2025, this has recently been extended to 2030. The Council will deliver savings in the contract from 2015/16 onwards due to an agreed contract extension.

C) BUPA Care Homes (Northlands, and Oak Lodge Nursing Homes) Public Private Partnership

The Council has agreed to lease the land, on which the nursing homes have been built, to BUPA for an annual £1 peppercorn rent for 50 years, and has block contracts for 25 years, Northlands until July 2030, and Oak Lodge until 2035.

D) Strategic Services Partnership (SSP)

The Council has outsourced Customer Services, Local Taxation and Benefits, Procurement, Property, Information Technology, Printing, Health and Safety and Human Resources to Capita via the SSP, which commenced on 1 October 2007.The SSP is scheduled to run until 30 September 2022, following an exercise in December 2013 of an option to extend it by five years. The current cost to the Council is circa £32M p.a. made up of fixed and variable charges.

E) Highways Service Partnership (HSP)

The HSP with Balfour Beatty commenced on 4 October 2010 and is due to run until 3 October 2020 with options to extend by up to five further years subject to Service Provider performance against Key Strategic Indicators and at the Council's sole discretion. The services covered include highway maintenance, scheme delivery, network management, and winter gritting and asset management. The annual Lump Sum is currently £2.7M. Current capital and miscellaneous variable spend through the contract is around £13m p.a.

F) Citywatch

The Citywatch contract commenced on 1 October 2012 for a duration of ten years, with extension options of up to five further years at the Council's discretion. The services provided include public safety CCTV cameras and their monitoring, Intelligent Traffic Systems, asset management and asset investment and routine repairs.

The annual Lump sum payment for the services is currently £850k.

G) Street Lighting PFI
The Street Lighting PFI is designed to support significant investment in the city's street lighting estate during its first five years of 'Core Investment'. The Government awarded the Council £28m of PFI Credits to replace approximately 16,500 lighting columns and convert 10,250 lantern to create new energy efficient lighting, white light output and install Remote Monitoring and Central Management Systems. The contract commenced on 1 April 2010 and is for a duration of 25 years. The Service Provider is Tay Valley Lighting (Southampton) who sub contract day-to-day management and operations to SSE.

H) Leisure Services
Sports and recreation services are outsourced to Places for People who sub contract operational and day-to-day management to Active Nation. The contract commenced on 1 September 2010 and the term is fifteen years. There is a three year extension option built into the contract.The scope of the contract covers the management of leisure facilities including Bitterne Leisure Centre, The Quays, Chamberlayne Leisure Centre, Woodmill, Southampton Water Activities Centre, the Outdoor Sports Centre, Ski Centre and seven outlying sports pitches. The contract includes provision for the Provider to invest £4.5m of capital expenditure over the contract term through a lifecycle budget. The current annual expenditure for the Management Fee is £1.1m.

I) Southampton Guildhall
The Council entered into a contract on 10 February 2003 with Live Nation to manage Southampton Guildhall. The initial term was ten years, extendable by agreement to twenty five years i.e. until 2028. The Council then elected to extend the contract in 2013 for a further ten years and retained the option to extend by a further five years. The net cost of the contract is £242k p.a. which consists of a management fee or subsidy of £483k less service and energy charges.

J) Sports Development
Sports Development services are provided under contract by Southampton Solent University (SSU) under the banner of Sport Solent. The service promotes and increases sport and physical activity across the City. The contract commenced on 5 December 2011 with a ten year term. The Management Fee is £125k p.a.

3.6 **Collection Fund**

The assumptions made around Council Tax and NDR are reflected initially in the Collection Fund Account, which is a statutory account that records the collection and distribution of taxation.

Following from the assumptions detailed in Section 1.4, the forecast position for the Collection Fund is shown in table 7 below along with the Southampton City Council share.

Table 7 – Collection Fund Assumptions

	2015/16	2016/17	2017/18	2018/19	2019/20
	£M	£M	£M	£M	£M
Southampton City Council, council tax Precept	77.3	78.8	80.4	81.9	83.6
Business Rates Draw	50.1	51.1	52.0	53.0	54.0

3.7 **Housing Revenue Account**

The national self-financing regime for the Housing Revenue Account (HRA) was introduced in April 2012. A 30 year HRA Business Plan, covering both capital and revenue expenditure projections, has been prepared using the planning principles agreed by Council in November 2011 and amended by subsequent budget reports.

The main points to note are:

- All HRA debt can be repaid over the 30 year life of the plan.
- The capital spending plans include provision to maintain and improve all existing dwellings and feature an increase in the level of planned expenditure in the early years.
- This investment can be achieved within the Government's borrowing limit of £199.6M, also known as the 'debt cap'. Additionally, a reserve of at least £6M borrowing headroom is retained throughout.
- A provision of £130M is set aside for stock replacement, which will support the renewal of any of the existing dwellings that may be required over the next 30 years. This provision has been phased between year 9 and year 30 of the plan.
- The revenue budget meets the minimum balances of £2M over the life of the plan.

The HRA Business Plan has consistently shown revenue balances that increase above minimum levels within the 30 year period. This remains the case and the proposed updated plan for 2015/16 onwards shows that by year 30 the projected revenue balance will be £80.6M. However, predicted revenue surpluses do not begin to significantly exceed minimum levels until 2022/23 and the main risk to the long term plan is that, if building inflation was to exceed general inflation over a prolonged period, this would have a significant adverse impact on HRA balances. Therefore the surpluses are liable to change annually, either favourably or not, and will reflect the annual review of stock investment needs and estimated unit rates.

3.8 **Capital**

The Capital Programme report details the capital programme for 2014/15 to 2017/18. A high level summary is included in Annex B. All the revenue implications of the capital projects have been built into both the General Fund estimates and the Housing Revenue Account plans.

3.9 **Reserves and Balances**

In accordance with the best practice guidance issued by CIPFA, the minimum level of General Fund balances should be reviewed and risk assessed on an annual basis.

The CFO recommends that the minimum level of the General Fund Balances should be £5.5M. This is derived by taking a risk-based approach to assessing the overall General Fund Revenue Account, including reviewing income volatility, interest rate exposure, new contracts, potential overspends in demand led areas such as social care and safeguarding for both adults and children and any other potential issues which may need to be taken into consideration.

Balances should only be used to fund one-off revenue expenditure; any one–off draw from balances should be prudent, and subject to agreement by the Chief Financial officer. Annex A details the expected level of General Fund Balance going forward after contributions have been made to fund the capital programme and to support the revenue programme. The balance is forecast to be £9.6M at the end of the medium term financial forecast period.

As well as maintaining a risk based General Fund balance the Council can also set aside Earmarked Reserves (for these purposes earmarked reserves excludes school balances) for specific items. Bearing in mind the current pressures detailed in the report the following reserves prioritisation is recommended should any underspends or additional monies become available during each financial year

1. Medium term financial risk reserve – Following on from the compilation of the MTFS, the risks that currently in the funding system, demand pressures and the potential for savings to be delayed as the Council goes through a period of major change it would be financial sound to set aside monies to mitigate these risks on a non-recurrent basis. This will help to ensure the Council can deal with any pressures whilst it reviews its practices and the medium term financial forecast.
2. Taxation Reserve – due to the volatile nature of business rates and also as the predicted recession in 2019/20 it is suggested the authority looks at setting aside monies to mitigate against any loss if income from both this and council tax, to enable a smoothing of the impact.
3. Transformation Reserve – to ensure the Council can continue to evolve

transform and innovate a reserve is set aside to pump prime this transformation.

A further review of reserves and balances will be undertaken each year as part of the budget setting and final accounts process to ensure the council has adequate resources to cover the uncertainty and risk.

3.10 **Addressing the Gap**

The report explores how the Council will need to change the way it operates in order to meet the challenges it faces over the coming years. This new model of operating will ensure the Council focuses service delivery on meeting the outcomes really needed by local residents, communities and businesses.

The financial challenge facing the Council is obviously a major driver for this change, and we need to review the way we set budgets to align budgets with an outcome and commissioning based approach..

The initial work that has been carried out has identified a potential recurrent savings of £15M from Transformation towards addressing the £61M budget gap. These potential savings also come with potential one off investment requirements of a maximum £4.5M revenue over the 2 year period, and £10M capital. The capital investment requirements will need to be built into the Capital Programme review detailed in the Capital Strategy

At this stage the proposals referenced in the Transformation Report are high level, and the potential savings, as set out below, are therefore indicative. However, the Chief Executive and Management Team will aggressively drive forward the identified savings opportunities and themes to deliver the maximum level of savings possible to contribute towards closing the Council's overall budget shortfall.

A key part of this approach will be to deliver the identified savings opportunities as early as possible during 2015/16, and work is already underway to achieve that objective. As work progresses the potential level of savings will be confirmed, and further reports will be brought forward during the year to agree new savings and update on the budget gap remaining

As the proposals are still in development, for financial planning purposes and for inclusion in the Council's Medium Term Financial Strategy, a prudent assessment has made of the likely level of savings which can be delivered across the identified themes. However, as referenced above, the aim will be to aggressively pursue these savings to deliver the maximum financial benefit which is possible.

The following table presents a summary of the high level savings identified to date across the 4 themes. For presentation purposes, the savings are shown on a full year basis from 2016/17 onwards, although the clear intention is to progress the individual strands of work underpinning each theme at the earliest opportunity.

	2016/17	2017/18
	£M	£M

New Service Delivery Model	1.7	5.7
Services Stopped or reduced	0.6	0.6
Restructure and Streamline Existing Services	1.9	3.1
Cross Cutting	4.9	5.9
Total	**9.0**	**15.2**

On the basis of the high level work to date, the current proposals which are being worked up have the potential to contribute £15M towards the Council's overall medium term budget position by 2017/18.

It should be noted that at this time the £15M does not include any savings from the delivery of procurement efficiencies. The Council's Management Team are looking to drive out significant savings from third party contracts and is working with Capita to initially identify those contracts which may offer the largest scope for savings

The next steps in the transformation programme are to go to detailed design which should be complete by October 2015, at this stage the programme should have gone some way to addressing the £61M 2 year budget gap and the identifying the necessary costs for 2016/17.

The organisation will move to an outcomes based commissioning approach to determine the best way of delivering a service, and sitting alongside this it is anticipated the budgeting process will follow suit to deliver an outcomes based budget. The Council will review its current expenditure on an outcomes basis and from this baseline point will determine what the appropriate level of spend needs to be to deliver on its agreed priorities, within the financial envelope available.

This is a very different approach than that taken previously whereby individual services came up with savings proposals and presented these to senior management and Cabinet, similarly to what you see in the 2015/16 budget report. It is felt that the sheer scale of the challenge ahead would make this incremental method of finding efficiencies unlikely to identify the level of savings required.

Implementing an outcome based budgeting approach will not be a quick process, The timing and approach taken to implement this fundamental review of services will be critical. The outcome based budgeting and commissioning needs to

- Frame the right commissioning question regarding outcomes to determine the service design principals
- Be integrated with the service design gateway process, so that the options appraisals and business cases prepared for services as part of the service design process are consistent with the objectives of this bottom-up review and the commissioning approach (i.e. the fundamental needs and outcomes for the services must be reviewed in addition to scope and delivery model options);
- Not be constrained by the current scope of services and the way things are traditionally done;

- Not be constrained by pre-determined views from within the Council or from models elsewhere;
- Be open to innovation, new ideas and technology and to challenging thinking in relation to how services are scoped, structured and delivered;
- Have political buy-in and be owned at the top level of the Council; and
- Embed the new Operating Model's commissioning principles and approach within the organisation.

3.11 **Governance Framework for Updating and Monitoring the MTFS**

The Medium Term Financial Strategy and associated model is a dynamic strategy and as such will be changing constantly. It is anticipated this model will be updated on a quarterly basis via the Quarterly Financial Monitoring Reports. A major review will be undertaken each year to coincide with the revised Council Strategy, and a revised MTFS will be published at the same time. A further review will need to be undertaken each year following the announcement of the Council's settlement funding, when a review of the financial model and assumptions will need to be undertaken.

Both revisions will need to be agreed by full Council.

3.12 **Managing Budgets and Forecasting**

In setting the annual budget and the MTFS the Council will ensure potential risks are assessed and that they are minimised or accounted for either via the Risk Fund, Balances or Earmarked Reserves as is necessary.

Risk Based Budget Monitoring

In year, the Council will monitor its revenue and capital budgets (including the HRA) on a monthly basis and report on a quarterly basis. Budgets will be monitored using a Risk Based approach to budget monitoring using the following principles.

- The focus of Risk Based Budget Monitoring will be on the forecast outturn i.e. forward looking, focused on large high risk or volatile budgets, and will be reported to Directorate Management Teams, Cabinet, and Chief Officers Management Team.
- If the in-year budget monitoring gives rise to significant forecast under or overspends, the underlying issues will be considered in terms of likely impact on future year's budgets, and the future year forecasts will be adjusted accordingly as appropriate. The operation of the risk fund itself is of course a key factor in monitoring and managing the finances of the Council.

Accountability and Responsibility

Whilst the responsibility lies with Finance for reporting to Cabinet the financial position, the responsibility and accountability for the financial position of the services lies with the budget holder.

If the budget holder cannot resolve issues within their own service area budgets these should be dealt with on a directorate level via discussions with the Executive Director.

CONCLUSION

The current forecast position for the Council is challenging to say the least with constantly increasing demand for services and funding reducing at an unprecedented rate. This does however produce some opportunities to reshape how we currently operate and interact with our customers and this is being explored as part of the Transformation programme that is already in place.

If the Council is to achieve a £90M saving by the end of the period of this Medium Term Financial Strategy it will need to stop carrying out some functions, provide less of others and completely reshape the Council and service delivery through implementation of the proposed New Operating Model.

Annex A

MEDIUM TERM FINANCIAL FORECAST

Portfolios	2015/16 Forecast £M	Base Changes £M	2016/17 Forecast £M	Base Changes £M	2017/18 Forecast £M	Base Changes £M	2018/19 Forecast £M	Base Changes £M	2019/20 Forecast £M
Children's Services	55.1		55.1		55.1		55.1		55.1
Communities	2.1		2.1		2.1		2.1		2.1
Environment & Transport	36.2		36.2		36.2		36.2		36.2
Health & Adult Social Care	67.5		67.5		67.5		67.5		67.5
Housing & Sustainability	2.8		2.8		2.8		2.8		2.8
Leader's Portfolio	5.1		5.1		5.1		5.1		5.1
Resources & Leisure	29.9		29.9	1.4	31.3		31.3		31.3
Add Pressure - Future Years (Known)	6.6		6.6	(0.4)	6.2		6.2		6.2
Add Pressures - Future Years (Unknown)	0.0	1.0	1.0	1.0	2.0	1.0	3.0	1.0	4.0
Base Changes & Inflation	0.0	8.1	8.1	8.8	16.9	9.3	26.2	9.5	35.8
Sub-total for Portfolios	**205.3**	**9.1**	**214.4**	**10.8**	**225.2**	**10.3**	**235.5**	**10.5**	**246.1**
Levies & Contributions	0.6	0.0	0.6	0.0	0.6	0.0	0.6	0.0	0.6
Capital Asset Management	(11.2)	1.5	(9.7)	0.2	(9.5)	0.0	(9.5)	0.0	(9.5)
Other Expenditure & Income									
Direct Revenue Financing of Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trading Areas (Surplus) / Deficit	(0.0)	0.0	(0.0)	0.0	(0.0)	0.0	(0.0)	0.0	(0.0)
Net Housing Benefit Payments	(0.8)	0.0	(0.8)	0.0	(0.8)	0.0	(0.8)	0.0	(0.8)
Open Spaces and HRA	0.4	0.0	0.4	0.0	0.4	0.0	0.4	0.0	0.4
Risk Fund	4.5	0.3	4.8	0.6	5.3	0.3	5.6	0.3	5.9
Contingencies	0.3	0.0	0.3	0.0	0.3	0.0	0.3	0.0	0.3
Addition to / (Draw From) Reserves	1.9	(1.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sub-total for Other Expenditure & Income	**6.3**	**(1.6)**	**4.7**	**0.6**	**5.3**	**0.3**	**5.6**	**0.3**	**5.9**
Net Revenue Expenditure	**201.1**	**9.0**	**210.1**	**11.6**	**221.6**	**10.6**	**232.3**	**10.8**	**243.1**
Draw from Balances:									
Addition to / (Draw From) Balances	(7.1)	9.6	2.5	1.5	4.0	(1.0)	3.0	(1.0)	2.0
Council Tax	(77.3)	(1.5)	(78.8)	(1.6)	(80.4)	(1.6)	(81.9)	(1.6)	(83.6)
Non-Specific Government Grants & Other Funding	(51.0)	18.6	(32.4)	11.3	(21.2)	9.9	(11.3)	5.3	(6.0)
Business Rates	(50.1)	(0.9)	(51.1)	(1.0)	(52.0)	(1.0)	(53.0)	(1.0)	(54.0)
Council Tax Collection Fund (Surplus) / Deficit	(3.2)	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Business Rates Collection Fund (Surplus)/Deficit	(2.4)	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	**(191.1)**	**31.4**	**(159.8)**	**10.2**	**(149.6)**	**6.4**	**(143.2)**	**1.6**	**(141.6)**
Savings proposals Feb 15	(10.0)	(1.2)	(11.2)	(0.2)	(11.4)	0.0	(11.4)	0.0	(11.4)
DRAFT BUDGET GAP	**0.0**	**39.1**	**39.1**	**21.6**	**60.7**	**17.0**	**77.7**	**12.4**	**90.1**
POTENTIAL TRANSFORMATION SAVINGS			**9.0**		**15.0**		**15.0**		**15.0**

General Fund Balance	2015/16 Forecast £M	2016/17 Forecast £M	2017/18 Forecast £M	2018/19 Forecast £M	2019/20 Forecast £M
Opening Balance	**(23.4)**	**(11.9)**	**(10.0)**	**(9.6)**	**(9.6)**
Draw From Balances	7.1	0.0	0.0	0.0	0.0
Draw from Balances - Capital	1.0	0.1	0.0	0.0	0.0
Draw from Balances for Strategic Schemes	3.4	4.3	4.4	3.0	2.0
Contribution to Balances	0.0	(2.5)	(4.0)	(3.0)	(2.0)
Closing Balance	**(11.9)**	**(10.0)**	**(9.6)**	**(9.6)**	**(9.6)**

CAPITAL PROGRAMME 2014/15 ONWARDS

Portfolio	Estimate 2014/15 £M	Estimate 2015/16 £M	Estimate 2016/17 £M	Estimate 2017/18 £M	Estimate Later Yrs £M	Total £000
CHILDRENS SERVICES	9.2	6.7	1.6	0.0	0.0	**17.5**
ENVIRONMENT & TRANSPORT (E&T)	25.5	16.1	0.0	0.0	0.0	**41.6**
ENVIRONMENT & TRANSPORT (CITY SERVICES)	0.7	0.3	0.0	0.0	0.0	**1.0**
HEALTH & ADULT SOCIAL CARE	0.5	0.5	0.0	0.0	0.0	**1.0**
HOUSING AND SUSTAINABILITY	2.5	2.8	0.3	0.0	0.0	**5.5**
LEADERS	6.1	16.8	3.3	0.2	0.1	**26.4**
RESOURCES & LEISURE (RESOURCES)	2.0	2.3	0.3	0.3	0.0	**4.9**
RESOURCES & LEISURE (LEISURE)	2.6	1.3	0.1	0.0	0.0	**4.0**
TOTAL GENERAL FUND CAPITAL PROGRAMME	**49.0**	**46.8**	**5.6**	**0.5**	**0.1**	**102.0**
HRA	34.9	65.5	46.6	34.5	51.2	232.7
TOTAL CAPITAL PROGRAMME	**83.9**	**112.3**	**52.2**	**35.0**	**51.3**	**334.7**
Funded By:						
UNSUPPORTED BORROWING	5.4	36.2	13.8	0.0	0.9	**56.3**
CAPITAL RECEIPTS	13.2	13.1	3.6	3.2	2.4	**35.5**
CONTRIBUTIONS	4.2	5.3	0.3	1.3	0.0	**11.1**
CAPITAL GRANTS	30.9	26.7	4.3	0.0	0.0	**61.9**
DRF FROM BALANCES	1.5	1.0	0.1	0.0	0.0	**2.6**
DRF FROM PORTFOLIOS	10.8	11.0	10.7	10.8	7.2	**50.5**
DEPRECIATION RESERVE	17.9	19.0	19.4	19.7	40.8	**116.8**
TOTAL FINANCING	**83.9**	**112.3**	**52.2**	**35.0**	**51.3**	**334.7**
POTENTIAL TRANSFORMATION COSTS		**5.8**	**4.4**			

CONTEXTUAL FACTORS IMPACTING ON THE MEDIUM TERM FINANCIAL STRATEGY

A Demographics

In 2011 the Census recorded the resident population of Southampton to be 236,900, with 268,200 people registered with GP practices as of January 2013. The profile of the City's population differs from the national average because of the large number of students; 20% of Southampton's population is aged between 15 and 24 years compared to just 13% nationally.

In terms of household composition, the 2011 Census revealed that the city has a higher proportion of single (never married) residents than nationally (33.3% compared with 25.8%), as might be expected from the large student population. Southampton also has 10,249 widowed residents and 17,184 who are single through separation or divorce. There are 11,283 households in the city consisting of older people living alone. In 2011 there were 6,918 lone parent families in Southampton with dependent children; of these, 46.8% were not in employment (compared to 40.5% nationally) and the vast majority were female (over 91%).

Southampton is a diverse City: in the 2011 Census 77.7% of residents recorded their ethnicity as white-British, a sharp decrease from 2001 when 88.7% of residents put themselves in this category. The biggest change has been in the 'Other white" population, which includes migrants from Europe, as this has increased in last 10 years by over 200%, from 5,519 to 17,461.

Southampton also has a higher proportion of households where no-one has English has their main language (7.7% compared to 4.4% nationally). There are 7,522 households in the city that fall into this category. The school Census in 2012 found that 14.1% of school pupils had a first language other than English; a rise from 8.4% in 2007. In 2007 there were 427 pupils whose first language was Polish but by 2012 this had risen to 1,282.

The older population living in Southampton are faced with substantial poverty:

- There are 7 areas in the city where Income Deprivation Affecting Older People is in the worst 10% for England, they are mainly clustered in the central areas of the city with the exception of Weston.
- According to Mosaic, 3.77% (3,863 household) are deprived, very elderly single pensioners living in council owned, purpose built accommodation.
- In Southampton, 46% of homeowners over 85 live in non-decent housing, compared to an England average of over 50%.
- Men living in deprived areas of the city can expect to live 8 years less than those in the least deprived areas
- Over the 2004-11 period, an average of 104 people died each year in Southampton because of cold weather. Around 56 of these people were aged 85+. In the UK, frail, elderly women are the most vulnerable group and rates of excess winter mortality are highest amongst people with circulatory or respiratory disease.

In 2011/12, 213 older people per 1,000 were in receipt of social services in Southampton compared to a national average of just 113.5 per 1,000. As more people live longer the number of people living with dementia will continue to rise. It is anticipated that as techniques for diagnosing dementia improve, this will add to the total number of individuals requiring support. In 2011/12 there were 1,439 Southampton residents recorded on GP registers as having dementia; this has increased from 1,022 in 2006/07. This increase represents increasing prevalence and the ageing of the population as well as increased diagnosis and recording by GPs.

B National and Local Policy

Localism Act

The Localism Act 2011 set out a series of measures designed to achieve a shift in power away from central government and towards local people. They include: new freedoms and flexibilities for local government; new rights and powers for communities and individuals, and reform of the planning system.

The Act includes a 'general power of competence' giving local authorities the legal capacity to do anything that an individual can do that is not specifically prohibited and gives councils more freedom to offer business rate discounts - to help attract firms, investment and jobs.

This Act passes rights direct to communities and individuals, such as: The Community right to challenge that gives voluntary and community groups, parish councils and local authority employees the right to express an interest in taking over the running of a local authority service; The Community right to bid giving communities the right to buy community assets; The Community right to build; Neighbourhood planning, that introduced a new right for communities to draw up a neighbourhood plan, and the right to approve or veto excessive council tax rises.

In Southampton the Act has resulted in a number of communities developing and considering neighbourhood plans to influence the development of their local area; A number of public houses are now listed on the council's Asset of Community Value register and the voluntary and community sector continues to play a key role delivering services in the city.

Welfare reforms and introduction of Universal Credit

The Welfare Reform Act (2012) represents the biggest change to the welfare benefit system in 60 years. A number of welfare reforms have been implemented since 2011; these have included out-of work and in-work benefits such as Tax Credits.

2013/14 brought significant changes to Council Tax Benefit, the abolition of Social Fund Community Care Grants and Crisis Loans and its transitional replacement with Local Welfare Provision, changes to Disability Living Allowance, the Benefit Cap and Housing Benefit Under-occupancy in social housing and changes to the way welfare benefits are 'up-rated'.

The Local Government Association commissioned analysis of the cumulative impact of the major welfare reforms. As the timetable of reforms is ongoing, with changes continuing to be introduced, the financial year 2015/16 was chosen as the comparison point. For Southampton it estimates that 34,157 households are impacted, with an average loss of £1,551 per year.

In general, welfare reform has impacted most on households with working age people on benefits, including people on low incomes who are in work. However, the loss of welfare benefit income has impacts beyond the household and individual, effecting local economies and businesses, and potentially widening the gap for deprived areas in the city. It also has implictions in terms of increased demand on services, increased numbers of cases of rent and council tax arrears, increased levels of debt, homelessness, mental health issues, safeguarding etc.

C **<u>Socio- Economic Factors</u>**

Child Poverty

Benefits data for 2010 indicates that 26.8% of children were living in poverty in Southampton, equating to approximately 10,790 children. This rate is significantly higher than the national average of 21.1% and also higher than many of the City's local authority peers. Southampton has second highest rate of child poverty in South East region - only Hastings is higher.

Mental health

There are 2,758 people registered with their GP as having a severe and enduring mental illness (schizophrenia, bipolar disorder and other psychoses) and 13,800 people diagnosed with depression since 2006. Not all mental illness has been diagnosed by a GP so the true population prevalence is likely to be higher. Indeed it is estimated that one in four people will have a mental illness at some time in their lives. Over the 2010-12 period there were an average of 28 suicides per year among Southampton residents.

Children's outcomes

The past few years have seen some positive changes in terms of children's outcomes. For example, smoking in pregnancy has reduced from 25.1% in 2003/04 to 19.4% in 2011/12 whilst breastfeeding has increased over the same period from 69.4% to 76.5%. The inequalities gap for these indicators has also reduced. However, there remain some key issues in terms of educational attainment: for example in terms of school absence and exclusions. The rate of teenage pregnancy remains another significant issue for the city, with 170 under 18 year old girls becoming pregnant in 2011, giving a higher rate than amongst the city's statistical peers.

Lifestyle Issues

Smoking prevalence has been reducing at a rate of about 0.4% a year since 2000. In 2011/12, prevalence was estimated to be 23%; however, this remains higher than the national average, which is 20%. Smoking remains the biggest cause of premature mortality, accounting for around 340 deaths a year in the city and an estimated 2,100 hospital admissions. Alcohol harm is also an issue in the city, with 100 deaths of Southampton residents from 2009-2011 from liver disease. Overall, alcohol consumption is estimated to cost the health service in Southampton about £12 million per year.

Long Term Conditions

Around 86,000 people in Southampton (32% of the population) are estimated to be living with a *long term condition* such as asthma, diabetes or heart disease. Over time there have been significant improvements in mortality from some of these conditions but the recorded prevalence of certain conditions continues to rise. For instance there were 7,563 people on GP's diabetes registers in 2004/05 but this had grown to 11,545 in 2012/13 (although this is partly as a result of increased recording rates).

Nationally there is a '*dementia* gap' between the numbers diagnosed and the true prevalence; in Southampton there were 1,376 people recorded on GP dementia registers in 2012/13 but the true numbers are estimated to be nearer to 2,400.

Community Safety and Crime

The Community Safety Strategic Assessment 2014 provides an evidence base around crime, anti-social behaviour, substance and alcohol misuse and offending behaviour. It highlights that:

- Southampton remains a safe city where 93% of people feel safe in their area during the day and 63% feel safe in their area after dark
- 62% of people agree that the police and other local public services are successfully dealing with crime in their areas
- There has been a reduction in some crime types of including:
    - 1.8% reduction in all crimes
    - 17% reduction in ASB incidents
    - 9.9% reduction in criminal damage incidents
    - 22% reduction in alcohol related and public place violence
    - 26.8% reduction in Drug Related Violence
    - 6% reduction in dwelling burglary
    - 18% reduction in robbery
    - 18.85% reduction in the actual rate of re-offending (cohort size – 3,537)
    - 7% reduction in the no of First Time Entrants into the Youth Justice System
    - Reduction in the rate per 100,000 10 – 17 year olds from 1,001 to 925/ 826

However, there were significant issues to consider, including an increase in reports of incidents and crimes and reports of crimes relating to sexual violence (rose by 33%), domestic violence and abuse (rose by 5%), thefts from and of motor vehicles (rose by 13% and 12% respectively).

It is also important to note that Southampton's comparative position in relation to the 15 most similar group (of cities) as defined by the ONS has either worsened or not improved for the major categories of crimes. The ranking shows that the city's comparative position has:

- Worsened from 11 to 12 for all crime rates
- Has not improved for criminal damage where the city's rank remains 15/15
- Has not improved for violence with injury where the city's rank remains 14/15
- The city's ranking has worsened for rape (from 10/15 to 11/15), Burglary (non-dwelling) (from 12/15 to 14/15), possession of drugs (from 9/15 to 11/15) and vehicle offences (from 7/15 to 9/15).

Of particular concern is the significant negative impact of domestic violence and abuse in the city. The exceptionally high volume of cases identified at highest risk in Southampton continued with an upward trend in 2013/14, as domestic violence increased by 5%. The percentage of repeat referrals (returning to MARAC in 12 months) is the primary performance indicator for Domestic Violence and Abuse, as it effectively measures the percentage of violence ceasing after intervention. Here, in spite of increasing volumes of cases, Southampton matches the national, Most Similar Group and Hampshire averages showing a drop in performance results of 4.5% in 2013/14.

The strategic assessment and residents feedback has been used to develop the priorities for the next 3 years, reflected in the Community Safety Strategy. These are to:

- Reduce crime and anti-social behaviour
- Reduce the harm caused by drugs and alcohol
- Protect vulnerable people
- Reduce youth crime

The performance of youth offending services show improvement but comparison with others shows the need for continued improvement:

- The re-offending rate by prolific young offenders has reduced by 2% but the overall re-offending rate remains higher than both national and regional averages.
- First time entrants into the criminal justice system rates have reduced but remain higher than both national and regional average figures.
- Despite consistent improvements in custody rates in Southampton improvements need to continue to align with national performance.

The Local Government Association (LGA) were invited to undertake a Peer Review of community safety in the city completed this in February 2014. They made recommendations on new ways of working strategically with partners across the city, to learn from best practice and to implement changes. The scope for the review was set against the challenges of continuing to sustain effective partnership working in a climate of reduced resources and significant change. Combined with this, expectations on the Partnership's services is increasing to levels that has the potential to impact on services delivered by each of the partners if expenditure is diverted to meet the level of demand.

The financial challenges are combined with resulting structural changes. The local police restructure and the nationally led changes to the Probation Service will both alter the partnership landscape over the next year. Whilst the continuing reductions in council funding mean the co-ordinating role the council have played over and above that of other partners may need to be scaled back. It will be important to maintain commitment from all partners to joint working through these changes.

A Partnership Action Plan has been developed and is being implemented to put in place the changes the report recommended under the five headings of:
• Strategic priorities, governance and leadership
• Improve performance
• Youth Offending
• Section 17
• Golden thread
• Reduce custody rates in South

Through the City Deal and Growth Deal processes, the city has worked strategically with Portsmouth and the Solent LEP to negotiate devolved funding and powers to unlock key infrastructure, business support, employment and skills opportunities, and set the city and its partners in a prominent position to enter discussions regarding arrangements for future devolved arrangements.

Despite substantial economic growth, wage differentials between city residents and workers persist. In 2010 the average weekly gross earnings for a full-time employee in Southampton were estimated at £452.20. This compares poorly to Portsmouth and Hampshire, where the average earnings are £480.20, and £540.70 respectively.
Moreover, productivity (GVA) is also relatively low, at 18,820 per head against 21,030 nationally.

Skills shortages are reported, particularly for managerial, professional and technical levels (23%) and skilled trades (12%), particularly in construction, financial, marine, health, hospitality and logistics sectors. Science, Technology, Engineering and Maths qualifications are increasingly in demand.

Solent LEP Skills Strategy (2013) identified that, across the Solent, 46,000 new jobs will have been created by 2020, with the urban centres leading this growth. Additionally, across the Solent, 347,000 jobs will be created through retiring workers during this period. Falling numbers of young people, and skills mis-matches, are likely to impact on the ability of employers to grow, and concerted work is required in this area to sustain the progress Southampton has seen.

Business births rates are lower per 1,000 population in Southampton than for the national average, and a number of initiatives are in place, increase access to advice and RGF funds, to increase business start-ups and growth..

Educational Attainment and Unemployment

Claimant rates in Southampton are relatively low, with all claimants in Jan 2014 totalling 2,560 of which 570 were young people aged 18-24 (less than 2%). This compares favourably, for example, to Portsmouth with a lower population but claimant count of 2,720 at the same period. However, there are challenges in addressing persistent long term unemployment for those with health conditions claiming ESA. Southampton also has higher levels of unemployed people who are aged 55 and over than the national average, and higher levels of unemployed lone parents. Additionally, unemployment is disproportionately concentrated in areas of high deprivation.

The percentage of NEET young people, at a 5.6% average for 13/14, has remained the lowest of statistical neighbours and core cities for more than two years. The most recent, November 2014 figure was the lowest on record at 4.4%. Within this figure, 'unknowns' have increased nationally since the reduction of the Connexions service, and Southampton has a figure of 11% (Dec 14), in line with the national figure, and below the South East region at 15.0%. Within the NEET cohort, vulnerable young people are particularly high and, whilst it is measured differently, care leavers are nearly twice as likely to be NEET in Southampton as nationally.

In terms of formal education, in the academic year 2013/14, young people aged 5 performed above the national average for Early Years Foundation Stage (62% achieving 'a good level of development' against a national average of 60%). At Key Stage 1 (age 7), Reading, Writing and Maths, Southampton pupils are in line with national figures with 90% achieving above Level 2, and at Key Stage 2 (aged 11), for the second year running Southampton pupils out-performed the national level at 81% above level 4, against 79%. However, at Key Stage 4, age 16, Southampton school results were 49.8% A*-C inc English and Maths against a national level of 56.1% and statistical neighbours 53%. This achievement gap has a potential impact for young people gaining the shills needed by local employers, and for inward investment to the City.

At age 16 in academic year 13/14, 93.5% of young people progressed into further learning or an apprenticeship, at a similar level to the previous year. However, Southampton is a 'net exporter' of young people to Hampshire colleges, with some 500 young people, particularly those from higher socio-economic backgrounds, choosing Hampshire Colleges, with a resultant impact on educational attainment for Southampton college viability and attainment.

At A level, Southampton's Average Point Score per student in 2013/14 was 43.1 below the Statistical Neighbours, and 99.6% below the national average, affecting their ability to gain a university place. Indeed, HE progression for Southampton residents, at 31%, is below the national average.

In terms of Apprenticeships, Southampton had 3360 apprentices in 2013/14 compared to 3608 in 12/13. There were 1810 new apprenticeship starts, representing a reduction of 12.6% on the previous year (however statistical neighbours reduced by 17.4%, and core cities by 14.2%) The majority of the reduction (24%) was amongst the over 25 age group, due to changes in national funding. The Council's Apprenticeship Scrutiny Inquiry, 2013, made a series of recommendations and identified a £300,000 budget to increase the availability and take up of apprenticeships in the city, and this work commenced in Sept 2014.

Engineering and Technology subjects (as required by Southampton employers) are studied by more students at the two Southampton Universities than the average for UK universities (12.9% at UoS and 14.8% at SSU, compared to 6.5% nationally).

Retention of graduates within the city remains significantly below the national average.

D **Physical-environmental factors**

- Quality of urban environment and range of factors like air quality and pollution, parks and open spaces, streetscape.

- Climate change and the impact on infrastructure of adverse weather conditions, especially risk of flooding.

APPENDIX 11

STATUTORY POWER TO UNDERTAKE PROPOSALS IN THE REPORT

1. INTRODUCTION

It is important that Members are fully aware of the full legal implications of the entire budget and Council Tax making process, when they consider any aspect of setting the Council's Budget. Formal and full advice to all Members of the Council protects Members, both in their official and personal capacity, as well as the Council. If Members have received the appropriate professional legal and financial advice and act reasonably, generally the courts will not interfere in their decisions.

2. GENERAL POSITION

a. The first and overriding legal duty on Members is their fiduciary duty to weigh the needs of service users against the interests of local taxpayers. In planning the budget, Members are under a fiduciary duty to act prudently, responsibly, in a businesslike manner and in their view of what constitutes the best interests of the general body of local taxpayers. In deciding upon expenditure, the Council must fairly hold a balance between recipients of the benefits of services provided by the Council and its local taxpayers. Members should note that their fiduciary duty includes consideration of future local taxpayers as well as present local taxpayers.

b. There is a general requirement in administrative law that a local authority decision must be rational, authorised by law and must take account of all relevant considerations, whilst ignoring any irrelevant ones. It should also be noted that the concept of proportionality, given great emphasis in the Human Rights Act 1998, is also becoming a relevant factor for determining the reasonableness of any decision and should be borne in mind by Members.

c. An authority commits an illegal act if it acts beyond or in abuse of its statutory powers or in breach of its fiduciary duty. It will also act illegally if it fails to take relevant considerations into account or acts in outrageous defiance of reason.

3. OBLIGATION TO MAKE A COUNCIL TAX

a. The legal significance of the Annual Budget and setting a Council Tax derives from the Council's duty under the Local Government Finance Act 1992 (the 1992 Act) and Part 5 Chapter 1 of the Localism Act 2011to set a balanced budget and Part 5 Chapter 1 of the Localism Act 2011. This is achieved by calculating the aggregate of:

   i. the expenditure it estimates it will incur in the year in performing its functions in the year (including an allowance for contingencies),

ii. the payments it estimates it will make in the year in defraying expenditure already incurred and

iii. expenditure it will incur in funding costs before a transfer of funds is made from the Collection Fund and then deducting such sums as will be paid into the General Fund, i.e. income. Calculations made under this section must be made before 11 March in the preceding financial year.

b. In order to fulfil this duty, the Council must prepare detailed estimates of its expenditure for the coming year and of the resources that will be available to meet this expenditure. Account must be taken of any deficit brought forward from a previous year and the amount needed to cover contingencies. The resources include income from rents, fees and charges and any available balances. All of these issues must be addressed in the budget report. The estimation of the detailed resource and expenditure items is the main reason for the budget process. The budget must balance, i.e. proposed expenditure must be met from proposed income from all sources, with any shortfall being the precept on the Collection Fund.

c. Failure to make a lawful Council Tax on or before 11 March could have serious financial results for the Council and make the Council vulnerable to an Order from the Courts requiring it to make a Council Tax.

d. Section 151 of the Local Government Act 1972 places a general duty on local authorities to make arrangements for "the proper administration of their financial affairs'.

e. Information must be published and included in the Council Tax demand notice. The Secretary of State has made regulations, which require charging authorities to issue demand notices in a form and with contents prescribed by these regulations.

f. There is also a duty under Section 65 of the 1992 Act to consult persons or bodies appearing to be representative of persons subject to non-domestic rates in each area about proposals for expenditure (including capital expenditure) for each financial year.

4. DEFICIT BUDGETING

a. A deficit budget, one which does not cover all anticipated expenditure with resources reasonably expected to be available, is unlawful. Any Council Tax which rests on such a budget will be invalid. Councils are constrained to make a Council Tax before all the separate elements, which will constitute available resources or anticipated expenditure, have been identified and quantified fully. Best estimates have to be employed.

b. Where these best estimates include sums for unallocated savings or unidentified expectations of income, extreme care must be taken to ensure that the estimates are reasonable and realistic and do not reflect an unlawful intention to incur a deficit. It might be appropriate at budget setting time to require regular monitoring throughout the financial year of such estimated savings or income. Prompt action to reduce spending must be taken, if at any stage it seems likely that a balance between income and expenditure will not be achieved.

5. BORROWING

The rules and regulations governing a local authority's ability to borrow money were altered significantly by the introduction of the Local Government and Housing Act 1989 and subsequent regulations. This has now been abolished and replaced by the self-regulating Prudential Code.

6. OTHER RELEVANT LEGISLATION

a. The Local Government Finance Act 1988 (the 1988 Act) created the (now repealed) Community Charge and the current National Non- Domestic Rating regime and deals with grants, funds, capital expenditure and the financial administration of a local authority.

b. Under Section 114 (2) and 114 (3) of the 1988 Act, the Chief Financial Officer is required to make a report, if it appears to him/her that a decision or course of action the Council or an officer has agreed or is about to make is unlawful, or that expenditure is likely to exceed resources available.

c. Members have a duty to determine whether they agree with the Chief Financial Officer's statutory report issued under Section 26 Local Government Act 2003. If Members were to disagree, they would need to set out cogent reasons for so doing. Unless such reasons could be set forward, Members' action in disagreeing with the Chief Financial Officer's views on the basis of his/her professional judgement would be likely to be held unreasonable and constitute wilful misconduct. It should be noted that under the Members' Code of Conduct, Members are required to take account of any advice issued by Chief Financial Officer (and the Monitoring Officer) acting in their statutory capacities.

7. BEST VALUE: LOCAL GOVERNMENT ACT 1999

The Local Government Act 1999 (the 1999 Act) introduced a duty of Best Value, which came into force on 1st April 2000. Members need to be aware of and take account of the impact on the Council of this duty.

8. THE CONSTITUTIONAL POSITION: LOCAL GOVERNMENT ACT 2000 (THE 2000 ACT)

a. The 2000 Act has had a fundamental effect on the governance of the Council and in particular has resulted in a change to the working arrangements of Council, with the requirement for a Constitution setting out executive (Cabinet) and scrutiny and overview arrangements. The 2000 Act also provides a power for Councils to promote the economic, social and environmental well being of their areas and develop community strategies. In addition, the 2000 Act establishes an ethical framework.

b. Of particular importance to the Council Tax setting process and Budget Meeting of the Full Council is the Council's Budget and Policy Framework Procedure Rules set out in Part 4 of the City Council's Constitution. These provide a legal framework for the decision making process whereby the Budget of the City Council is determined, and the Council Tax is set. In addition, Members need to be aware that these Rules provide a route whereby the Leader may require the Full Council to reconsider their position if they do not accept the Executive's recommended budget without amendment.

c. In addition, the Constitution contains a range of further material relevant to the setting of the Council Tax and the Budget Setting meeting:

   i. Article 12 contains guidance on decision making and the law.

   ii. The Council Procedure Rules in Part 4 regulate the conduct of the Full Council meeting (although traditionally, some of the rules relating to the conduct of the debate are suspended to allow different arrangements during the budget debate).

   iii. The Members' Code of Conduct must be followed by Members.

   iv. The Officer/Member Protocol contains guidance both on pre-budget discussions, but also on how officers and Members should interact with specific guidance about budget preparation issues.

9. PERSONAL LIABILITY AND SURCHARGE

The 2000 Act abolished the local government surcharge provisions and replaced them with a new statutory offence of 'misuse of public office'. This new statutory offence covers two situations, namely unlawfully incurring expenditure or incurring expenditure as a result of wilful misconduct. It also covers the exercise of a public function in a manner that involves dishonesty or oppression or malice. The Courts (rather than the District Auditor) would impose penalties. The Council could sue for losses/deficiencies sustained.

10. LEGAL STATUS OF POLITICAL PROMISES AND DOCUMENTS

a. It is appropriate for Members to consider their own position as some Members may have expressed support publicly for policies that are not policies of the Council.

b. Political documents do not represent a legal commitment on behalf of the Council. To treat any political document as a legal commitment by the Council would be illegal. Where there is a valid choice before Members, then, at that stage and only at that stage, Members may take political documents into account.

c. All decisions must be taken within the framework of the formal decision making process of the Authority. Members must take into account all relevant matters and disregard all irrelevant ones. Decisions taken at a political meeting, such as a political group meeting, have no status within this process. A Member, who votes in accordance with a group decision which has been reached, having regard to relevant factors and who has addressed their mind independently to those factors and to the decision itself, will be acting within the law.

d. The Courts have also advised on the balancing exercise to be undertaken by a Council when deciding whether to pursue a particular policy:

A local authority must exercise its statutory powers in the public interest and for the purpose of which those powers have been conferred. Political views, as to the weight to be attached to the various relevant considerations and as to what is appropriate in the public interest in the light of those considerations may properly influence the exercise of a statutory discretion. A decision will not be unlawful merely because some political advantage, such as electoral popularity, is expected to flow from it, so long as the decision is made for a legitimate purpose or purposes. Because at some stage in the evolution of a policy an improper political purpose has been espoused, does not mean that the policy ultimately adopted is necessarily unlawful. However, a political purpose extraneous to the statutory purpose can taint a decision with impropriety. Where there is more than one purpose:

a) The decision will generally be lawful provided that the permitted purpose is the true and dominant purpose behind the act. This is so even though some secondary or incidental advantage may be gained for some purpose, which is outside the authority's powers.

b) The decision will be invalid if there are two purposes one ultra vires and one intra vires and the ultra vires purpose is a (even if not the) major purpose of the decision. Accordingly a decision substantially influenced by a wish to alter the composition of the electorate would be unlawful.

c) Where there is some evidence justifying enquiry, the Court will consider whether an apparently lawful purpose e.g. home ownership is merely a colourable device to conceal an illegitimate purpose e.g. electoral advantage.

d) Even if those voting for a particular policy at a Council meeting have perfectly proper reasons in mind, the policy can be tainted by the improper motives of others who have taken part in the formulation of that policy although not actually present to vote. As a matter of law it is possible for a corrupt principal to cause a result through an innocent agent.

11. OTHER LEGAL IMPLICATIONS

The financial forecasts contained in this report have been prepared and are submitted as part of the budget process set out in the Council's Constitution.

APPENDIX 12

STATEMENT ON GENERAL FUND BUDGET STRATEGY
BY THE CHIEF FINANCIAL OFFICER
UNDER S.25 LOCAL GOVERNMENT ACT 2003

Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for "the proper administration of their financial affairs' and appoint a CFO to have responsibility for those affairs. The CFO must exercise a professional responsibility to intervene in spending plans in order to maintain the balance of resources so that the authority remains in sound financial health.

Section 25 of the Local Government Act 2003 imposes a duty on the Chief Financial Officer (CFO) to report formally to Council on the following matters:-

- The robustness of the estimates made for the purpose of the calculations (to set the Council Tax).
- The adequacy of the proposed financial reserves.

These specific matters are dealt with below but it is important to set the whole of the 2015/16 budget process in the context of the financial circumstances in which local government finds itself.

Since the start of the current CSR period, the Council has made significant savings totalling £73M. For the 2015/16 financial year the budget shortfall as published in this report was £9.98M. Over the five year period of the Medium Term Financial Strategy the budget gap stands at £90M representing a significant and ongoing challenge to the Council.

Given the continuing fragility of the economic environment and the scale of expenditure reductions required year on year, there will inevitably be significant risks involved in delivering a balanced budget. Whilst considerable pressure exists on the Council's budget because of the severely reduced level of resources available for local authorities in the future, further advanced forward planning to deliver the budget savings required in the medium term is in preparation and is absolutely essential.

Whilst therefore the basic methodology for putting the budget together at the Council has not changed in this financial year, it must be recognised that the scale of the changes and some of the measures being introduced do increase the risk built into the budget for 2015/16 and beyond. As part of the budget setting process for 2016/17 and onwards a fundamental review of the way in which the Council identifies savings is being undertaken with a potential move to outcomes based commissioning and outcomes based budgeting.

The level of one off funding already included in the 'base position' totals circa £12M, (as set out in paragraph 76 of the main report), to balance the budget position in 2015/16. As set out in previous years' statements the consistent use of large one off sums to balance the budget is clearly not a sustainable position. The Council's reserves are close to the minimum level recommended by the CFO and given the ever tightening financial position, the increasing pressures on spend (in particular in social care) and the significant savings to be made in future years, it is difficult to foresee that significant sums of one-off funding will be available in future years to support the budget position.

There are significant budget shortfalls in future years as set out in Annex A of Appendix 10 and members must not lose sight of the need to ensure that work is ongoing to redesign the Council in order to build a sustainable organisation going forward and a necessary part of this work will be to develop recurrent savings proposals for future years. As part of addressing this Cabinet are considering the implementation of a new operating model (See cabinet report 10 February 2015). Members must be mindful of the need to carefully consider the extent to which one off funding is utilised in order to deliver a balanced budget in any one year.

There are a number of specific major risks that could adversely impact on the Council's financial position. These are:-

i) **Council Tax Freeze Grant** – The Government has announced a Council Tax Freeze Grant for 2015/16, which will fund the equivalent of the difference between a zero percent and a 1.0% council tax increase. The grant receivable will represent additional funding equivalent to increasing Council Tax by 1.0%, which for Southampton City Council is approximately £0.8M. However, based on the level of grant payable in 2015/16 if the decision was taken to freeze Council Tax and accept the grant this would increase the current budget gap in each of these years by £0.6M due to the difference between the Council Tax income that has been assumed and the level of funding being offered by the Government. This increase in the forecast gap would continue to impact in future years whilst the grant is not guaranteed to continue. The CFO's advice is that it would not be in the Council's long term financial interest to accept the freeze grant provided the referendum limits are not reduced below 2%.

   If the referendum limits were to be reduced then this advice may change, as the scope to achieve additional Council Tax income through setting Council Tax at a lower threshold level when compared with accepting the freeze grant may be minimal. It is not clear the term over which the Freeze Grant will be payable for. The Executive's budget proposal does not currently include acceptance of this grant.

ii) **Council Tax Referendum** – The current Council Tax referendum limit for Council Tax increases is set at 2.0%, which is a limiting factor in being able to raise Council Tax income in 2015/16 and future years. The Executive could propose an increase greater than 2% and trigger a referendum, but their current budget proposal recommends a Council Tax increase of 1.99% and does not therefore trigger a referendum. There would be merit in seeking to generate additional funding through increasing Council Tax by a level which breaches the 2% referendum threshold given the Council's financial position, but the difficulties of achieving a successful referendum outcome are recognised.

iii) **Local Government Financing** – At present there are no firm dates of when the next Comprehensive Spending Review will be undertaken, however the current Government has undertaken a spending review each year when determining the settlement figures for each authority. The Provisional Local Government Finance Settlement 2015/16 reduces Revenue Support Grant by 28.5%; the Medium Term Financial Strategy was based on a reduction of 28.9%. With such dramatic losses in funding only be confirmed on a year on year basis this increases the level of risk within the system for local authorities, making medium term financial planning much more open to change.

Various professional bodies and associations quote the potential loss of grant funding between 25% and 40%. The exact timings of these further reductions are unknown at present. The potential impact of this for Southampton will form part of the thinking necessary around the sustainable changes which will need to be made in the next few years to ensure the long term viability of service provision.

For planning purposes, provision has been made within the current medium term forecast for reduced government grant with an assumption that there will be a further reduction in central government grant of 28.8% in 2016/17. This reflects a continuation of the deficit reduction programme and move to bring the national position to an annual surplus as announced by the Chancellor in the Autumn Statement. There is a risk that the actual reductions in government grant will be in excess of 28.8% for 2016/17.

iv) **Business Rate Retention (BRR) Scheme** – The BRR Scheme is seen by the government as providing a direct link between business rates growth and the amount of money local authorities have available to spend on local services. However, the reality is more complex and the new system introduces a high level of risk into the financial position for local authorities without the level of control the Government suggests is possible. The new BRR Scheme means that the Council's income is now subject to significantly greater volatility. Previously the funding from business rates was by way of a fixed annual government grant but it is now dependent on our ability to collect, retain and grow business rate income, and in part this depends on the local economic situation and also the level of outstanding appeals. It should be therefore be noted that the new system introduces significant new risks which the Council will need to be aware of:

The Authority is required to estimate the likely level of business rates to be retained, and this income level is then built into the Authority's budget. If the actual income collected is less than the amount included in the budget, then, all other things being equal, this will have a direct negative impact on the Council's financial position.

Estimating business rate income is complex, as there are many factors which can significantly affect the overall figure, including entitlement to reliefs and properties coming on to, or being taken off the rating list.

The biggest uncertainty however concerns revaluations arising from appeals against the Valuation Office (VO) determinations. These are very common and can lead to large refunds being backdated several years, with some appeals in the system dating back to the 2005 rating list. Prior to April 2013, the risk of appeals was met in full by central government, whereas since that date the council is responsible for the cost of 49% of all successful appeals, including those appeals which pre-date the introduction of the new system, and for which the Council has not received any additional funding. There has been much lobbying to date on the unfairness of this position by the sector to Government, but to date to no avail. It should also be recognised that two major components of the Business Rates system remain outside the control of the Council, even though each element has a direct impact on the Council's funding under the new system. The first is that the VO remain responsible for setting the rateable value, and secondly that the VO are responsible for settling appeals, the outcome of which directly impacts the Council. The Council's income under the new system has been significantly affected by the impact of successful appeals as set out in the main budget report, and this remains a significant ongoing risk.

The Authority's estimate of the level of Business Rates to be retained can be impacted by economic growth. If the economy grows within the City, then it is likely to have a positive impact, conversely, every time a business closes will represent a real reduction in income to the Authority.

The Valuations Office undertake a revaluation of properties every five years, with the next being due to take effect in April 2017. The Government has announced the rateable value will be assessed on either the rental values or 3 years trading receipts (dependent on the type of property) as at 1 April 2015. As the overall multipliers are revised so that national business rates bill only changes in line with inflation, it is difficult to predict what impact this will have on Southampton. The Council needs to acknowledge and begin to address this risk in its Medium Term Financial Planning, and this has been acknowledged in the Reserves Policy detailed in the Medium Term Financial Strategy at Appendix 10

v) **<u>Localisation of Council Tax Benefit</u>** – The move away from a nationally prescribed scheme for calculating and fully funding council tax benefit, and the introduction of a local scheme adds further risk to the budget position. The risks are follows:

a) That a shift in demographics or economic conditions will cause an increase in demand for benefit which cannot be contained within the reduced budget provision available.

b) That with Council Tax benefit being paid direct to recipients there will be an increase in council tax arrears due to non payment.

The Council has sought to limit its exposure to these risks through careful consideration of the scheme design, and through working closely with its partner Capita. However, there remains a risk of increased non collection and also the risk that the number of claimants will increase.

vi) **<u>Impact of Welfare Reform and Universal Credit</u>** –The Welfare Reform changes will affect residents of Southampton and may increase demand for services provided by the Housing, Adult Care and Support and Children Schools and Families services. Whilst it is impossible to calculate these impacts, the overall budget does include some funding specifically aimed at supporting the most vulnerable who are impacted by these reforms:

a) <u>Council Tax Reduction Scheme</u> – A sum of £200,000 has been set aside as part of the scheme agreed by Full Council in the form of a discretionary Hardship Fund.

b) <u>Universal Credit</u> - The Government has announced that Southampton will be in the next wave to implement Universal Credit starting in March 2015. Universal Credit roles 6 benefits into one. These are:

- Jobseekers Allowance
- Housing Benefit
- Working Tax credit

- Child Tax Credit
- Employment and Support Allowance
- Income Support

It also requires the authority to give budgeting advice to claimants, following a referral from the DWP.

Initially this will affect new single claimants only, with roll out to other claimants later in the process.

There remains an unquantifiable risk that an increase in demand and reduced income within services would impact on the Council's financial position, as no specific additional funding has been built into service budgets to account for any wider impact arising from the Welfare Reform changes.

vii) **Public Health Grant - 0-5 year olds** – Further Public Health responsibilities for commissioning children's public health services from pregnancy through to five years will transfer to the Council from October 2015 and at this stage it has been assumed that the associated funding for 2015/16 will meet the cost of providing the transferred service and therefore will not have any adverse impact on the Council's total net revenue budget requirement. Whilst unlikely, any shortfall arising will need to be addressed during the financial year as a matter of urgency and in future years there is a risk that growth in demand may place a financial pressure on the Council.

viii) **Academy Schools Transfer (Education Services Grant)** – The Education Services Grant (ESG – formerly known as Local Authority Central Spend Equivalent Grant - LACSEG) is currently paid to Academies to cover the cost of services that local authorities provide centrally to its own schools. These services include improving school attendance, financial support and asset management amongst others. This new grant has been allocated between the Council and Academies based largely on pupil numbers and will be reviewed on a quarterly basis. This has introduced an additional element of volatility and risk as schools transfer to Academy status and this will be exacerbated if the Council is not able to reduce its costs in line with reductions in funding.

ix) **Interest Rate Risk** – Whilst the UK economic recovery has continued the Eurozone weakness and the threat of deflation have increased the risks to the durability of the UK growth. Whilst this means that interest rate rises may be deferred the Treasury Management Strategy details the expectation of an interest rate rise in August 2015. This means that there is a considerable amount of interest rate risk within the overall financial system. The current position of securing low interest rate variable debt is providing a positive benefit to the General Fund budget, with borrowing costs significantly lower than they otherwise would have been through borrowing longer term through higher rate fixed term loans.

There are specific measures within the budget to provide a way of managing the risks presented by the current borrowing strategy, namely through the establishment of the Treasury Risk Reserve (formerly Interest Equalisation Reserve). Following a review of this reserve it has been felt that a reduction in the amount contained within it was justified as the current level of borrowing and the sound treasury management practices since the reserve was established have reduced the risk to the Council. It should be noted however that the Treasury Risk Reserve would only be sufficient to provide for transitional funding at the point at which the Council begins to convert from variable rate debt to long term fixed rate debt and that there remains no recurring budget provision to fund the increased interest costs likely to be incurred. The likelihood however, is that based on the current economic conditions, interest rates are likely to stay lower for longer and also the margin between short term variable debt and long term rates is not anticipated to narrow to any significant extent. It is likely therefore that the impact of converting to fixed rate long term debt will materialise towards the end of the current medium term budget horizon, providing the Council with time to manage this potential issue in future budget rounds.

x) **Demographic Change and increased Demand** – There remains an upward demographic pressure in social care via an increasing elderly population, and demand continues to grow for expensive interventions within Children's Services. Within the proposed budget for 2015/16 there are some limited sums available within the Risk Fund to manage demographic and demand pressures across all sectors of the Council. Furthermore, sums have been allocated to service budgets in 2015/16 to deal with demand pressures which have arisen in 2014/15. It is the expectation that services will need to deal with any demographic and demand changes within their existing resources. The significant transformation work that is underway within the Council together with adopting early intervention and prevention should help to reduce demand as a priority.

xi) **Economic Conditions** – Whilst the national and international economic conditions remain challenging, there has been a period of sustained growth in the UK economy. However with the General Election looming the economic conditions will remain uncertain for some time. It should also be noted that if the UK should slip back into recession the risk to the Council's income stream is now greater due to the direct impact Business Rates now has on funding.

xii) **Redundancy Provision** – Forecast future redundancy payments are based on information gathered during the previous budget process. We anticipate that we have set aside sufficient provision in the Organisational Development Reserve to finance the required one-off payments over the next three years. However the actual impact is only known when specific details come forward and changes in the overall level of savings required will influence the resulting level of redundancies in future years.

xiii) **Transformational Change** – There is a considerable amount of transformational change that is about to occur with the introduction of the Council's new operating model at the same time as maintaining and dealing with demand pressures within "business as usual". There is always a degree of risk associated with major change, and this is exacerbated by the overall financial position and lack of funds to invest in Transformation. However, the Chief Executive is seeking to put in place a Transformation Implementation Director to drive forward the Transformation agenda.

xiv) **Equal Pay** –The Council has received a number of Equal Pay claims. There remains the risk that further claims could be received. However, the Council is seeking to minimise its risk through the implementation of a new pay and allowances framework. However, should there be any significant increase in the value of claims payable, this would present a financial challenge given the Council's overall financial position.

xv) **Medium Term Financial Position** – The impact of much of the above, is that the Council faces a significant budget shortfall from 2015/16 onwards. The level of forecast savings required in 2015/16 alone are unprecedented. This is a significant risk to the overall financial position of the Authority in both the short to medium term, and the Council's Management Team (CMT) recognise that significant action is required in the immediate future to provide options for Members to enable them to put in place plans to deliver the scale of spending reductions required to meet the forecast future budget shortfall. Inevitably though, the scale of reductions required will have a significant impact on the level of services which the Council can continue to sustain. As a result of the risk around the Medium Term Financial Strategy, the volatility around Business Rates, and the potential for savings to be delayed as the Council goes through a period of major change, a Medium Term Financial Risk reserve has been set up to assist the Council in managing this risk.

xvi) **Pooled Budgets** – The Council is embarking on a new way of working with Southampton Clinical Commissioning Group (SCCG), following the implementation of the Better Care Fund in April 2015. In the 2015/16 financial year the majority of the funding being pooled is the SCCG's, however as this is a new arrangement, there will be an inherent level of risk to the Council until all systems and processes have been tried and tested. Whilst a due diligence exercise has been carried out to ensure variations from budget are minimised and if arise are dealt with in the most appropriate manner, the nature of a pooled budget does mean that both organisations involved carry some risk of a budget variation occurring in an area for which they are not the lead.

xvii) **Unforeseen Emergency Situations** – Where disasters occur, the Council needs to have General Fund Balances in place to pick up costs that will fall to it, both from supporting the community through a disaster and from any additional costs incurred in business continuity and disaster recovery.

The Council is required to have regard to this report in approving the budget and Council Tax. It is appropriate for this report to go first to Cabinet and then to be made available to the Council in making its final decision.

Notwithstanding the above, as required under Section 25 of the Local Government Act 2003 I would make the following formal comments on the Robustness of the Estimates and the Adequacy of Reserves:

A) ROBUSTNESS OF ESTIMATES

Budget setting is made up of several estimates some involving quite complex forecasting. By the very definition of the word, estimates are not factual and the degree of accuracy will not only vary but also take different periods of time to be proven to be correct or otherwise.

During the summer of 2014 the Executive, supported by CMT, developed a series of detailed budget proposals the majority of which were published in November. Whilst some figures have changed and proposals have been amended these have been validated by CMT prior to their inclusion in the final proposed budget. There is therefore a high degree of validation inherent within the final budget proposals.

Key elements within the budget are provisions for inflation on pay and prices, projected levels of income and achievability of savings. Details of these items are included in the reports and have already been through the validation process as set out above. However, there are a number of points to draw out:

i) Assumptions made in all of the forecasts are basically sound. The pay award agreed in November has been incorporated into the budget for 2015/16 and 2% for 2016/17 onwards. Employer contributions to the Hampshire Local Government Pension for current service costs will remain at their current level of 13.1% for the remainder of the three year period, 2015/16 to 2016/17, following the actuarial review. The contribution for past service will increase by a known amount each year thereby giving certainty about this cost. Contributions from April 2017 will be reviewed as part of the next actuarial review and the impact will be built into future forecasts.

ii) The scale of the reductions in local government funding has meant that the Council has been forced to look at radical options for reducing expenditure across services. Proposals which involve significant change to current structures, systems and processes, or which have major implications for service design inherently involve higher levels of risk than those which broadly maintain current arrangements. At the most practical level those risks begin with the possibility of slippage and disruption in the transition from old to new arrangements.

   The Executives recommendations for efficiencies, income generation and service reductions now total £9.98M.

   Individual savings items have been approved by the relevant Directors and Heads of Service and have been subject to scrutiny by CMT. Responsibility for actioning any changes in the budgets will fall to me as CFO, and all savings approved will be actively monitored throughout the year although responsibility for the delivery of these savings rests with the relevant Director.

iii) The Council’s external auditor gave an unqualified opinion on the 2013/14 financial statements and an unqualified conclusion on the Council's arrangements for securing value for money.

   The Council has maintained a robust system of budget monitoring and control evidenced by the small unplanned variances from budget on final outturn in recent years. Where over spends or under spends have arisen, potential variances have been identified early enough to enable corrective action to have effect.

   The CFO considers that the financial control arrangements remain sufficiently robust to maintain adequate and effective control of the budget in 2015/16.

iv) The current recommendation by the Cabinet retains a general contingency of £0.25M together with a risk based contingency sum of £4.5M within the Risk Fund, which should cover estimation issues or some activity changes that arise during the year. In addition, as set out earlier in this statement, the Council has put in place a Medium Term Financial Risk Reserve for 2015/16 in the sum of £2.89M to provide further coverage for managing financial risk.

v) The current economic climate and national issues surrounding adult social care (aging population) and the safeguarding of children have impacted on the budget. Additional provision to cover all of these issues has been included within the final budget proposals and will be the subject of detailed monitoring throughout the year. Rising demand in both adults and children's social care together with reduced funding remains one of the most significant risks to the sustainability of the Council and its financial position

vi) A prudent but realistic view of interest rates has been taken in constructing estimates for interest charges in 2015/16 budget. Whilst these estimates are considered to be adequate at this point in time the considerable turbulence within the financial markets may lead to further consideration. Interest rate trends and capital financing operations will be monitored closely throughout the year to facilitate timely action designed to optimise the Authority's position.

B) ADEQUACY OF PROPOSED FINANCIAL RESERVES

Risk Mitigation – Mindful of the overall risks within the budget, some of which are specifically highlighted in points i) to xvii) at the start of this report, (of which some are not quantified nor have any specific offsetting financial provision within the budget), the CFO has reviewed the minimum level of the Council's General Fund reserves/balances.

The current recommended minimum General Fund (GF) Balance is £5.5M, as recommended and approved last year.

In reviewing the minimum level of General Fund Balance for 2015/16 the CFO has been cognisant of the risks and provisions together with the continuing reduction in Local Government funding and the consequent significant budget shortfalls the Council still faces in the medium term. Whilst given the financial risks the Council faces in the next few years there would be a sound argument for increasing the minimum GF balance level even further, conversely the ability to do so is constrained by the fact that the Council faces a significant budget shortfall which limits the Council's ability to set aside further sums to increase the minimum level of balances. However, in light of the increased level of risk around the Medium Term Financial Strategy and the increased probability of resources being required to support the delivery of the MTFS, as set out earlier the budget proposal has made the establishment of an Earmarked Medium Term Financial Risk Reserve possible. As this has the impact of increasing the overall level of balances and reserves, the CFO is not recommending a further increase in the minimum level of GF Balance at this stage, but would recommend increasing the minimum level of this balance further in the future should the financial position allow.

The Medium Term Financial Strategy in Appendix 10 also establishes a Reserves Policy going forward. This gives the CFO and CMT the authority to set aside available funds into a prioritised list of earmarked reserves.

It is worth highlighting that the Council has an excellent track record of remaining within budget once it has been set, and has never been in the position of reporting an overall overspend on the General Fund despite some very difficult recent years in respect of reducing income and escalating social care costs in both children and adult services. It is noted however that the forecast outturn position for 2014/15 is relatively small compared to previous years, and that this is indicative of the tightening financial position. It will be important to retain tight expenditure controls in 2015/16, and deliver the proposed savings, to ensure that the Council doesn't overspend in 2015/16 and aims to deliver a budget underspend to support the overall financial position for 2016/17 onwards.

Issues which it is appropriate to draw specifically to the attention of Cabinet and Council are detailed below:

i) The Council holds a number of specific provisions for issues like debt write off that are assessed on an ongoing basis against the specific issues to which they relate. Review of these provisions forms part of the budget preparations covered above.

ii) The General Fund balance is used to support revenue, capital and strategic pressures and to provide a working balance.

Details of the use of the General Fund Balance is included in the report. The level of GF Balance and the projected use is forecast for three years. The minimum level of GF Balance is recommended by the CFO taking into account issues like the proposed draw, the level of risk contained within the budget, and previous experience on potential levels of net overspend, but also takes account of the practicalities of being able to increase the minimum GF balance at a time when the Council is faced with having to find significant savings, far greater than at any other time, simply to balance the budget position.

Best practice guidance issued by CIPFA is followed in determining a level of GF Balance based on assessed risks, which are reviewed annually. Based on the current assessment of the overall financial position, the CFO has recommended that the minimum level of GF Balance should be maintained at £5.5M, albeit that should the Authority find itself in a position where it could realistically identify additional resources to fund an increase in the minimum level of GF Balance as well as the increase in earmarked reserves, then the CFO's advice is that it would be prudent to do so. There is no legal definition or Audit Commission recommendation on the absolute level of balances and reserves that any authority should hold but the risk based approach does provide a consistent, transparent methodology that can be updated periodically.

iii) Attention is drawn to the level and use of capital resources in the General Fund Capital Programme report. Whilst this identifies the overall Capital Programme is fully funded this is based on a revised estimate of capital receipts. The level of capital receipts is volatile and therefore while the funding deficit is now closed from the level reported previously this remains an area to monitor as the deficit is based on estimated forecast receipts rather than receipts received.

Slippage in capital receipts could change the forecast of temporary borrowing that is required unless accompanied by equivalent slippage in spend. Non-receipt of any planned income will require a permanent draw from balances, additional borrowing or for savings to be found in the capital programme. In drawing up the capital programme these risk factors are obviously taken into account but as a backstop position these potential shortfalls will continue to be reviewed over the longer term and where possible, be reduced by re-phasing schemes or bringing forward the use of prudential borrowing.

The Council also has key strategic property and land sites which it has been holding until market conditions improve. These have been reviewed to ensure that those held are truly strategic and as a result sites have been identified for sale which has in part served to reduce the forecast capital deficit. The categorisation and potential for sale of sites will continue to be actively monitored and sites held by the Council which are not operational provide a further source of contingency to reduce the risks outlined in the above paragraphs.

iv) Levels of borrowing and debt and associated treasury risks are fully covered in the Treasury Management Strategy and Prudential Indicators report which appears on the Council agenda. In recognition of the risk associated with the current strategy the Council is maintaining a Treasury Risk Reserve, and as part of setting the 2015/16 budget the CFO has recommended that the level of this reserve should be reduced to £2.1M, which the CFO considers to be the prudent minimum at this time based on the current borrowing strategy. The Reserve has been and will continue to be subject to ongoing review, not least of which will be to review the new risks which are now in the system as a result of the new banking regulations. This means that UK banks are less likely to receive government support in future should they find themselves in financial difficulties, and instead will have to resort to ‘Bail In’, whereby individual investors (be they individuals or institutions) would be expected to fund any shortfall via a ‘hair cut’ i.e. a reduction to the sums they hold on deposit for which there will be no protection for institutions. The Treasury Management Strategy has been developed with the Bail In risk in mind and a more diversified portfolio of investment has begun to be developed and as a consequence the CFO has felt able to release £1M of the Reserve, to support the MTFS Reserve.

Section 25 concentrates primarily on the uncertainty within the budget year rather than the greater uncertainties in future years. However future uncertainties also inform the need for reserves and balances in the medium term. The current financial position involving significant savings targets increases the risk of over spending, together with demand led spending pressures during a recession and potentially higher inflation than assumed. Funding beyond 2015/16 is uncertain as this will signal the start of a new CSR and therefore budget plans for 2016/17 and beyond must be treated with caution at this stage.

This formal report is part of a continuum of professional advice and is the culmination of a budget process in which lots of detailed work has already taken place with Directors, Senior Managers and their teams and Members.

The CFO considers that the budget proposals recommended by the Cabinet for 2015/16 are robust and deliverable for the one year planning horizon, but are underpinned by the significant use of one off resources, which is not sustainable in the medium term. It is also recognised that there are significant demographic pressures in both Adult and Children's social care which need to managed. There are also risks associated with the achievement of efficiencies and service reductions and robust monitoring arrangements must continue to ensure savings are delivered within the required timescale. The level of general and specific reserves together with the contingency sum of £250,000 and the provisions held within the Risk Fund and the Medium Term Financial Risk Reserve go some way to meet the known risks within the budget, taking account of the robust financial management framework which the Council has in place. Overall therefore, whilst it is recognised that this budget has elements of risk not experienced before, it is felt that sufficient mitigating actions are already in place to accept and to manage those risks in 2015/16.

However, the CFO remains very concerned about the Authority's medium term position, with circa £61M of savings to be found by 2017/18. This concern is heightened as general fund balances are close to the recommended minimum level, and available earmarked reserves are low, meaning that short term options to shore up the budget through a draw on balances/reserves (even though not ideal), to buy time to put in place sustainable transformation and deliver sustainable savings alongside reduced service provision, are limited. In addition, the Council has used significant one off funding in balancing both the 2014/15 and the 2015/16 budgets, and the level of one off funding utilised, particularly in setting the 2015/16 budget, are unlikely to be available in future. This will mean that there will be more pressure to deliver significant and sustainable budget savings to balance the budget for 2016/17 onwards.

Therefore, both Members and the Council's Management Team must not lose sight of the need to ensure that work is ongoing to develop sustainable savings proposals for future years (a key element moving forward will therefore be driving forward and implementing the Council's new Operating Model), mindful of the fact that available reserves to support the financial position are limited. That said, there is a balance to be struck, as Members must also be mindful of the need to carefully consider the extent to which one off funding is utilised in order to deliver a balanced budget in any one year, albeit that it may be prudent to do so if it buys time to bring sustainable savings and spending and service reductions on stream.

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DECISION-MAKER:	CABINET COUNCIL
SUBJECT:	HOUSING REVENUE ACCOUNT BUDGET REPORT AND BUSINESS PLAN
DATE OF DECISION:	10 FEBRUARY 2015 (CABINET) 11 FEBRUARY 2015 (COUNCIL)
REPORT OF:	CABINET MEMBER FOR HOUSING AND SUSTAINABILITY

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STATEMENT OF CONFIDENTIALITY

None

BRIEF SUMMARY

The national self-financing regime for the Housing Revenue Account (HRA) was introduced in April 2012. The budgets in this report have been prepared using these arrangements, which include a requirement to prepare and publish a rolling 30 year HRA Business Plan covering both capital and revenue expenditure projections.

The report sets out the 2015/16 revenue budget for all of the day to day services provided to Council tenants in the city, the detailed capital budgets for 2014/15 to 2019/20 and the HRA Business Plan for the period 2015/16 to 2044/45. It includes the proposed changes in rents, service charges and other charges to council tenants from 1 April 2015.

RECOMMENDATIONS:

CABINET

(i) To consider the report and agree that the recommendations, as set out below, be made to Council at the meeting on 11 February 2015.

(ii) To approve the addition of £1,000,000 to the Housing Revenue Account Capital Programme for an Existing Satisfactory Purchase Scheme, funded from retained ‘right to buy’ capital receipts (30%) and direct revenue financing (70%).

(iii) To approve capital expenditure of £1,000,000 in 2015/16, in accordance with Financial Procedure Rules, on the Existing Satisfactory Purchase Scheme and to give delegated authority to the Director of People to agree individual property acquisitions, as set out in paragraphs 34 to 36 of this report.

COUNCIL

(i) To thank the Tenant Resources Group for their input to the capital and revenue budget setting process and to note their endorsement of the recommendations set out in this report and also the broad support for the proposals received at the Tenants' Winter Conference.

(ii) To approve the following to calculate the dwelling rent increase from 1 April 2015:

- That the standard increase applied to all dwelling rents should be 2.2% (CPI plus 1.0%), as set out in paragraph 11 of this report, equivalent to an average increase of £1.84 per week; and
- That dwelling specific adjustments should be made to give an additional increase in average rent levels of 1.3% (£1.09 per week), subject to the total increase from both elements not exceeding £10.00 per week for any individual property, as set out in paragraph 13 of this report.

(iii) To approve, based on the calculation set out in recommendation (ii) above, that with effect from the 1 April 2015, the current average weekly dwelling rent figure of £83.92 should increase by 3.5%, which will equate to an average increase of £2.93 per week.

(iv) To note that the actual total increase in individual rents will vary by property, as explained in paragraph 14 of this report.

(v) To note the following weekly service charges from 1 April 2015 based on a full cost recovery approach:

- Digital TV £0.42 (unchanged from 2014/15)
- Concierge £1.20 (unchanged from 2014/15)
- Tower Block Warden £4.97 (unchanged from 2014/15)

(vi) To note that the new cleaning charge for walk up blocks of £0.63 per week, which was introduced from July 2014, will also be unchanged from 1 April 2015.

(vii) To note that the service charges for supported accommodation will continue at the rates approved in February 2013.

(viii) To note that the charges for garages and parking spaces for 2015/16 will be increased by 1.2% in line with the increase in CPI.

(ix) To approve the Housing Revenue Account Revenue Estimates as set out in the attached Appendix 1.

(x) To approve the addition of £12,272,000 to the Housing Revenue Account Capital Programme for a Provision of Social Housing Scheme, funded from retained 'right to buy' capital receipts (30%) and borrowing (70%), as set out in paragraphs 34 to 36 of this report.

(xi) To approve the revised Housing Revenue Account 5 Year Capital Programme set out in Appendix 2 and to note the key variances and issues in Appendix 3.

(xii) To approve the 30 year Business Plans for revenue and capital expenditure set out in Appendices 4 and 5 respectively.

(xiii) To note the HRA Business Plan - Planning Assumptions, as set out in Appendix 6.

(xiv) To note that rental income and service charge payments will continue to be paid by tenants over a 48 week period.

REASONS FOR REPORT RECOMMENDATIONS

1. The Council's Constitution sets out the process to be followed in preparing the Council's budget. This process includes a requirement for the Executive to formally submit their budget proposals for the forthcoming year to Council. The budget proposals in this report cover the HRA revenue budget and capital programme.

2. In March 2012 the HRA paid a one-off levy to Government, known as the 'debt settlement', to buy its way out of the subsidy system and stop the need for annual payments. The introduction of the self-financing regime for HRA finances in April 2012 brought with it a requirement for long term business planning. This report also sets out in financial terms the HRA Business Plan for the next 30 years.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. The proposals in this report follow the key principles established in the HRA self-financing report approved by Council on 16 November 2011 and amended in subsequent budget reports. They are consistent with the views of tenant representatives expressed at various meetings during the preparations for HRA self-financing. More recently, these matters have been discussed at the monthly meetings of the Tenant Resources Group and at the Tenants' Winter Conference. Alternative options are not therefore supported.

DETAIL (Including consultation carried out)

Background

4. The HRA records all the income and expenditure associated with the provision and management of Council owned homes in the City. This account funds a significant range of services to 16,600 homes for Southampton tenants and their families and to 1,810 homes for leaseholders. This includes housing management, repairs and improvements, welfare advice, supported housing services, neighbourhood wardens and capital spending on Council properties.

5. This report sets out the HRA revenue budgets for 2015/16, the detailed

capital programme for the period 2014/15 to 2019/20 and the 30 year HRA business plan covering the period 2015/16 to 2044/45. The proposed increase in rents and other charges is an integral part of the revenue estimates for 2015/16.

6. The capital and revenue estimates and the 30 year Business Plan have been prepared using the self-financing arrangements for the HRA.

7. A report to Council on 16 November 2011 approved the key principles that were to be adopted in the preparation of the HRA budget and Business Plan. Some additions and amendments were made in subsequent budget reports and the agreed principles are set out below.

Borrowing Headroom

8. The HRA must work within Government borrowing restrictions that have imposed a debt cap of £199,600,000. In November 2011, Council agreed that a proportion of any 'borrowing headroom' will be retained as a contingency for any unforeseen or high risk short term issues that need to be supported. In February 2014, Council approved the principle that the HRA Business Plan should have minimum borrowing headroom of £6,000,000, at the time of its annual approval. This set a capital contingency at a level of approximately 3% of the overall debt cap. This is comparable to the minimum level of HRA revenue balances which, when set, equated to approximately 3% of the annual dwelling rent income. The forward re-phasing of expenditure for urgent supported walkway repairs is an example of an appropriate use of the borrowing headroom. Amendments to the capital programme would then be required to ensure that the minimum headroom is restored for the next annual update of the Business Plan.

Dwelling Rents

9. The calculation of the rent increase for each individual dwelling has, since 2000/01, been made up of two elements:

- A standard increase of the September Retail Price Index (RPI) plus 0.5% and
- A dwelling specific rent restructuring adjustment that has gradually moved the actual rent towards the target rent (often referred to as the "Housing Association social rent level"). However, there was a limit on the value of this rent restructuring element.

10. In October 2013 the Department for Communities and Local Government (DCLG) issued a consultation paper entitled 'Guidance on Rents for Social Housing' setting out in detail the Government's policy on rents from 2015/16 onwards. The principles in the paper were subsequently adopted as the Government's official guidance.

11. Government guidance is that stock owning local authorities should increase rents by no more than the Consumer Price Index (CPI) plus 1.0%. For 2015/16 this would mean an increase of 2.2%, as the September 2014 CPI figure was 1.2%. The guidance was based on the assumption that by April 2015 all rents will have reached target rent levels (bringing rents into line with those charged by most housing associations). However, some properties (mainly houses) in Southampton have rents that are significantly lower than

target rent, due to the limit on the rent restructuring part of the rent increase in previous years. It was noted in the February 2014 budget report that only 75% of council homes in Southampton would be at the target rent level.

12. The original HRA Business Plan assumed that there would be 99% rent convergence by 2020/21. If the council was to keep to a rent increase of CPI plus 1.0% in 2015/16 and subsequent years, the only way the 75% figure would increase would be as vacant properties are re-let at target rent. This would have a significant adverse impact on the current capital programme, as well as the revenue surplus in the long term business plan, and will perpetuate differences in the rents payable across the city for individuals in similar dwelling types, which cannot be equitable.

13. It is, therefore, proposed that, for those properties that are not yet at target rent, a dwelling specific rent adjustment is applied in 2015/16, such that the income generated is in line with the assumptions in the original HRA Business Plan. This would mean that, with effect from the 1 April 2015, the current average weekly dwelling rent figure of £83.92 would increase by 3.5%, which equates to an average increase of £2.93 per week. This is made up of a 2.2% increase for all dwellings (equivalent to an increase of £1.84 per week) and a further 1.3% (£1.09 per week) for the dwelling specific element of the increase. As was introduced for the 2014/15 rent increase, it is proposed that the total increase from both elements will not exceed £10.00 per week for any individual property. This is an additional safeguard for the tenants of the houses where the increase may be near to this figure.

14. The actual total increase in individual rents will vary according to the restructured rent of the property. It is estimated that 12,500 properties (75% of total dwellings) will only see a rent rise of 2.2% as they have already reached target rent, hence no additional element is needed. It is further estimated that 14,000 properties (84%) will see an increase of less than £5.00 per week. The increase for 1,100 properties (7%) will be between £5.00 and £8.00 per week. The remaining 1,500 (9%) will see rises of between £8.00 and the maximum increase of £10.00 per week. With the maximum increase in place, not all properties will reach target rent in 2015/16 but the convergence level will rise from 75%, as set out last year, to a figure of 92% for the coming year. This will still leave 8% of Council dwellings, all of which are houses, below the target rent levels. This position will need to be taken into consideration as part of the rent setting consultation process for 2016/17.

Service Charges

15. The November 2011 Council report approved the recalculation of all service charges to ensure that they were set to fully recover the costs of the service, but not produce a surplus. Delegated authority was given to the Head of Housing Services, following consultation with the Cabinet Member for Housing, to approve the annual revision to service charges within the policy parameters agreed by Council. These principles will remain unchanged.

Garages and Parking Spaces

16. Following representation from tenants it was agreed that the basis for increasing charges for garages and parking spaces should be increased by RPI and not RPI plus 0.5%. It is now proposed to move to an increase based

on the September CPI figure. As for service charges, delegated authority was given to the Head of Housing Services to approve the revised charge.

HRA Revenue Revised Forecast 2014/15

17. The revised forecasts for 2014/15, which are based on month 8 revenue monitoring, are set out in Appendix 1. The working balance at the start of 2014/15 was £2,278,000. However, the approval of budget carry forward requests (£278,000) are included in the revised forecast. The balance for the end of 2014/15 is now expected to be £260,600 below the minimum level of £2M that was set under self-financing. The main issues are detailed below.

Responsive Repairs

18. The volume of repairs has increased due to the exceptional and stormy weather conditions last winter and the decision to reduce the backlog of repairs that was carried forward from the last financial year. The aim was to reduce waiting times for tenants requiring repairs to their homes in the wake of last winter's storms. The weather related repairs will involve a significant amount of complex work to the fabric of approximately 200 properties. It is anticipated this will reduce the draw on the capital programme for this stock in future years. This work is currently estimated to cost £500,000 but, due to the anticipated reduction in future year expenditure, can be funded from a reduction in Direct Revenue Financing (DRF) without impact on the capital programme. In addition, a significant amount of weather related work is being carried out by transferring internal staff resources from the capital programme to work on Responsive Repairs. The cost of this work is estimated as £700,000 and will be funded from a reduction in DRF, as it is moving cost from the capital programme to revenue. The total cost, incurred this year, in repairing the damage caused by last winter's storms is estimated at £1,200,000 (see paragraph 23 below).

19. In addition to the weather related expenditure detailed above, and in order to deal with the backlog of jobs, there will be additional costs for materials and contractors. The contractors' costs have increased largely as a result of the additional scaffolding that has been required. This additional expenditure, estimated at £1,080,000, will have to be funded from savings found elsewhere in the Responsive Repairs and wider HRA budget. Savings of £280,000 have been identified within the Responsive Repairs - estate improvement plan budget. In addition, the £742,700 saving in interest payments will also contribute (see paragraph 22 below).

Housing Investment

20. There was an approved budget carry forward for £165,000 to allow the contractors to address the backlog of decorations work. In addition, there are a number of variances which produce a small overall adverse position of £163,000 (equivalent to 3% of the total budget), as follows:-

(i) Water Quality Testing and Treatment – In order to maintain water quality within Council walk-up blocks to legal requirements, it has been necessary to implement a programme of water monitoring and testing across the city at an additional cost of £83,000.

(ii) TV Aerials – The Digital TV aerials installed in 2011/12 are now out of warranty, and are proving expensive to maintain and repair. A procurement process is underway for a new maintenance contract. In addition, there are costs for the removal of tenants' satellite dishes from some blocks. The total additional cost is £38,000.

(iii) Ventilation Duct Cleaning – A programme has been introduced to clean ducts in the tower blocks and this has also included a replacement programme of internal vents with fire-rated boxes. The total additional cost is £42,000.

Supervision & Management

21. There were approved budget carry forward requests, totalling £113,000, and virements of £227,000 to fund one-off housing transformation work. The budget has also been increased by £458,000, as it now includes provision for the post service pension costs relating to former staff of Housing Operations. These were previously accounted for as part of the cost of Responsive Repairs.

Interest Repayments

22. As a result of re-phasing in the capital programme, as detailed in the September capital update, the borrowing required to fund the capital programme has been reduced from £23,000,000 to £16,000,000. The budget assumption was that the borrowing would take place on the 1st October 2014. As a result of an analysis of the overall Council cash position, the date for borrowing to take place was revised to the 1st January 2015. The combined effect of the changes to the borrowing assumptions has resulted in a reduction of £742,700 in interest payments.

Direct Revenue Financing of Capital (DRF)

23. As a result of the increased volume of weather related work that is being funded as part of the Responsive Repairs revenue budget, DRF has been reduced by £1,200,000 to balance the HRA budget. The additional work, which is now being treated as revenue, will result in improvements to the fabric of a number of the HRA properties, which in turn will lead to reductions in demand on the capital programme in future years. Not all of this reduction will be seen in the current financial year so, in order to fund the capital programme, capital receipts bought forward from last financial year will be used to compensate for the reduction in DRF.

HRA Revenue Budget 2015/16

24. The original estimates for 2015/16 are also set out for approval in Appendix 1. The proposed budget shows a surplus of £260,600, such that the balances at 31 March 2016 revert to the minimum value of £2,000,000. The main issues that need to be considered in setting the revenue budget are detailed below.

Supervision and Management

25. The budget for 2015/16 has been increased by £846,100 (4.2%) in comparison with the original estimate for 2014/15. Employee expenditure has increased, in part due to a pay award and the next phase of the reinstatement of previous reductions in terms and conditions. In addition, past service pension costs of £458,000, relating to former Housing Operations staff and

previously accounted for within Responsive Repairs, are now included.

Interest Repayments

26. The budget for 2015/16 has been reduced by £163,400 in comparison with the original estimate for 2014/15. This is due to the reduced level of borrowing following slippage in the major investment in the housing stock originally planned for 2014/15, which was chiefly caused by changes to the Energy Companies Obligation (ECO) announced by Central Government.

Dwelling Rent Income

27. For 2015/16 rents have been calculated using the basis set out in paragraph 13 and this is estimated to generate an additional £2,400,000 in dwelling rent income compared to the original estimate for 2014/15.

Service Charges

28. The service charges for 2015/16 have been determined in accordance with the principles set out in paragraph 15. Where there has been no net increase in costs for existing services, as increases in staffing costs have been offset by reductions in other costs, the proposed weekly charges are unchanged for the third year running. The cleaning charge, which was introduced last year, also remains unchanged. A table of these proposed charges is shown below (based on 52 weeks).

Description	**Proposed weekly charge**
Tower block warden charge	£4.97
Concierge monitoring charge	£1.20
Digital TV charge	£0.42
Cleaning service in walk-up blocks	£0.63

Service Charges for Supported Accommodation

29. A review of service charges for supported accommodation proposed a revised charging structure, which was set out in last year's budget report. However, over the last year there have been ongoing considerations about the best type of support to be provided in the future to reflect the new developments in the Better Care Fund, locality working and the development of potential future models of Telecare and Telehealth. Whilst these considerations are ongoing it is not proposed to introduce any new charging structure. Therefore, the charging structure approved in February 2013, as set out in the table below, will continue in 2015/16 until such time as any new proposals are consulted on with tenants.

Description	Proposed Weekly Charge
Sheltered housing management charge: • Scheme based accommodation • All other sheltered accommodation	 £4.90 £1.23
Sheltered Support Charge	£2.63
Community Alarm monitoring charge	£1.25

Other Charges

30. It is proposed to increase the charges for garages or parking spaces for 2015/16 in line with the September CPI, i.e. 1.2%.

HRA Capital Budget 2014/15 to 2019/20

31. The HRA Capital Programme was fully reviewed and approved in September 2014. These spending plans have now been reviewed to take account of the latest estimated costs and phasing of those schemes and the forecast change in resources.

32. The proposed February programme is shown in detail at Appendix 2. The programme update total is £304,012,000. If prior year spend of £71,212,000 is excluded, the revised total is £232,800,000. This can be compared to the total of £198,996,000 in the programme approved by Council on 17 September 2014, resulting in an increase of £33,804,000, which represents a percentage increase of 17.0%.

33. The changes in the overall programme are summarised by year in the table in Appendix 3. A large proportion of the increase (£21,620,000) is due to the addition of new 'unapproved' schemes, following the extension of the programme to 2019/20. The other main changes in total scheme spending and the significant changes in spending between years are also set out in Appendix 3.

34. As part of developing the revised capital programme, funding has been allocated to utilise the retained 'right to buy' receipts under the agreement between SCC and the Department for Communities & Local Government (DCLG). Without suitable schemes, the Council would have to return a proportion of its accumulated receipts back to the DCLG and this is not the best option for the City. However, under the terms of the agreement, the receipts can only fund 30% of the total scheme costs.

35. Work is underway to identify suitable development opportunities for the Council to utilise a large proportion of the ongoing receipts within the specified time period. As a result, Council are recommended to approve the addition of a 'Provision of Social Housing' scheme to provide for the replacement of properties sold under the 'right to buy' legislation. The provisional allocation of £12,272,000 would be funded by capital receipts of £3,682,000 (30%) with the balance being met from borrowing. Full details of the proposals will be included in a future scheme approval report.

36. However, the Council has accumulated receipts which need to be utilised in advance of any development being finalised. Therefore, this report also recommends that Cabinet approve the addition of a short term Existing Satisfactory Purchase Scheme (ESPS) funded by a £1,000,000 allocation within the Capital Programme. This scheme will aim to bring 7 or 8 properties into Council stock by purchasing suitable family properties from within the local market that add long term valuable assets to the Council Housing Stock. Similar schemes are in operation in a number of other Local Authorities, including New Forest DC, as an effective way of adding to the housing stock in the short term, whilst longer term development plans are finalised. Cabinet approval is sought for capital expenditure of £1,000,000 on this scheme, with the detail of individual property acquisitions delegated to the Director of People.

HRA Business Plan 2015/16 to 2044/45

37. A 30 year HRA Business Plan has been prepared using the planning principles agreed in November 2011 and amended by the proposals in the subsequent budget reports up to and including this report. The summary for the revenue and capital budgets is set out in Appendices 4 and 5. Other key assumptions used in the updated plan are set out in Appendix 6.

38. The main points to note are:

- All HRA debt can still be repaid over the 30 year life of the plan.
- The capital spending plans still include provision to maintain and improve all existing dwellings and feature an increase in the level of planned expenditure in the early years that has been reflected in the updated capital programme. This increase is a reflection of the backlog of improvements to tenants' homes, due to insufficient funding under the former HRA 'subsidy' system, which needed to be addressed under the self-financing regime.
- This investment can be achieved within the Government's borrowing limit of £199,600,000, also known as the 'debt cap'. Additionally, a reserve of at least £6,000,000 borrowing headroom is retained throughout.
- The provision that is set aside for stock replacement, which will support the renewal of any of the existing dwellings that may be required over the next 30 years, remains at approximately £130,000,000. This provision has been phased between year 9 and year 30 of the plan.
- The revenue budget continues to meet minimum balances of £2,000,000 over the life of the plan.

39. The HRA Business Plan has consistently shown revenue balances that increase above minimum levels within the 30 year period. This remains the case and the proposed updated plan for 2015/16 onwards shows that by year 30 the projected revenue balance will be £80,600,000. However, predicted revenue surpluses do not begin to significantly exceed minimum levels until 2022/23 and, as previously reported, the main risk to the long term plan is that, if building inflation was to exceed general inflation over a prolonged period, this would have a significant adverse impact on HRA balances. Therefore the surpluses are liable to change annually, either favourably or

not, and will reflect the annual review of stock investment needs and estimated unit rates.

Consultation

40. The budget and business planning proposals were discussed with tenants at various meetings during the preparations for self-financing. More recently, these matters have been discussed at the monthly meetings of the Tenant Resources Group and at the Tenants' Winter Conference.

41. The Winter Conference was well-attended with 105 tenants and leaseholders from across the city present. There was broad support for the proposals in particular the ongoing higher levels of investment in tenants' and leaseholders' homes.

42. It is recommended that Members formally recognise and welcome the support and commitment of tenants and tenant representatives who have participated in this year's capital and revenue budget setting exercise.

43. There has also been consultation with various officers within the Council and with our partners and this will continue as the capital and revenue initiatives in this report are developed to support the delivery of wider city objectives.

RESOURCE IMPLICATIONS

Capital/Revenue

44. These are in the body of the report.

Property/Other

45. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

46. Housing Act legislation provides the authority to increase rent and other associated or like charges. There are no specific legal implications arising from the overall budget proposals contained in this report.

47. The provision, maintenance and improvement of social housing by local authorities is authorised by various Housing Acts and other legislation

48. The Localism Act 2011 gives the statutory basis for the HRA self-financing arrangements set out in this paper.

Other Legal Implications:

49. None

POLICY FRAMEWORK IMPLICATIONS

50. The HRA estimates form part of the Council's budget and are therefore key elements of the council's overall budget and policy framework.

KEY DECISION?	Not applicable (Council decision)

WARDS/COMMUNITIES AFFECTED:	ALL

SUPPORTING DOCUMENTATION

Appendices

1.	HRA Revenue Estimates.
2.	HRA 5 Year Capital Programme.
3.	Key Variances & Issues – February 2015 programme update
4.	HRA Business Plan – 30 year revenue account
5	HRA Business Plan – 30 year capital spending plan and financing
6.	HRA Business Plan – Planning Assumptions

Documents In Members' Rooms

1.	None

Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out?	No

Other Background Documents

Integrated Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None	

APPENDIX 1

HOUSING REVENUE ACCOUNT

REVENUE ESTIMATES

Original Estimate 2014/15 £'000	Revised Forecast 2014/15 £'000		Original Estimate 2015/16 £'000
		SUMMARY	
		EXPENDITURE	
10,999.4	12,454.2	Responsive Repairs	11,000.0
5,475.2	5,799.1	Housing Investment	5,531.2
16,474.6	18,253.3	Total Repairs	16,531.2
162.0	162.0	Rents Payable	200.0
69.8	69.8	Debt Management	69.8
20,165.3	20,943.0	Supervision & Management	21,011.4
6,224.2	5,481.5	Interest Repayments	6,063.6
5,282.7	5,282.7	Principal Repayments	4,910.7
17,939.8	17,939.8	Depreciation	18,976.9
8,782.3	7,355.1	Direct Revenue Financing of Capital	9,366.0
75,100.7	75,487.2	**TOTAL EXPENDITURE**	77,129.6
		INCOME	
71,591.8	71,591.8	Dwelling Rents	73,984.4
1,291.9	1,223.2	Other Rents	1,203.8
72,883.7	72,815.0	Total Rental Income	75,188.2
1,616.2	1,532.8	Service Charge Income	1,594.4
575.9	575.9	Leaseholder Service Charges	577.6
24.9	24.9	Interest Received	30.0
75,100.7	74,948.6	**TOTAL INCOME**	77,390.2
0.0	(538.6)	**SURPLUS/(DEFICIT) FOR YEAR**	260.6
		BALANCES	
2,000.0	2,278.0	Working Balance B/Fwd	1,739.4
0.0	(538.6)	Surplus/(deficit) for year	260.6
2,000.0	1,739.4	**WORKING BALANCE C/FWD**	2,000.0

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APPENDIX 2

Housing Revenue Account 5 Year Capital Programme

Share Point Ref.	Project Description	Project Status	Prior Years Actual	Current Year Budget 14/15	Budget 15/16	Budget 16/17	Budget 17/18	Budget 18/19	Budget 19/20 & Later Years	Total Budget
			£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
HRA06 - Estate Regeneration										
1257	Cumbrian Way	Approved	1,225	18	0	0	0	0	0	1,243
1258	Exford Parade	Approved	3,143	32	81	32	7	0	0	3,295
1259	Laxton Close	Approved	870	40	50	0	0	0	0	960
1260	Meggeson Avenue	Approved	437	24	0	0	0	0	0	461
1514	Estate Regeneration City Wide Framework	Approved	143	117	200	40	0	0	0	500
1599	Estate Wide	Unapproved	0	0	243	3,000	3,000	3,000	875	10,118
1613	Weston Shopping Parade Redevelopment	Approved	2,214	145	92	0	0	0	0	2,451
2064	Weston Shopping Parade Housing and Comm Facilities	Approved	426	289	610	0	0	0	0	1,325
1817	Estate Regeneration Framework Townhill Park	Approved	356	40	160	0	0	0	0	556
1930	Townhill Park: Site Assembly	Approved	1,642	890	3,118	1,200	0	0	0	6,850
2084	Townhill Park: Design & Contract P1, 2 & 3	Approved	129	829	1,129	13	200	400	0	2,700
2066	Townhill Park - Future Allocation	Unapproved	0	0	0	0	550	1,700	0	2,250
Total for Estate Regeneration			**10,585**	**2,424**	**5,683**	**4,285**	**3,757**	**5,100**	**875**	**32,709**
HRA07 - New Build										
1265	LA New Build - Borrowdale Road	Approved	721	10	0	0	0	0	0	731
1266	LA New Build - Flamborough Close	Approved	453	12	0	0	0	0	0	465
1267	LA New Build - Chiltern Green	Approved	398	11	0	0	0	0	0	409
1268	LA New Build - Grately Close	Approved	1,017	15	0	0	0	0	0	1,032
1269	LA New Build - Orpen Road	Approved	778	31	0	0	0	0	0	809
1270	LA New Build - Keynsham Close	Approved	772	23	0	0	0	0	0	795
1403	L.A. New Build - Leaside Way	Approved	528	13	0	0	0	0	0	541
1404	L.A. New Build - Cumbrian Way	Approved	2,145	51	0	0	0	0	0	2,196
2060	Erskine Court Rebuild	Approved	191	2,719	5,739	1,151	0	0	0	9,800
TBC	Existing Satisfactory Purchase Scheme	Approved	0	0	1,000	0	0	0	0	1,000
TBC	Provision of Social Housing	Unapproved	0	0	0	6,136	6,136	0	0	12,272
Total for New Build			**7,003**	**2,885**	**6,739**	**7,287**	**6,136**	**0**	**0**	**30,050**
HRA08 - Safe Wind & Weather Tight										
1226	Mobile Working	Approved	230	341	0	0	0	0	0	571
TBC	HRA Business Case Resources	Unapproved	0	441	0	0	0	0	0	441
1842	Electrical Riser Upgrades	Approved	1,225	596	0	0	0	0	0	1,821
1843	Roof Finish - Flat	Approved	1,525	400	2,000	538	0	0	0	4,463
1844	Structural Works.	Approved	1,178	468	662	0	0	0	0	2,308
1469	Windows	Approved	2,154	299	1,250	0	0	0	0	3,703
1955	CODEMAN Replacement	Approved	72	80	0	0	0	0	0	152
1845	Roof Finish-Pitched/Structure/Gutter/Downpipes etc	Approved	276	140	313	357	249	0	0	1,335
1846	Wall Structure & Finish	Approved	146	410	285	229	997	0	0	2,066
1847	Chimney	Approved	7	0	0	52	87	0	0	145
1848	External Doors - Flats	Approved	4	131	71	0	0	0	0	206

Share Point Ref.	Project Description	Project Status	Prior Years Actual	Current Year Budget 14/15	Budget 15/16	Budget 16/17	Budget 17/18	Budget 18/19	Budget 19/20 & Later Years	Total Budget
			£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
1849	Garage Maintenance	Unapproved	0	0	0	21	22	23	31	97
TBC	Roof Finish Flat - Future Years	Unapproved	0	0	0	642	1,168	1,000	1,131	3,941
1850	External Doors - Houses	Approved	35	52	100	0	0	0	0	187
TBC	Windows - Future Years	Unapproved	0	0	0	978	1,000	1,100	1,007	4,085
1861	Supported Housing 2 Storey Walkway Repairs 12/13	Approved	1,160	1,000	4,630	0	0	0	0	6,790
TBC	Golden Grove Balconies	Approved	0	180	0	200	328	0	0	708
TBC	Contingent Major Repairs Allowance	Unapproved	0	0	0	0	0	875	0	875
TBC	Roof Finish-Pitched/Structure/Gutter/Downpipes - Future Years	Unapproved	0	0	0	0	750	1,535	2,000	4,285
TBC	Wall Structure & Finish - Future Years	Unapproved	0	0	134	372	0	1,000	1,007	2,512
TBC	Chimneys - Future Years	Unapproved	0	0	0	0	0	80	119	199
TBC	Structural Works - Future Years	Unapproved	0	0	0	4,398	1,883	777	564	7,622
TBC	Garage Maintenance - Approved	Approved	0	0	5	0	0	0	0	5
TBC	External Doors - Houses & Flats	Unapproved	0	0	0	400	353	440	483	1,676
1855	CESP - International Way Energy Savings Initiative	Approved	3,917	83	0	0	0	0	0	4,000
TBC	Refurbish Balconies	Unapproved	0	0	0	52	62	56	67	238
TBC	Renew Porch	Unapproved	0	0	10	200	100	1	201	512
TBC	Renew Canopy	Unapproved	0	0	10	130	300	27	350	817
TBC	Improvement Works to Tower Blocks	Unapproved	0	0	700	311	0	0	0	1,011
Total for Safe Wind & Weather Tight			**11,929**	**4,621**	**10,169**	**8,877**	**7,299**	**6,914**	**6,959**	**56,769**
HRA09 - Modern Facilities										
TBC	HHSRS Contingency	Unapproved	0	0	0	33	34	35	56	157
TBC	HHSRS - Approved	Approved	0	31	0	0	0	0	0	31
1888	Disabled Adaptations 14/15	Approved	2,163	1,400	0	0	0	0	0	3,563
1836	Disabled Adaptations	Approved	0	0	1,143	0	0	0	0	1,143
1472	Electrical System	Approved	360	40	68	0	0	0	0	468
1837	Central Heating Gas Boilers	Approved	3,109	1,700	1,852	1,153	0	0	0	7,814
1838	Central Heating Distrib System Inc Elec Store Htrs	Approved	376	150	910	678	819	0	0	2,933
1839	Supported Schemes Adapted Bathroom Programme	Approved	853	389	414	74	0	0	0	1,730
TBC	Electrical Systems - Future Years	Unapproved	0	0	2,158	2,811	2,140	1,000	1,195	9,304
1840	Programme Management Fees	Unapproved	0	0	59	643	665	689	713	2,768
2063	Homeless Temporary Accommodation	Approved	299	865	0	0	0	0	0	1,164
1474	Programme Management Fees Current	Approved	1,434	490	541	0	0	0	0	2,465
1477	Bathroom and Kitchen Refurbishment	Approved	0	0	8,156	0	0	0	0	8,156
TBC	Housing Refurbishment - Future Years	Unapproved	0	0	0	7,946	3,176	2,328	1,839	15,288
1864	Housing Refurbishment 12/13 – West – Drew Smith	Approved	5,816	3,500	0	0	0	0	0	9,316
TBC	Disabled Adaptations - Future Years	Unapproved	0	0	0	1,048	1,050	1,087	1,125	4,309
1865	Housing Refurbishment 12/13 – East – Mitie Property Services	Approved	5,121	3,500	0	0	0	0	0	8,621
1934	Housing Refurbishment - Deferred Properties	Approved	100	96	0	0	0	0	0	196
TBC	Central Heating Gas Boilers - Future Years	Unapproved	0	0	0	22	931	2,000	1,584	4,537
TBC	Central Heating Distrib System Inc Elec Store Htrs.	Unapproved	0	0	0	0	0	1,000	2,000	3,000
TBC	Supported Schemes Adapted Bathroom Programme.	Unapproved	0	0	0	0	0			0
TBC	Refurbishment Blakeney Road	Approved	0	48	0	0	0	0	0	48
1881	Supported Kitchen 13/14	Approved	3,763	2,022	0	0	0	0	0	5,785
1889	Decent Homes Voids Current	Approved	503	197	0	0	0	0	0	700
1476	Studio Conversions	Approved	154	32	0	0	0	0	0	186

Share Point Ref.	Project Description	Project Status	Prior Years Actual	Current Year Budget 14/15	Budget 15/16	Budget 16/17	Budget 17/18	Budget 18/19	Budget 19/20 & Later Years	Total Budget
			£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
TBC	Tenant Alteration Budget	Unapproved	0	0	7	268	86	304	574	1,238
Total for Modern Facilities			**24,051**	**14,460**	**15,308**	**14,675**	**8,900**	**8,442**	**9,084**	**94,921**
HRA10 - Well Maintained Communal Facilities										
1505	DN: Future Decent Neighbourhood Schemes	Unapproved	0	120	748	1,450	1,502	0	0	3,820
1833	Concierge Walkup Block Roll Out	Unapproved	8	0	0	0	0	0	0	8
1463	Communal Areas Works	Approved	673	100	1,050	0	0	0	0	1,823
1468	Door Entry System Replacement Programme	Approved	114	590	441	501	500	0	16	2,162
2068	Weston Court - Communal Area Works	Approved	76	500	1,549	0	0	0	0	2,125
2062	Ventnor Court - Central Core Communal (incl Scooter Storage)	Approved	170	420	0	0	0	0	0	590
TBC	Small Blocks Community Works	Approved	0	142	0	0	0	0	0	142
TBC	Floor Coverings to Communal Corridors	Approved	54	200	107	0	0	0	0	361
2016	Lift Refurbishment - James Street Enabling Works	Approved	76	0	0	0	0	0	0	76
TBC	James Street Communal Works	Unapproved	0	150	0	0	0	0	0	150
TBC	Bellamy Court Communal Works	Approved	0	20	418	0	0	0	0	438
2087	Rozel Court Block 1 Communal Works	Approved	0	0	150	0	0	0	0	150
TBC	Rozel Court Block 2 Communal Works	Approved	0	320	0	0	0	0	0	320
TBC	Communal Area Works - Future Projects	Unapproved	0	0	0	6	17	160	44	228
1473	Lift Refurbishment - Ventnor Court	Approved	289	0	0	0	0	0	0	289
1834	Fire doors (communal)	Unapproved	0	0	0	45	0	100	50	195
1835	Roads/Paths/Hard Standing	Approved	32	345	222	0	0	0	0	599
TBC	Refurbishment of 2 lifts at Canberra Towers	Approved	3	22	1,023	0	0	0	0	1,048
2017	Lift Refurbishment – James St (incl Scooter Storage)	Approved	19	660	0	0	0	0	0	679
TBC	Funding for Lift Refurbishment projects for 13/14 and 14/15	Approved	0	165	163	0	0	0	0	328
TBC	Lfit Refurbishments - Future Programme	Unapproved	0	0	0	700	1,450	1,150	1,981	5,281
TBC	Lift Replacement at South Front	Approved	0	0	163	0	0	0	0	163
TBC	Lift Replacement at Rozel Court	Approved	92	100	0	0	0	0	0	192
TBC	Lift Refurbishment at Sarnia Court	Approved	0	170	0	0	0	0	0	170
TBC	Lift Refurbishment - New Build at Rozel Court	Unapproved	0	45	500	0	0	0	0	545
TBC	Communal Fire Doors Approved Budgets	Approved	0	0	0	0	0	0	0	0
TBC	External Lift Shaft at Manston Court	Approved	0	20	525	0	0	0	0	545
1215	Electronic Concierge	Approved	4,188	11	0	0	0	0	0	4,199
1223	Lift Refurbishment - Itchen View Estate	Approved	1,671	0	0	0	0	0	0	1,671
1236	Supported Communal Improvements - Manston Court	Approved	1,181	13	0	0	0	0	0	1,194
1233	Supported Communal Improvements - Graylings 11/12	Approved	1,855	17	0	0	0	0	0	1,872
2086	Supported Communal Improvements - Basset Green Communal Works	Approved	10	240	0	0	0	0	0	250
2093	SCI - Milner Court Scooter Store	Approved	7	153	0	0	0	0	0	160
TBC	Supported Housing Area Programme	Unapproved	0	0	0	300	530	400	0	1,230
TBC	Supported Housing Area Programme - Current Programme	Approved	0	0	622	0	0	0	0	622
1239	Kingsland	Approved	132	5	0	0	0	0	0	137
1503	DN: Harefield/Townhill Park	Approved	68	338	340	0	0	0	0	746
1494	DN: Northam Improvements	Approved	415	76	0	0	0	0	0	491
1256	DN: Millbrook Towers Improvements	Approved	473	150	0	0	0	0	0	623
1496	DN: Millbrook Block Improvements	Approved	296	350	0	0	0	0	0	646
1707	DN: Shirley	Approved	634	1,527	68	0	0	0	0	2,229
1710	DN: Estate Improvement Programme	Approved	419	200	0	0	0	0	0	619

Share Point Ref.	Project Description	Project Status	Prior Years Actual	Current Year Budget 14/15	Budget 15/16	Budget 16/17	Budget 17/18	Budget 18/19	Budget 19/20 & Later Years	Total Budget
			£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
1893	DN: Leaside Way Improvements	Approved	474	66	0	0	0	0	0	540
2077	DN: Church Street	Approved	6	158	0	0	0	0	0	164
1953	DN: Beechfield Court	Approved	17	18	0	0	0	0	0	35
1954	DN: Wyndham Court	Approved	11	0	0	0	0	0	0	11
1271	DN: Holyrood Improvements	Approved	1,584	124	0	0	0	0	0	1,708
2079	Estate Parking Improvements.	Approved	31	398	0	0	0	0	0	429
TBC	DN: Cuckmere Lane	Unapproved	0	0	0	0	0	0	0	0
Total for Well Maintained Communal Facilities			**15,078**	**7,933**	**8,088**	**3,002**	**3,999**	**1,810**	**2,091**	**42,002**
HRA11 - Warm & Energy Efficient										
1826	Loft Insulation + Pipe Lagging	Approved	43	2	0	26	0	0	0	71
1827	International Way Independent Meters	Approved	356	1	0	0	0	0	0	357
1828	Cavity Wall Insulation	Unapproved	18	0	0	53	0	0	0	71
1829	External Wall Insulation - Kingsland Estate	Approved	342	715	0	0	0	0	0	1,057
1830	External Cladding (PRC Houses)	Unapproved	0	2	0	0	0	0	0	2
1831	External Cladding (Tower Blocks)	Unapproved	0	18	0	4,986	0	0	0	5,004
1832	Utility Supplies (Communal – Electric, Gas and Water)	Approved	1,422	338	434	0	0	0	0	2,194
1833	External Cladding (PRC Houses) - Current	Approved	238	230	0	0	0	0	0	468
TBC	Landlord Meter Conversion - Future Years	Unapproved	0	0	189	194	0	1,301	0	1,684
TBC	Loft Insulation and Pipe Lagging - Future Years	Unapproved	0	0	0	0	0	25	3	28
TBC	Renewable Energy Sources in Future Years	Unapproved	0	0	300	318	321	333	344	1,616
TBC	Thornhill District Heating Scheme	Approved	0	300	9,365	2,246	910	0	0	12,821
TBC	Introduce Renewable Energy Sources	Approved	100	0	0	0	0	0	0	100
TBC	Utility Supplies Communal - Future Years	Unapproved	0	0	289	541	398	412	426	2,065
TBC	External Cladding - Flats	Unapproved	0	0	0	0	0	0	0	0
TBC	Energy Efficiency Works - ECO	Approved	47	1,000	8,931	0	2,500	3,000	0	15,478
TBC	Communal doors	Unapproved	0	0	0	0	160	55	50	265
TBC	Communal Heating Systems	Unapproved	0	0	0	50	50	200	122	422
TBC	Communal Shed / Store areas	Unapproved	0	0	0	50	0	100	138	288
TBC	Renew Warden Alarm	Unapproved	0	0	0	0	0	868	2,285	3,153
TBC	Renew Windows	Unapproved	0	0	50	50	100	100	116	416
Total for Warm & Energy Efficient			**2,566**	**2,606**	**19,558**	**8,514**	**4,440**	**6,393**	**3,485**	**47,561**
GRAND TOTAL			**71,212**	**34,929**	**65,546**	**46,641**	**34,530**	**28,659**	**22,495**	**304,012**

HOUSING REVENUE ACCOUNT

KEY VARIANCES & ISSUES – FEBRUARY 2015 PROGRAMME UPDATE

The proposed February programme update totals **£232,800,000**. This can be compared to the previous September update total of **£198,996,000** resulting in an increase of **£33,804,000**, which represents a percentage variance of **17.0%.**

The changes to the programme are shown in the following summarised table:

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 & Later £000	Total £000
Proposed	34,929	65,546	46,641	34,530	28,659	22,495	232,800
Previous	46,404	52,586	35,326	31,791	32,014	875	198,996
Variance	(11,475)	12,960	11,315	2,739	(3,355)	21,620	33,804

A large proportion of the increase (£21,620,000) is due to the addition of new 'unapproved' schemes, following the extension of the programme to 2019/20. The updated programme also includes a new scheme for the Provision of Social Housing with a total value of £12,272,000 (HRA 1) and an approved increase of £4,785,000 in the Thornhill District Energy Scheme (HRA 2). The remaining variance, a net reduction of £4,873,000, is a combination of scheme variations following a re-assessment of priorities informed by the new stock condition database. Two significant scheme increases (HRA 3 and HRA 4) have been funded by a series of more minor reductions across a range of schemes.

There is a significant re-phasing of the programme between the current year (2014/15) and the following year mainly due to the further development of the programme of delivering the Thornhill District Energy Scheme and associated ECO works which has been completely reworked over the last year to deliver a workable scheme within the funding restrictions now available under ECO. Further detail on significant programme changes is detailed below.

PROGRAMME CHANGES:

HRA 1 – Provision of Social Housing Scheme (Total budget change £12,272,000 increase)

Gold Scheme– £12,272,000 Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

There has been an addition to the programme for the replacement of properties sold under the 'right to buy' legislation.

It is recommended that Council add a scheme to the New Build section of the HRA Capital Programme to provide for the replacement of properties sold under the 'right to buy' legislation. The provisional total cost is estimated as £12,272,000, phased £6,136,000 in 2016/17 and £6,136,000 in 2017/18. The scheme will be funded with retained 'right to buy' receipts of £3,682,000 (30%), under the agreement between SCC and the Department for Communities and Local Government (DCLG), with the balance met from borrowing. Full details of the scheme will be included in a future scheme approval report.

HRA 2 – Thornhill District Heating Scheme (Total budget change £4,785,000 increase)

Gold Scheme – £12,821,000 Scheme Budget

Overall RAG Status **Awaiting Project Documentation**

The budget has been increased in line with a recent Council report.

On the 19 November 2014, Council approved an increase in the Thornhill District Heating Scheme budget of £4,785,000, part funded by an ECO grant of £4,190,000. The scheme was given capital expenditure approval, in accordance with Financial Procedure Rules, and the Director, Place was given delegated authority to enter into negotiations with the preferred Delivery Partner to design and build a suitable scheme that represents the best value for the residents of Thornhill and for the Council.

HRA 3 – Structural Works - Future Years (Total budget change £5,059,000 increase)

Gold Scheme – £7,622,000 Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **GREEN**

Budget RAG Status **GREEN**

There has been an addition to the programme for the provision of structural works throughout the city.

A major analysis of the Council's dwellings is being undertaken using the new stock condition database. This has prompted the transfer of resources to the areas and dwellings in most need. Whilst the Council properties are all maintained in accordance with the Decent Home Standard and are all structurally safe and sound the review has identified additional structural works needed to properties to maintain them in a good condition. Therefore, additional resource has been put into the Structural Works programme from 2016/17 onwards to ensure our properties remain in a good condition.

HRA 4 – Electrical Systems - Future Years (Total budget change £7,615,000 increase)

Gold Scheme – £9,304,000 Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **GREEN**

Budget RAG Status **GREEN**

There has been an addition to the programme for the provision of Electrical Systems.

A major analysis of the Council's dwellings is being undertaken using the new stock condition database. This has prompted the transfer of resources to the areas and dwellings in most need. Traditionally under the old Decent Homes standard electrical systems in properties did not attract the same level of priority as kitchens and bathrooms. Therefore as part of the review we have identified a large number of properties where the wiring system is due for modernisation. Therefore, additional resource has been put into the Electrical Systems programme from 2015/16 onwards to ensure we bring all properties up to modern wiring standards over the next few years.

MAJOR ITEMS OF SLIPPAGE/RE-PHASING:

HRA 5 – Energy Efficiency Works (Slippage of £4,292,000 between 2014/15 and 2015/16)

Gold Scheme – £15,478,000 Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

There have been delays in this project due to a re-prioritisation of work.

A decision on the work to be included within this scheme was delayed until the proposals for the revised Thornhill District Energy Scheme had been completed and approved. Now that we have an agreed project in Thornhill it is possible to formally compile a full programme of works across the City with our delivery partners in order to maximise the funding opportunities into the City before April 2017 under the current ECO funding scheme.

HRA 6 - Townhill Park Design & Contract Phases 1 - 3 (Slippage of £1,073,000 between 2014/15 and 2015/16)

Gold Scheme – £11,800,000 Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

The expenditure on the Estate Regeneration project has been re-profiled.

Following detailed consultation and engagement with the local community we are reviewing the detail for the Stage C design for this Estate Regeneration scheme to best reflect the requirements identified. The designs are also complicated by the complexities and varied topography of the site, requiring the development and detailing of the proposals to take more time to resolve than originally anticipated.

HRA 7 – Supported Housing 2 Storey Walkway Repairs (Slippage of £1,555,000 between 2014/15 and 2015/16)

Bronze Scheme – £6,790,000 Scheme Budget

Overall RAG Status GREEN

Schedule RAG Status GREEN

Budget RAG Status GREEN

There have been delays caused by the contractor entering administration.

Spend on this scheme has been delayed due to the selected contractor being placed in administration. The Council has commenced an accelerated process to bring in a new contractor with a view to recommencing the programme as soon as possible in 2015/16. All schemes within the original programme will still be delivered.

HRA 8 – Roof Finish Flat (Slippage of £800,000 between 2014/15 and 2015/16)

Bronze Scheme – £4,463,000 Scheme Budget

Overall RAG Status **AMBER**

Schedule RAG Status **AMBER**

Budget RAG Status **AMBER**

There has been slippage on this programme due to delays in tendering.

The tender process is currently ongoing for work that is set to be delivered over a two year period. A programme of delivery has been provided and the compiling of the project documentation is in progress. However, works are not now expected to commence until April 2015. This does not affect our ability to respond to any emergency roofing works.

HRA 9 – Windows (Slippage of £700,000 between 2014/15 and 2015/16)

Gold Scheme – £3,703,000 Scheme Budget

Overall RAG Status **GREEN**

Schedule RAG Status **GREEN**

Budget RAG Status **GREEN**

There has been slippage on this programme due to delays in formalising contracts.

The Windows programme is running in conjunction with the Energy Efficiency Works scheme (see HRA 5 above). Therefore the spend profile is being aligned to the programme of delivery within the ECO scheme.

HRA 10 – Communal Area Works (Slippage of £500,000 between 2014/15 and 2015/16)

Silver Scheme – £1,823,000 Scheme Budget

Overall RAG Status **Awaiting Project Documentation**

There has been slippage on this programme due to the design process.

Due to staff resources being prioritised to support other major projects in the programme there have been some small delays in the design and tender process for work in some of our communal areas. All projects will continue but this has meant that the work will now be delayed into 2015/16.

HRA 11 – Various Refurbishment of Lifts Schemes (Total slippage of £1,525,000 between 2014/15 and 2015/16)

Silver Schemes – £2,138,000 Total Scheme Budgets

Overall RAG Status **Awaiting Project Documentation**

There has been slippage on this programme due to design delays and the impact on the procurement of a suitable contractor.

There have been delays in the design of the lifts for the various programmes. This has had a knock on effect to the procurement of a suitable contractor to complete the work. The project managers are working with Capita colleagues to address these issues and mitigate any further delays. However, these programmes are not now due to commence until 2015/16.

Note on Gold/Silver/Bronze Project Status

Each project is evaluated to determine whether it is ‘Gold’, ‘Silver’ or ‘Bronze’. The evaluation is based on the risk and complexity of the project with the highest risk and most complex projects categorised as ‘Gold’. The Project Manager will follow a simpler process for a Bronze project than for a Gold project.

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HRA Business Plan - 30 year revenue account

APPENDIX 4

Year	Year	Income: Net rent Income £000	Income: Other income £000	Income: Misc Income £000	Income: RTB Admin £000	Income: **Total Income £000**	Expenditure: Manage-ment £000	Expenditure: Contribution to Depreciation Reserve £000	Expenditure: Responsive & Cyclical Repairs £000	Expenditure: Other Revenue spend £000	Expenditure: **Total Expenses £000**	Expenditure: Capital Charges £000	Expenditure: Repayment of loans £000	Expenditure: Contribution to Capital Spending £000	Balances: **Surplus (Deficit) for the Year £000**	Balances: **Interest £000**	Balances: **Provision for Debt Repayment c/fwd £000**	Balances: **Net Surplus (Deficit) c/fwd £000**
1	2015.16	73,595	2,823	211	98	**76,727**	(20,353)	(18,977)	(16,531)	(200)	**(56,061)**	(6,133)	(4,911)	(9,366)	**256**	**5**		**2,000**
2	2016.17	75,845	3,048	664	98	**79,654**	(20,992)	(19,357)	(16,248)	(729)	**(57,326)**	(7,227)	(4,911)	(10,190)	**0**	**5**		**2,005**
3	2017.18	78,428	3,124	4,951	98	**86,600**	(21,606)	(19,721)	(16,834)	(663)	**(58,824)**	(7,192)	(4,911)	(15,679)	**(5)**	**5**		**2,005**
4	2018.19	81,071	3,202	774	98	**85,145**	(22,268)	(20,241)	(17,431)	(686)	**(60,626)**	(7,289)	(4,911)	(12,323)	**(4)**	**5**		**2,006**
5	2019.20	85,247	3,282	571	98	**89,197**	(22,912)	(20,537)	(17,980)	(710)	**(62,138)**	(7,279)	(19,487)	(295)	**(2)**	**5**		**2,008**
6	2020.21	86,673	3,364	585	98	**90,719**	(23,580)	(21,038)	(18,672)	(641)	**(63,932)**	(7,133)	(10,827)	(8,835)	**(7)**	**5**		**2,006**
7	2021.22	89,927	3,448	600	98	**94,072**	(24,297)	(21,570)	(19,448)	(657)	**(65,972)**	(6,981)	(8,774)	(12,348)	**(2)**	**5**		**2,009**
8	2022.23	93,150	3,535	615	98	**97,396**	(24,994)	(22,092)	(20,172)	(674)	**(67,932)**	(6,735)	(4,890)	(13,657)	**4,182**	**10**		**6,201**
9	2023.24	96,205	3,623	630	98	**100,555**	(25,654)	(22,583)	(20,815)	(691)	**(69,742)**	(6,411)	(9,650)	(9,749)	**5,003**	**22**		**11,226**
10	2024.25	101,058	3,713	646	65	**105,482**	(26,294)	(23,041)	(21,456)	(708)	**(71,499)**	(6,080)	(6,601)	(11,113)	**10,189**	**41**		**21,456**
11	2025.26	101,325	3,806	662	65	**105,858**	(26,951)	(23,544)	(22,134)	(726)	**(73,354)**	(5,744)	(10,000)	(14,677)	**2,082**	**56**	**4,802**	**18,792**
12	2026.27	103,546	3,901	678	65	**108,191**	(27,624)	(24,057)	(22,834)	(744)	**(75,258)**	(5,203)	(14,342)	(15,639)	**(2,253)**	**56**	**9,604**	**11,794**
13	2027.28	105,814	3,999	695	65	**110,574**	(28,313)	(24,582)	(23,555)	(762)	**(77,212)**	(4,558)	(8,000)	(16,558)	**4,245**	**59**	**14,406**	**11,295**
14	2028.29	108,132	4,099	713	65	**113,009**	(29,020)	(25,118)	(24,298)	(781)	**(79,218)**	(4,400)	0	(18,035)	**11,355**	**78**	**19,208**	**17,927**
15	2029.30	110,499	4,201	730	65	**115,496**	(29,745)	(25,665)	(25,065)	(801)	**(81,276)**	(4,299)	(5,225)	(18,944)	**5,751**	**100**	**24,010**	**18,975**
16	2030.31	115,088	4,306	749	65	**120,208**	(30,487)	(26,224)	(25,856)	(821)	**(83,389)**	(4,198)	0	(17,647)	**14,973**	**126**	**28,812**	**29,273**
17	2031.32	115,385	4,414	767	65	**120,632**	(31,249)	(26,795)	(26,672)	(842)	**(85,557)**	(4,203)	0	(18,564)	**12,307**	**161**	**33,614**	**36,939**
18	2032.33	117,907	4,524	787	65	**123,283**	(32,029)	(27,378)	(27,513)	(863)	**(87,783)**	(4,209)	0	(19,521)	**11,771**	**191**	**38,416**	**44,099**
19	2033.34	120,483	4,638	806	65	**125,992**	(32,828)	(27,974)	(28,380)	(884)	**(90,067)**	(4,214)	0	(20,518)	**11,193**	**220**	**43,218**	**50,710**
20	2034.35	123,114	4,754	826	65	**128,759**	(33,648)	(28,582)	(29,275)	(906)	**(92,411)**	(4,220)	0	(21,557)	**10,570**	**248**	**48,020**	**56,726**
21	2035.36	128,220	4,872	847	65	**134,004**	(34,488)	(29,203)	(30,197)	(929)	**(94,818)**	(4,125)	(2,676)	(22,987)	**9,398**	**274**	**52,822**	**61,596**
22	2036.37	128,545	4,732	868	65	**134,210**	(35,349)	(29,838)	(31,149)	(952)	**(97,287)**	(4,098)	0	(24,128)	**8,697**	**297**	**57,624**	**65,788**
23	2037.38	131,347	4,851	890	65	**137,153**	(36,232)	(30,485)	(32,129)	(976)	**(99,822)**	(4,103)	(2,230)	(25,317)	**5,680**	**316**	**62,426**	**66,982**
24	2038.39	134,209	4,972	912	65	**140,158**	(37,136)	(31,147)	(33,141)	(1,000)	**(102,424)**	(3,951)	(2,230)	(26,557)	**4,996**	**330**	**67,228**	**67,506**
25	2039.40	137,131	5,096	935	65	**143,228**	(38,064)	(31,822)	(34,184)	(1,025)	**(105,095)**	(3,904)	0	(27,848)	**6,380**	**345**	**72,030**	**69,429**
26	2040.41	140,117	5,224	958	65	**146,364**	(39,014)	(32,512)	(35,259)	(1,051)	**(107,836)**	(3,911)	0	(25,954)	**8,663**	**364**	**76,832**	**73,655**
27	2041.42	145,918	5,354	982	65	**152,320**	(39,988)	(33,216)	(36,368)	(1,077)	**(110,650)**	(3,917)	0	(27,254)	**10,499**	**389**	**81,634**	**79,742**
28	2042.43	146,279	5,488	1,007	65	**152,839**	(40,986)	(33,936)	(37,512)	(1,104)	**(113,538)**	(3,865)	(3,567)	(28,600)	**3,269**	**408**	**86,436**	**78,616**
29	2043.44	149,458	5,625	1,032	65	**156,181**	(42,010)	(34,670)	(38,691)	(1,132)	**(116,503)**	(3,762)	0	(30,013)	**5,903**	**420**	**91,238**	**80,137**
30	2044.45	152,705	5,766	1,058	65	**159,594**	(43,059)	(35,420)	(39,907)	(1,160)	**(119,546)**	(3,769)	0	(31,476)	**4,804**	**434**	**96,040**	**80,573**

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HRA Business Plan - 30 year capital spending and financing

APPENDIX 5

		Expenditure								Financing					
Year	Year	Safe, Wind & Weather-tight £000	Modern Facilities £000	Estate Regen £000	Communal Facilities £000	Warm & Energy Efficient £000	New Build Development Costs £000	Provision for Stock Replace-ment £000	**Total Expenditure £000**	Borrowing £000	RTB Receipts £000	Grants/ contrib-utions £000	Depreciation Reserve £000	Contribution from Revenue £000	**Total Financing £000**
1	2015.16	11,515	15,230	5,683	9,568	16,812	6,739	0	**65,546**	34,275	1,585	1,350	18,970	9,366	**65,546**
2	2016.17	9,375	14,644	4,285	4,145	6,905	7,287	0	**46,641**	13,935	3,152	0	19,364	10,190	**46,641**
3	2017.18	6,773	7,310	3,757	5,135	5,419	13,636	0	**42,030**	2,150	3,180	1,300	19,721	15,679	**42,030**
4	2018.19	6,290	8,442	5,100	4,703	4,124	11,500	0	**40,159**	6,226	1,369	0	20,241	12,323	**40,159**
5	2019.20	6,534	8,035	0	3,851	3,200	3,900	0	**25,520**	3,290	1,399	0	20,537	295	**25,520**
6	2020.21	10,876	14,011	875	2,787	16	11,300	0	**39,865**	8,562	1,429	0	21,038	8,835	**39,865**
7	2021.22	11,204	14,482	0	2,871	16	7,600	0	**36,173**	795	1,460	0	21,570	12,348	**36,173**
8	2022.23	11,541	15,026	0	2,958	17	7,700	0	**37,241**	0	1,492	0	22,092	13,657	**37,241**
9	2023.24	11,888	15,590	0	3,047	17	0	3,315	**33,857**	0	1,524	0	22,583	9,749	**33,857**
10	2024.25	12,256	16,123	0	3,141	18	0	3,482	**35,020**	0	866	0	23,041	11,113	**35,020**
11	2025.26	8,625	19,990	0	6,778	52	0	3,659	**39,104**	0	883	0	23,544	14,677	**39,104**
12	2026.27	8,899	20,808	0	6,992	53	0	3,844	**40,596**	0	899	0	24,057	15,639	**40,596**
13	2027.28	9,181	21,568	0	7,214	55	0	4,039	**42,056**	0	916	0	24,582	16,558	**42,056**
14	2028.29	9,471	22,872	0	7,442	57	0	4,243	**44,086**	0	933	0	25,118	18,035	**44,086**
15	2029.30	9,771	23,595	0	7,678	59	0	4,458	**45,560**	0	950	0	25,665	18,944	**45,560**
16	2030.31	10,080	24,339	0	5,575	162	0	4,683	**44,840**	0	968	0	26,224	17,647	**44,840**
17	2031.32	10,399	25,107	0	5,751	167	0	4,921	**46,345**	0	986	0	26,795	18,564	**46,345**
18	2032.33	10,728	25,900	0	5,933	172	0	5,170	**47,903**	0	1,004	0	27,378	19,521	**47,903**
19	2033.34	11,067	26,716	0	6,121	177	0	5,431	**49,513**	0	1,022	0	27,974	20,518	**49,513**
20	2034.35	11,417	27,559	0	6,314	183	0	5,706	**51,179**	0	1,040	0	28,582	21,557	**51,179**
21	2035.36	11,778	28,427	0	7,043	5	0	5,995	**53,249**	0	1,058	0	29,203	22,987	**53,249**
22	2036.37	12,150	29,323	0	7,266	6	0	6,299	**55,043**	0	1,077	0	29,838	24,128	**55,043**
23	2037.38	12,533	30,247	0	7,495	6	0	6,618	**56,899**	0	1,096	0	30,485	25,317	**56,899**
24	2038.39	12,929	31,200	0	7,731	6	0	6,953	**58,819**	0	1,115	0	31,147	26,557	**58,819**
25	2039.40	13,337	32,182	0	7,975	6	0	7,305	**60,805**	0	1,134	0	31,822	27,848	**60,805**
26	2040.41	13,757	33,195	0	4,977	16	0	7,674	**59,619**	0	1,154	0	32,512	25,954	**59,619**
27	2041.42	14,191	34,240	0	5,134	16	0	8,063	**61,644**	0	1,174	0	33,216	27,254	**61,644**
28	2042.43	14,638	35,317	0	5,296	17	0	8,471	**63,738**	0	1,203	0	33,936	28,600	**63,738**
29	2043.44	15,099	36,427	0	5,463	17	0	8,900	**65,906**	0	1,223	0	34,670	30,013	**65,906**
30	2044.45	15,575	37,573	0	5,635	18	0	9,351	**68,150**	0	1,254	0	35,420	31,476	**68,150**
TOTAL		**333,879**	**695,477**	**19,700**	**172,018**	**37,792**	**69,663**	**128,578**	**1,457,107**	**69,233**	**38,545**	**2,650**	**791,327**	**555,352**	**1,457,107**

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HRA Business Plan - Planning Assumptions

Section 1 - Income

Year	CPI Sept	CPI	April	Rent Increase	Garage & Parking Spaces
2015/16	2014	1.20%	2015	3.50%	1.20%
2016/17	2015	2.50%	2016	3.50%	2.50%
2017/18	2016	2.50%	2017	3.50%	2.50%
2018/19	2017	2.50%	2018	3.50%	2.50%
2019/20	2018	2.50%	2019	3.50%	2.50%
2020/21	2019	2.50%	2020	3.50%	2.50%
2021/22	2020	2.50%	2021	3.50%	2.50%
2022/23	2021	2.50%	2022	3.50%	2.50%
2023/24	2022	2.50%	2023	3.50%	2.50%
2024/25	2023	2.50%	2024	3.50%	2.50%
2025/26	2024	2.50%	2025	2.50%	2.50%
2026/27 to 2044/45	2025 to 2043	2.50%	2026 to 2044	2.50%	2.50%

Section 2 - Expenditure

Year	Base RPI	Additional Provision Management	Additional Provision Repairs	Additional Provision Major Works
2015/16		Included in Base Budgets		
2016/17	2.30%	0.00%	1.00%	1.00%
2017/18	2.50%	0.00%	1.00%	1.00%
2018/19	2.50%	0.00%	1.00%	1.00%
2019/20	2.50%	0.00%	1.00%	1.00%
2020/21	2.50%	0.00%	1.00%	1.00%
2021/22 to 2044/45	2.50%	0.00%	1.00%	1.00%

Section 3 - Stock

Year	Opening Stock 01/04/2015	Right to Buy	Estate Regeneration (Reductions)	Estate Regeneration (Additions)	New Build	Closing Stock
2015/16	16,638	(75)	0	0	0	16,563
2016/17	16,563	(75)	(92)	0	54	16,450
2017/18	16,450	(75)	0	79	0	16,454
2018/19	16,454	(75)	(167)	115	0	16,327
2019/20	16,327	(75)	0	35	0	16,287

Section 4 - Borrowing

Year	New Loans	Average Interest Rate	Interest on Investments
2015/16	4.00%	3.55%	0.25%
2016/17	4.00%	3.61%	0.25%
2017/18	4.50%	3.63%	0.25%
2018/19	4.50%	3.66%	0.25%
2019/20	5.00%	3.70%	0.25%
2020/21	5.00%	3.89%	0.25%
2021/22	5.00%	3.96%	0.25%

Section 5 - Other

Provision for Voids loss	1.61%	of rent income per annum
Provision for Bad Debts	1.00%	of rent income per annum.

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COUNCIL</td></tr>
<tr><td colspan="2">SUBJECT:</td><td colspan="3">TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2015/16 TO 2017/18</td></tr>
<tr><td colspan="2">DATE OF DECISION:</td><td colspan="3">9 FEBRUARY 2015
11 FEBRUARY 2015</td></tr>
<tr><td colspan="2">REPORT OF:</td><td colspan="3">CHIEF FINANCIAL OFFICER</td></tr>
<tr><td colspan="5"><u>CONTACT DETAILS</u></td></tr>
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STATEMENT OF CONFIDENTIALITY
NOT APPLICABLE

BRIEF SUMMARY

This report explains the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the numerous risks related to this activity.

The core elements of the 2015/16 strategy are :

- To continue to make use of short term variable rate debt to take advantage of the current market conditions of low interest rates.
- To constantly review longer term forecasts and to lock in to longer term rates through a variety of instruments, as appropriate during the year, in order to provide a balanced portfolio against interest rate risk.
- To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.
- To invest surplus funds prudently, the Council's priorities being:
    - Security of invested capital
    - Liquidity of invested capital
    - An optimum yield which is commensurate with security and liquidity.
- To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries

With overall annual expenditure in excess of £600M and an extensive capital programme, the Council is required to actively manage its cash-flows on a daily basis. The requirement to invest or to borrow monies to finance capital programmes, and to cover daily operational needs, is an integral part of daily cash and investment portfolio management.

As at 31 March 2015 the Council's gross external debt is expected to be £360M and the total value of investments is forecast at £70M. The Balance Sheet position as at 31

March 2014 showed the value of debt as £352M and the value of investments as £69M.

The Council's Capital Financing Requirement (CFR), which measures the Council's underlying need to borrow for capital purposes and represents the cumulative capital expenditure which has not yet been paid for from either revenue or capital resources, is a key driver of the borrowing strategy. The projected CFR for 31 March 2015 is £423M, of which £266M is attributed to the General Fund and the remaining £157M to the Housing Revenue Account (HRA).

The Council's current strategy is to minimise borrowing to below its CFR, the difference representing balances, reserves, provisions and working capital. This approach lowers interest costs, reduces credit risk and relieves pressure on the Council's counterparty list. Borrowing is restricted to a few highly secure sources which include the Public Works Loan Board (PWLB), commercial banks, the European Investment Bank, structured finance, and products associated with other local authorities. Additionally, borrowing is restricted by two limits, the Authorised Limit, (a statutory limit that sets the maximum level of external borrowing on a gross basis), and the Operational Boundary, (which is determined by both the estimated CFR and day to day cash flow movements). For 2015/16 the proposed Authorised Limit is £727M and proposed Operational Boundary is £553M. These are substantially higher than our anticipated actual level of debt but they allow for debt restructure to be undertaken if an appropriate opportunity arises, which may require taking new borrowing in advance of paying off existing loans.

Throughout the year, capital expenditure levels, market conditions and interest rate levels are monitored to minimise borrowing costs over the medium to longer term and to maintain stability. The differential between debt costs and investment earnings continues to be acute, resulting in the use of internal resources in lieu of borrowing often being the most cost effective means of financing capital expenditure. An additional strand of the strategy is to actively monitor opportunities arising for debt rescheduling in order to deliver savings in interest costs but with minimal risk, and to balance the ratio of fixed rate to variable rate debt within the portfolio.

In order to service the Council's day to day cash needs, the Council maintains a portfolio of short term investments. The Council's investment priorities are: the security of invested capital, the liquidity of invested capital, and the optimum yield that is commensurate with security and liquidity, in that order. The report details the Council's investment strategy, explains the institutions (counterparties) with whom the Council is permitted to invest, the limits related to the size of individual investments and the overall holding with institutions.

As a result of continued pressure and uncertainty within the financial markets, the security of any investment is the key consideration in decision making and a cautious approach will always be adopted. Whilst this report identifies all permitted options in investment decision making, tighter controls govern daily activity limiting the number of counterparties with whom investments will be placed and the value of the total holding with any single institution. Regular monitoring of all institutions on the counterparty list is part of daily treasury management. Although not relevant in the present climate, in any period of significant stress in the markets, the default position will be to invest with the government's Debt Management Office (DMO).

The impact of interest rates is crucial to all treasury management activity and forecasts of interest rate movements are taken into account in developing treasury management strategy. Consequently, this strategy is kept under review and, taking market information into account, will be realigned, if required, in line with evolving market conditions and expectations for future interest rates.

RECOMMENDATIONS:

GOVERNANCE COMMITTEE

i) to endorse the Treasury Management (TM) Strategy for 2015/16 as outlined in the report;

ii) to note that the indicators as reported have been set on the assumption that the recommendations in the Capital Update report will be approved by Council on 11 February 2015. Should the recommendations change, the Prudential Indicators may have to be recalculated; and

iii) to note that due to the early timing of this report, changes may still be required following the finalisation of capital and revenue budgets and therefore any significant changes to this report will be highlighted in the final version that is presented to Full Council.

COUNCIL

i) to approve the Council's Treasury Management (TM) Strategy and Prudential Indicators for 2015/16, 2016/17 and 2017/18, as detailed within the report;

ii) to approve the 2015 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 68 to 77;

iii) to approve the Annual Investment Strategy as detailed in paragraphs 37 to 48;

iv) to note that at the time of writing this report the recommendations in the Capital Programme Update report, submitted to Council on the 11 February 2015, have not yet been approved. The indicators in the report are based on the assumption that they will be approved, but should the recommendations change, the Prudential Indicators may have to be recalculated; and

v) to continue to delegate authority to the Chief Financial Officer (CFO), following consultation with the Cabinet Member for Resources to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management. For example, agreeing an increase in the percentage for variable rate borrowing to take advantage of the depressed market for short term rates. Any amendments will be reported as part of quarterly financial and performance monitoring and in revisions to the TM Strategy.

REASONS FOR REPORT RECOMMENDATIONS

In order to comply with Part 1 of the Local Government Act 2003, and the established TM procedures that have been adopted by the Authority, each year the Council must set certain borrowing limits and approve TM Strategy which includes:

- Treasury Management Strategy for 2015/16:
    - Borrowing – Paragraphs 22 to 34,
    - Debt Rescheduling – Paragraphs 35 to 36
    - Investments – Paragraphs 37 to 48
- Treasury Management Indicators – Paragraphs 49-66
- MRP Statement – Paragraphs 68 to 77
- Other Prudential Indicators – Paragraphs 80 to 94

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

1. Alternative options for borrowing would depend on decisions taken on the review of the capital programme, which are being taken at Full Council on 11 February 2015.

DETAIL (Including consultation carried out)

CONSULTATION

2. The proposed Capital Programme Update report on which this report is based has been subject to separate consultation processes.

BACKGROUND

3. The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.

4. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services, (the "CIPFA TM Code"), and the Prudential Code require local authorities to determine a Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also incorporates the Annual Investment Strategy (AIS), which is a requirement of the Department for Communities and Local Government's (CLG) Investment Guidance.

5. As per the requirements of the Prudential code, the Authority has adopted the CIPFA Treasury Management Code at its Council meeting on 19 February 2003 and all subsequent updates.

6. The Authority has borrowed and invested substantial sums of money and therefore has potential large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council. The main risks to the Council's treasury activities are:

   - Liquidity Risk (Inadequate cash resources)
   - Market or Interest Rate Risk (Fluctuations in interest rate levels and thereby in the value of investments).
   - Inflation Risks (Exposure to inflation)
   - Credit and Counterparty Risk (Security of Investments)
   - Refinancing Risks (Impact of debt maturing in future years)
   - Legal & Regulatory Risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud)

7. The purpose of this TMSS is to allow Council to approve:

   - Treasury Management Strategy for 2015/16
   - Annual Investment Strategy 2015/16
   - Prudential Indicators for 2015/16, 2016/17 and 2016/17

- 2015 MRP Statement

8. The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the Prudential Indicators and the current and projected Treasury position (Appendix 1). The outlook for interest rates (Appendix 2) has also been taken into account in developing this strategy

9. The Council acknowledges that effective TM will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in TM, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To aid the Council in carrying out its TM function, it has appointed TM Advisors (Arlingclose), who advise the Council on strategy and provide market information to aid decision making. However it should be noted that the decisions are taken independently by the CFO taking into account this advice and other internal and external factors.

10. Some alternative strategies, with their financial and risk management implications, are listed below.

Options	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

11. All treasury activity will comply with relevant statue, guidance and accounting standards.

Economic Background

12. There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is currently extremely benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are

significant and nominal earnings growth remains weak and below inflation.

13. The Monetary Policy Committee's (MPC) focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee. Despite two MPC members having voted for an 0.25% increase in rates at each of the meetings August 2014 the minutes of the January 2015 meeting showed unanimity in maintaining the Bank Rate at 0.5% as there was sufficient risk that low inflation could become entrenched and the MPC became more concerned about the economic outlook.

Credit outlook

14. The transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The *Bank Recovery and Resolution Directive* promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast *Deposit Guarantee Schemes Directive* includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.

15. The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Authority.

Outlook for Interest Rates

16. The Authority's treasury management advisor Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%, they also believe the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Our Advisors projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 2.7%. A more detailed economic and interest rate forecast provided by the Authority's treasury management advisor is attached at Appendix 2.

Balance Sheet and Treasury Position

17. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with balances and useable reserves, are the core drivers of TM Activity.

18. As at the 31 December 2014 the Authority had £334M of debt (£256M borrowing plus £78M other long term liabilities) and £76M investments which is set out in further detail in Appendix 1.

19. The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2017/18. The Authority is likely to only borrow in

advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

20. The forecast movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years is shown below.

	31/03/2014 Actual £M	31/03/2015 Approved £M	31/03/2015 Estimate £M	31/03/2016 Estimate £M	31/03/2017 Estimate £M	31/03/2018 Estimate £M
General Fund CFR	266	261	266	258	246	237
Housing CFR	159	185	157	187	196	193
Total CFR	**425**	**446**	**423**	**445**	**442**	**430**
Less Other Long Term Liabilities	(78)	(78)	(83)	(80)	(76)	(74)
Borrowing CFR	**347**	**368**	**340**	**365**	**366**	**356**
Less External borrowing	(274)	(283)	(253)	(241)	(230)	(218)
Internal (over) borrowing	**73**	**85**	**88**	**124**	**136**	**138**
Less Usable Reserves and Net Creditors	(136)	(66)	(92)	(71)	(68)	(57)
Net Borrowing Requirement / (internal Borrowing Capacity)	**(63)**	**19**	**(4)**	**53**	**68**	**81**

21. In order to demonstrate the Authority's need to borrow the table above reflects the increased capital borrowing and projected CFR as a result of the proposed capital programme and forecast fall in balances, but only shows loans to which the Authority is already committed, it excludes optional refinancing as a result of loans maturing or new capital borrowing .

BORROWING STRATEGY

22. The Authority currently holds £256M of loans, a decrease of £18M on the previous year (£274M), as part of its strategy for funding previous years' capital programmes. The balance sheet forecast identifies a need to borrow and the Authority expects to borrow up to £4M in 2014/15 and up to £77M between 2015/16 and 2017/18 to fund the capital programme (£54M) and to cover the expected fall in balances and cash flow requirements. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing (see paragraph 90).

23. The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

24. Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

25. By doing so, the Authority is able to reduce net borrowing costs (despite reducing investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Our Advisors will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2015/16 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

26. In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

27. The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and its successor body (see below)
- Local authorities
- Any institution approved for investments
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Hampshire County Council)
- Capital markets bond investors (stock issues, commercial paper and bills)
- Local Capital Finance Company and other special purpose companies created to enable joint local authority bond issues (see paragraph 30 below for further details).

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

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

29. The Authority has previously raised the majority of its long-term borrowing from the PWLB, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates. The Department of Communities & Local Government (CLG) has recently announced HM Treasury (HMT) are taking the necessary legislative steps to abolish the PWLB in the coming months. Whilst this announcement sounds dramatic both the CLG and HMT have stressed that this development is purely being taken to address the governance of the PWLB. The CLG have stated that it will have no impact on existing loans held by local authorities or the government's policy on local authority borrowing.

30. **LGA Bond Agency:** A Local Capital Finance Company (LCFC) was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for three reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; there

will be a lead time of several months between committing to borrow and knowing the interest rate payable; and up to 5% of the loan proceeds will be withheld from the Authority and used to bolster the Agency's capital strength instead. The Authority is considering investing up to £0.02M in the LCFC to enable us to borrow from the Agency, subject to approval of a recommendation within the Council Tax and Budget Setting report.

31. The HRA has a material borrowing need in the short term whilst the General Fund has an estimated £35M reserves in the medium term which are invested. An alternative is to use some of the General Fund investment monies to act as lender to the HRA for some of their borrowing needs. Whilst it is not intended at this time to utilise this facility in 2015/16, it does remain a viable option .Further work with Arlingclose is being undertaken to determine the most appropriate mechanism for achieving this, in the event that this is progressed.

32. The Authority has £9M exposure to LOBO loans all of which can be "called" within 2015/16. A LOBO is called when the Lender exercises their right to amend the interest rate on the loan at which point the Borrower can accept the revised terms or reject them and repay the loan. Although unlikely in the low interest rate environment LOBO loans present a potential refinancing risk to the Authority since the decision to call a LOBO is entirely at the lender's discretion. Any LOBOs called will be discussed with the treasury advisers prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.

33. Included within the PWLB portfolio is £35M of variable rate Loans, which are currently averaging 0.69% and are helping to keep the overall cost of borrowing down. Whilst in current climate of low interest rates this remains a sound strategy, these loans leave the authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators (paragraph 52), the Council review these regularly and if appropriate will switch into fixed rate loans.

34. In order to mitigate these risks further, the Council approved the creation of an Interest Equalisation Reserve in 2009 to help manage volatility in the future and ensure that there was minimal impact on annual budget decisions or council tax in any single year. At that point a major debt restructuring exercise had taken place in order to take advantage of market conditions and produce net revenue savings. As reported in the 2013/14 outturn report in preparation of the banking regulation reform, this reserve was renamed 'Treasury Risk Reserve' to recognise the wider risk. The level of this reserve was reviewed as part of the budget setting process and it is recommended that £925,000 is released for general purposes.

DEBT RESCHEDULING

35. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

36. Borrowing and rescheduling activity will be reported to the Governance Committee in the Annual Treasury Management Report and the mid-year update. Regular treasury management reports will also be presented as part

of quarterly monitoring to Cabinet.

INVESTMENT POLICY AND STRATEGY

37. The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £66M and £125M, and are expected to be maintained between £70M and £100M in the forthcoming year, which is lower than previous years due to falling balances. The Council's current level of investments is presented at Appendix 1.

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

39. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2015/16. This is especially the case for the estimated £35M that is available for longer-term investment. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, and money market funds. This diversification will therefore represent a substantial change in strategy over the coming year.

40. The Authority may invest its surplus funds with any of the following counterparty types, subject to the cash limits (per counterparty) and time limits detailed in Appendix 3.

Credit Rating: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Authority's current account bank

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

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

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

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

Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

41. The Chief Financial Officer (CFO), under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported quarterly to Cabinet.

42. Any institution will be suspended or removed should any of the factors identified in paragraph 43 below give rise to concern. Specifically credit ratings are monitored by the Authority on a daily basis. Arlingclose advises the Authority on ratings changes and appropriate action to be taken.

Risk Assessment and Credit Ratings

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

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

44. The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

45. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or invested in government treasury bills for example or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments

46. The CLG Guidance defines specified investments as those:

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

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

Non-Specified Investments

47. Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table below.

	Cash Limit
Total long-term investments	£35M
Total investments without credit ratings or rated below A-	£10M
Total investments in foreign countries rated below AA+	£5M
Total non-specified investments	**£50M**

48. **Investment Limits:** The Authority's revenue reserves available to cover investment losses (excluding Schools, capital and HRA) are forecast to be £40M on 31st March 2015. In order that there is no immediate pressure on available reserves in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10M. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below:

	Cash limit or %
Any single organisation, except the UK Central Government	£10M each
UK Central Government	unlimited
Any group of organisations under the same ownership	£10M per group
Any group of pooled funds under the same management	£10M per manager
Negotiable instruments held in a broker's nominee account	£50M per broker
Foreign countries	£10M per country
Registered Providers	£5M in total
Loans to unrated corporates	£0.5M in total
Money Market Funds	£10M per fund and no more than 50% of investments in total

TREASURY MANAGEMENT INDICATORS

49. The Authority measures and manages its exposure to treasury management risks using the following indicators.

Adoption of the CIPFA Treasury Management Code

50. The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in February 2012.

Liquidity Management

51. The Authority undertakes high level cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

Upper Limits for Fixed and Variable Interest Rate Exposure

52. The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises, which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short term rates on investments.

	Existing Level 31 December 2014 %	2014/15 Approved %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	50	50	50	50	50

53. The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. The limits provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's TM strategy.

Maturity Structure of Fixed Rate borrowing

54. This indicator is set to control the authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower Limit %	Upper Limit %
Under 12 Months	0	45
12 months and within 24 months	0	45
24 months and within 5 years	0	50
5 years and within 10 years	0	75
10 years and above	0	75

55. Time periods start on the first day of each financial year and the maturity date of borrowing is the earliest date on which the lender can demand repayment. As all LOBO are now in their call options they have been included as under 12 months within this indicator.

56. This table below details the level of our current fixed rate debt and shows that all debt is within existing limits.

	Lower Limit %	Upper Limit %	Actual Fixed Debt as at 31/12/2014 £M	Average Fixed Rate as at 31/12/2014 %	% of Fixed Rate as at 31/12/2014	Compliance with set Limits?
Under 12 months	0	45	9.4	2.44	4	Yes
12 months and within 24 months	0	45	0.0	0.00	0	Yes
24 months and within 5 years	0	50	0.0	0.00	0	Yes
5 years and within 10 years	0	75	72.5	3.23	33	Yes
10 years and within 15 years	0	75	0.0	0.00	0	Yes
15 years and within 20 years	0	75	0.0	0.00	0	Yes
20 years and within 25 years	0	75	10.0	4.68	5	Yes
25 years and within 30 years	0	75	5.0	4.60	2	Yes
30 years and within 35 years	0	75	0.0	0.00	0	Yes
35 years and within 40 years	0	75	42.0	3.99	19	Yes
40 years and within 45 years	0	75	50.6	3.62	23	Yes
45 years and within 50 years	0	75	31.2	3.56	14	Yes
50 years and above	0	100	0.0	0.00	0	Yes
			220.7	**3.43**	**100**	

Principal sums invested for periods longer than 364 days

57. The purpose of this limit is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15 Approved £M	2014/15 Revised £M	2015/16 Limit £M	2016/17 Limit £M	2017/18 Limit £M
Upper Limit for total principal sums invested over 364 days	30	35	35	35	35

OTHER ITEMS

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

Policy on Use of Financial Derivates

59. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

60. The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to.

Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

61. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Housing Revenue Account Self-Financing

62. On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account.

63. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance. This balance will be measured and interest transferred between the General Fund and HRA at an agreed rate. Housing Legislation does not allow impairment losses to be charged to the HRA and consequently any credit related losses on the authority's investments will be borne by the General Fund alone. It is therefore appropriate that the General Fund is compensated for bearing this risk, and all interest transferred to the HRA should be adjusted downwards. The rate will be based on investments with the Debt Management Office. The rate of return on comparable investments with the government is lower and often referred to as the risk-free rate.

Training

64. CIPFA's Code of Practice requires the CFO to ensure that all Members tasked with TM responsibilities, including scrutiny of the TM function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Member training was undertaken on the 20 January 2015.

The Council adopts a continuous performance and development programme to ensure staff are regularly appraised and any training needs addressed. Relevant staff also attend regular training sessions, seminars and workshops which ensure their knowledge is up to date. Details of training received are maintained as part of the performance and development process.

Treasury Management Advisors

65. The CLG's Guidance on local government investments recommend that the Investment Strategy should state:

Whether and, if so, how the Authority uses external contractors offering information, advice or assistance relating to investment and

How the quality of any such service is controlled.

The Council has a contract in place with Arlingclose to provide a treasury advisory service and receives the following services:

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshops and training events
- HRA support
- Ad hoc advice

The Authority maintains the quality of the service with its advisors by holding quarterly meetings and tendering periodically. It should also be noted that decisions are taken independently by the CFO taking into account this advice and other internal and external factors.

Investment of Money Borrowed in Advance of Need

66. The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit for the period. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

BALANCED BUDGET REQUIREMENT

67. The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

2015/16 MINIMUM REVENUE PROVISION (MRP) STATEMENT

68. Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2012.

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

70. The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

71. The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

NB *This does not preclude other prudent methods to provide for the repayment of debt principal.*

MRP in 2015/16: Option 1 and 2 will be used for the majority of General Fund historic debt particularly that deemed to be supported through the Revenue Support Grant. For major projects where capital expenditure is funded from prudential borrowing Option 3 will be used to provide MRP over the life of the asset to which the borrowing was applied.

72. Following the HRA self-financing settlement, HRA debt increased from £100M to £174M with a borrowing cap of £200M. There is no requirement for the HRA to make debt repayments but it has opted to make voluntary repayments relating to debt inherited at the split and provision has been made within its business plan to show that it can pay down the remaining debt over the life of the 30 year business plan.

73. MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

74. Guidance relating to the regulatory method (option 1), which is used to calculate borrowing prior to the prudential regime, allows for debt transferred from Hampshire County Council (HCC) when we became a Unitary Authority in 1997 to be excluded from the MRP calculation as we are already repaying the principal element to HCC.

75. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put forward for approval by the Authority at that time.

76. Capital expenditure incurred during 2015/16 and funded from borrowing will not be subject to a MRP charge until 2016/17.

77. Based on the Authority's estimate of its Capital Financing Requirement on 31st March 2015, the budget for MRP has been set as follows:

	31/03/2015 Estimated CFR £M	2015/16 Estimate MRP £M
Capital expenditure before 01.04.2008	95.6	2.95
Unsupported capital expenditure after 31.03.2008	87.8	3.36
Finance leases and Private Finance Initiative	66.8	2.05
Transferred debt	15.6	0.63
Total General Fund	**265.8**	**8.99**
Assets in the Housing Revenue Account	104.9	Nil
HRA subsidy reform payment	52.6	4.9
Total Housing Revenue Account	**157.5**	**4.9**
Total	**423.3**	**13.89**

MONITORING AND REPORTING ON THE ANNUAL TREASURY OUTTURN AND OTHER PRUDENTIAL INDICATORS

78. The Chief Financial Officer will report to the Governance Committee on TM activity / performance as follows:

(a) A mid-year review against the strategy approved for the year.

(b) An outturn report on its treasury activity, no later than 30 September after the financial year end.

79. In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring.

PRUDENTIAL INDICATORS

Background

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

Gross Debt and the Capital Financing Requirement

81. This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This view takes into account current commitments, existing plans and the proposals in the

approved budget.

82. There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment:

	31/03/2015 Revised £M	31/03/2016 Estimate £M	31/03/2017 Estimate £M	31/03/2018 Estimate £M
Borrowing	183.4	178.0	169.3	162.9
Finance leases and Private Finance Initiative	66.8	64.8	62.3	60.4
Transferred debt	15.6	15.0	14.4	13.8
Total General Fund Debt	**265.8**	**257.8**	**246.0**	**237.1**
HRA	157.5	186.8	195.8	193.1
Total	**423.3**	**444.6**	**441.8**	**430.2**

Estimates of Capital Expenditure

83. The Authority's planned capital expenditure and financing is summarised below, further detail is provided in the General Fund and HRA Capital programme report submitted elsewhere on the agenda.

Capital Expenditure and Financing	2014/15 Estimate £000	2014/15 Revised £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
General Fund	56,141	48,967	46,781	5,551	533
HRA	53,399	34,929	65,546	46,641	42,030
Total Expenditure	**109,540**	**83,896**	**112,327**	**52,192**	**42,563**
Capital receipts	12,277	11,774	14,042	6,152	3,183
Government Grants	33,388	32,269	28,024	4,288	0
Contributions	13,574	4,227	4,043	245	1,375
Major Repairs Allowance	17,931	17,939	18,970	19,364	19,721
Revenue	12,339	12,284	12,029	10,858	16,134
Total Financing	**89,509**	**78,493**	**77,108**	**40,907**	**40,413**
Temporary Financing	(3,400)	0	(1,000)	(2,650)	0
Unsupported borrowing	23,431	5,403	36,219	13,935	2,150
Total Funding	**20,031**	**5,403**	**35,219**	**11,285**	**2,150**
Total Financing & Funding	**109,540**	**83,896**	**112,327**	**52,192**	**42,563**

Ratio of Financing Costs to Net Revenue Stream

84. 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 borrowing costs. The ratio is based on costs net of investment income. The upper limit for this ratio is currently set at 10% and will remain so for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the proposed

capital programme.

85. This indicator is not so relevant for the HRA, especially since the introduction of self-financing, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Ratio of Financing Costs to Net Revenue Stream	2013/14 Actual %	2014/15 Approved %	2014/15 Forecast %	2015/16 Forecast %	2016/17 Forecast %	2017/18 Forecast %
General Fund	6.95%	6.96%	5.83%	6.83%	7.57%	8.40%
HRA	16.24%	16.33%	14.87%	14.93%	15.55%	15.33%
Total	10.28%	10.39%	9.20%	10.17%	11.27%	11.62%

86. Please note that the incremental increase in this ratio for the General Fund is more to do with the reduced revenue stream which has reduced from £193.3M in 2013/14 to £145.9M in 2017/18 rather than an increased in debt charges.

Incremental Impact of Capital Investment Decisions

87. This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement (i.e. Interest and MRP) of the current approved capital programme with an equivalent calculation arising from the proposed programme. The incremental impact of capital investments decisions are estimated to be:

Incremental Impact of Capital Investment Decisions	2014/15 Approved £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Increase / (Decrease) per average number of equvilent band D properties for Council Tax purposes	(1.27)	5.36	(0.59)	(2.82)
Increase in Average Weekly Housing	27.81	57.92	127.58	35.01

88. It should be noted that these indicators are for illustrative purposes only and show the amount per equivalent band D properties that this change would equate to. The decision to restrict the capital programme and to use capital receipts to repay temporary financing results in an incremental decrease in the band D Council Tax.

89. As per the General Fund these indicators are illustrative as HRA rent levels are currently set under the Government's rent restructuring formula, which is independent of the level of capital investment and borrowing. The calculation of the indicator ignores this factor.

Authorised Limit and Operational Boundary for External Debt

90. The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

91. The ***Authorised Limit*** sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements, for example a complete debt restructure which requires monies to be borrowed in advance of repayment of existing debt. The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	Existing Level 31 December 2014 £M	2014/15 Approved £M	2014/15 Estimate £M	2015/16 Estimate £M	2016/17 Estimate £M	2017/18 Estimate £M
Borrowing	256	674	622	640	678	749
Other Long-term Liabilities	78	86	82	87	84	81
Total	**334**	**760**	**704**	**727**	**762**	**830**

92. The ***Operational Boundary*** is linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit

Operational Boundary for External Debt	Existing Level 31 December 2014 £M	2014/15 Approved £M	2014/15 Estimate £M	2015/16 Estimate £M	2016/17 Estimate £M	2017/18 Estimate £M
Borrowing	256	672	441	466	476	548
Other Long-term Liabilities	78	78	82	87	84	81
Total	**334**	**750**	**523**	**553**	**560**	**629**

93. The CFO has delegated authority, within the above limits for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Council will be notified of any use of this delegated authority.

<u>HRA Limit on Indebtedness</u>

94. Local authorities are required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the DCLG at the time of implementation of self – financing. The HRA is still within the HRA Debt Cap set CLG totalling £199.6M.

HRA Summary of Borrowing	2014/15 Approved £M	2014/15 Estimate £M	2015/16 Estimate £M	2016/17 Estimate £M	2017/18 Estimate £M
Brought Forward	167.1	158.6	157.5	186.8	195.8
Maturing Debt	(5.1)	(5.1)	(5.1)	(5.1)	(5.1)
New borrowing	23.1	4.0	34.4	14.1	2.4
Carried forward	**185.1**	**157.5**	**186.8**	**195.8**	**193.1**

RESOURCE IMPLICATIONS

Capital

95. The Capital implications are considered as part of the General Fund Capital Programme report and HRA Capital Programme report elsewhere on the Council agenda.

Revenue

96. The General Fund budget for investment income in 2015/16 is £0.61M, based on committed deals to date plus investments on cash at an average balance of £25M and an average interest rate of 0.4%. The budget for debt interest paid in 2015/16 is £11M based on an average debt portfolio of £299.4M at an average interest rate of 3.37%. If actual levels of investments and borrowing and / or actual interest rates differ from those forecast, performance against budget will be correspondingly different

97. The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Cabinet Member for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness, the Revenue implications of which have been considered as part of the General Fund Revenue Budget report and HRA Revenue Budget report elsewhere on the Council agenda.

Property/Other

98. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

99. Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1)(a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.

Other Legal Implications:

100. None

POLICY FRAMEWORK IMPLICATIONS

101. This report has been prepared in accordance with CIPFA's Code of Practice on TM.

KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	N/A

SUPPORTING DOCUMENTATION

Appendices

1.	Existing Investment & Debt Portfolio Position and Projections
2.	Economic and Interest Outlook
3.	Counterparty Cash and Time Limits
4.	Treasury Management Policy Statement
5.	Glossary of Treasury Terms

Documents In Members' Rooms

1.	None

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2014/15 to 2016/17 – Council 12 February 2014 http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2469&Ver=4

EXISTING INVESTMENT & DEBT PORTFOLIO POSITION AND PROJECTIONS

	31-Mar-14 Actual £M		31-Mar-15 Approved £M	Current Portfolio £M		31-Mar-15 Current Estimate £M	31-Mar-16 Current Estimate £M	31-Mar-17 Current Estimate £M	31-Mar-18 Current Estimate £M
External Borrowing:									
Fixed Rate – PWLB Maturity	139		148	139		143	192	207	220
Fixed Rate – PWLB EIP	81		81	73		70	58	46	35
Variable Rate – PWLB	35		35	35		35	35	35	35
Variable Rate – Market	9		9	9		9	9	9	9
Long Term Borrowing	**264**		**273**	**256**		**257**	**294**	**297**	**299**
Short Term Borrowing									
Fixed Rate – Market	10		10	0		20	30	30	30
Other Long Term Liabilities									
PFI / Finance leases	62		61	62		67	65	62	60
Deferred Debt Charges	16		17	16		16	15	14	14
Total Gross External Debt	352		361	334		360	404	403	403
Investments:									
Managed In-House									
Deposits and monies on call and Money Market Funds	(66)		(40)	(53)		(35)	(25)	(25)	(25)
Financial Instruments	(3)		(3)	(18)		(30)	(30)	(30)	(30)
Managed Externally									
Pooled Funds				(5)		(5)	(5)	(5)	(5)
Total Investments	(69)		(43)	(76)		(70)	(60)	(60)	(60)
Net Borrowing Position	**283**		**318**	**258**		**290**	**344**	**343**	**343**

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ECONOMIC AND INTEREST OUTLOOK

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, for December 2014 is detailed below. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Official Bank Rate													
Upside risk				0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.75
Downside risk			0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month LIBID rate													
Upside risk	0.10	0.20	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.55	0.60	0.80	0.90	1.05	1.15	1.30	1.40	1.55	1.65	1.80	1.95	2.00
Downside risk	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	0.95	0.95	0.95	0.95	1.00
1-yr LIBID rate													
Upside risk	0.10	0.20	0.20	0.30	0.30	0.30	0.30	0.30	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.95	1.00	1.20	1.30	1.45	1.55	1.70	1.80	1.95	2.05	2.20	2.35	2.40
Downside risk	0.15	0.20	0.30	0.50	0.55	0.60	0.65	0.70	0.75	0.80	0.80	0.80	0.80
5-yr gilt yield													
Upside risk	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50
Arlingclose Central Case	1.10	1.20	1.30	1.40	1.50	1.65	1.80	1.95	2.10	2.20	2.35	2.40	2.50
Downside risk	0.35	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.75
10-yr gilt yield													
Upside risk	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50	0.55	0.55
Arlingclose Central Case	1.60	1.70	1.80	1.90	2.00	2.15	2.30	2.45	2.60	2.70	2.85	2.90	3.00
Downside risk	0.35	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.65	0.70	0.70	0.75	0.80
20-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	2.10	2.20	2.30	2.35	2.45	2.50	2.65	2.75	2.90	3.00	3.15	3.20	3.30
Downside risk	0.35	0.40	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.85	0.85	0.90	0.90
50-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	2.15	2.25	2.35	2.40	2.50	2.55	2.70	2.80	2.95	3.05	3.20	3.25	3.35
Downside risk	0.35	0.40	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.85	0.85	0.90	0.90

Underlying Assumptions:

- The UK economic recovery slowed towards the end of 2014, with economic and political uncertainty weighing on business investment. However, the Q3 growth rate of 0.7% remains slightly above the long run average, suggesting the recovery remains robust.
- Household consumption is key to the recovery in 2015. While we expect consumption growth to slow, given softening housing market activity and slower employment growth, the fall in inflation and resulting rise in both real (and nominal) wage growth and disposable income should support spending.
- Inflationary pressure is currently low (annual CPI is currently 0.5%) and is likely to remain so in the short-term. The fall in oil prices has yet to feed fully into the prices of motor fuel and retail energy and CPI is expected to fall further. Supermarket price wars are also expected to bear down on food price inflation.
- The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.

- Nominal earnings growth is strengthening, but remains relatively weak in historical terms, despite large falls in unemployment. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.
- However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.
- In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.
- The ECB has introduced outright QE as expected. While this may alleviate some of the anxiety about the economic potential of the Eurozone, political risk remains significant (e.g. Greek election). Therefore fears for the Eurozone are likely to maintain a safe haven bid for UK government debt.

Forecast:

- Our Advisors forecast the first rise in official interest rates in Q3 2015, but the risks to this forecast are very much weighted to the downside. The February Inflation Report will be key to our review of the possible path for Bank Rate.
- We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.
- Market sentiment (derived from forward curves) has shifted significantly lower in the past three months; market expectations are now for a later increase in interest rates and a more muted increase in gilt yields.

COUNTERPARTY CASH AND TIME LIMITS

Credit Rating	Banks Unsecured £M	Banks Secured £M	Government & Local Authorities £M	Corporates £M	Registered Providers £M
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£5M 5 years	£10M 20 years	£10M 50 years	£5M 20 years	£5M 20 years
AA+	£5M 5 years	£10M 10 years	£10M 25 years	£5M 10 years	£5M 10 years
AA	£5M 4 years	£10M 5 years	£10M 15 years	£5M 5 years	£5M 10 years
AA-	£5M 3 years	£10M 4 years	£10M 10 years	£5M 4 years	£5M 10 years
A+	£5M 2 years	£10M 3 years	£5M 5 years	£5M 3 years	£5M 5 years
A	£5M 13 months	£10M 2 years	£5M 5 years	£5M 2 years	£5M 5 years
A-	£5M 6 months	£10M 13 months	£5M 5 years	£5M 13 months	£5M 5 years
BBB+	£2.5M 100 days	£5M 6 months	£2.5M 2 years	£2.5M 6 months	£2.5M 2 years
BBB or BBB-	£2.5M next day only	£5M 100 days	n/a	n/a	n/a
None	£1M 6 months	n/a	£5M 25 years	£0.5M 5 years	£5M 5 years
Pooled funds	£10M per fund				

Please read notes in paragraph 40 of main report in conjunction with this table.

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TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1. The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2. Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3. The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4. The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Governance Committee and for the execution and administration of treasury management decisions to Chief Financial Officer, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5. The Council nominates Governance committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1. The Council defines its treasury management activities as:

> "*The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*"

2.2. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

2.4. The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5. The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

GLOSSARY OF TREASURY TERMS

Amortised Cost Accounting:

Values the asset at its purchase price, and then subtracts the premium/adds back the discount linearly over the life of the asset. The asset will be valued at par at its maturity.

Authorised Limit (Also known as the Affordable Limit):

A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).

Balances and Reserves:

Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.

Bail - in Risk:

The Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon.

A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.

Bank Rate:

The official interest rate set by the Bank of England’s Monetary Policy Committee and what is generally termed at the “base rate”. This rate is also referred to as the ‘repo rate’.

Basis Point:

A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in **interest rates** and **bond yields**. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%. In the bond market, a basis point is used to refer to the yield that a bond pays to the investor. For example, if a bond yield moves from 5.45% to 5.65%, it is said to have risen by 20 basis points. The usage of the basis point measure is primarily used in respect to yields and interest rates, but it may also be used to refer to the percentage change in the value of an asset such as a stock.

Bond:

A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond which may vary during its life.

Capital Expenditure: Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR): The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.
Certainty Rate: The government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLB) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending.
CD's: Certificates of Deposits with banks and building societies
Capital Receipts: Money obtained on the sale of a capital asset.
Comprehensive Spending Review (CSR): Comprehensive Spending Review is a governmental process in the United Kingdom carried out by **HM Treasury** to set firm expenditure limits and, through public service agreements, define the key improvements that the public can expect from these resources. Spending Reviews typically focus upon one or several aspects of public spending while the CSR focuses upon each government department's spending requirements from a zero base (i.e. without reference to past plans or, initially, current expenditure).
Constant Net Asset Value (CNAV) These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which mean that that any investment will not fluctuate in value.
Corporate Bonds: Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Cost of Carry: The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.
Counterparty List: List of approved financial institutions with which the Council can place investments with.
Covered Bond: Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often a

bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."

CPI :

Consumer Price Index – the UK's main measure of inflation.

Credit Rating:

Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.

Department for Communities and Local Government (DCLG) :

The DCLG is the UK Government department for Communities and Local Government in England. It was established in May 2006 and is the successor to the Office of the Deputy Prime Minister, established in 2001.

Debt Management Office (DMO):

The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the **DMADF**. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.

Diversification /diversified exposure:

The spreading of investments among different types of assets or between markets in order to reduce risk.

European Investment Bank (EIB):

The European Investment Bank is the European Union's non-profit long-term lending institution established in 1958 under the Treaty of Rome. It is a "policy driven bank" whose shareholders are the member states of the EU. The EIB uses its financing operations to support projects that bring about European integration and social cohesion.

Federal Reserve:

The US central bank. (Often referred to as "the Fed").

Floating rate notes (FRNs) :

Floating rate notes (FRNs) are debt securities with payments that are reset periodically against a benchmark rate, such as the three-month Treasury bill or the three-month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.

FTSE 100 Index:

The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation. It is one of the most widely used stock indices and is seen as a gauge of business prosperity for business regulated by UK company law. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group.

General Fund:

This includes most of the day-to-day spending and income.

Gilts:

Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

Gross Domestic Product (GDP):

Gross Domestic Product measures the value of goods and services produced with in a country. GDP is the most comprehensive overall measure of economic output and provides key insight as to the driving forces of the economy.

The G7:

The G7, is a group consisting of the finance ministers of seven industrialised nations: namely the US, UK, France, Germany, Italy, Canada and Japan. They are seven of the eight (China excluded) wealthiest nations on Earth, not by GDP but by global net wealth. The G7 represents more than the 66% of net global wealth ($223 trillion), according to Credit Suisse Global Wealth Report September 2012.

IFRS:

International Financial Reporting Standards.

International Labour Organisation (ILO):

The ILO Unemployment Rate refers to the percentage of economically active people who are unemployed by ILO standard and replaced the Claimant Unemployment Rate as the international standard for unemployment measurement in the UK.. Under the ILO approach, those who are considered as unemployed are either out of work but are actively looking for a job or out of work and are waiting to start a new job in the next two weeks. ILO Unemployment Rate is measured by a monthly survey, which is called the Labour Force Survey in United Kingdom. Approximately 40,000 individuals are interviewed each month, and the unemployment figure reported is the average data for the previous three months.

LIBID:

The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). It is "the opposite" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend). Whilst the British Bankers' Association set LIBOR rates, there is no correspondent official LIBID fixing.

LIBOR:

The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.

LOBO:

Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility. The upshot of this is that on the option exercise date, the lender could propose an extreme fixed rate, say 20 per cent, which would effectively force the repayment of the underlying facility. The borrower's so called 'option' is only the inalienable right to accept or refuse a new deal such as a fixed rate of 20 per cent.

Maturity:

The date when an investment or borrowing is repaid.

Maturity Structure / Profile:

A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by quarter or month-by-month basis.

Minimum Revenue Provision (MRP):

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Money Market Funds (MMF):

An open-end mutual fund which invests only in money markets. These funds invest in short term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (eg £1 per unit) but the interest rate does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies:

- **Constant net asset value (CNAV)** refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/$1 and calculate their price to two decimal places known as "penny rounding". Most CNAV funds distribute income to investors on a regular basis (distributing share classes), though some may choose to accumulate the income, or add it on to the NAV (accumulating share classes). The NAV of accumulating CNAV funds will vary by the income received.
- **Variable net asset value (VNAV)** refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received.

This means that a fund with an unchanging NAV is, by definition, CNAV, but a fund with a NAV that varies may be accumulating CNAV or distributing or accumulating VNAV.

Multilateral Development Banks:

See Supranational Bonds below.

Municipal Bonds Agency

An independent body owned by the local government sector that seeks to raise money on the capital markets at regular intervals to on-lend to participating local authorities.

Non Specified Investment:

Investments which fall outside the CLG Guidance for **Specified investments** (below).

Operational Boundary:

This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Premiums and Discounts:

In the context of local authority borrowing,

(a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and

(b) the discount is the gain arising when a loan is redeemed prior to its maturity date.

If on a £1 million loan, it is calculated that a £150,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,150,000 plus accrued interest. If on a £1 million loan, it is calculated* that a £50,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £950,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.

**The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.*

Property:

Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

Prudential Code:

Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.

Prudential Indicators:

Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators

Public Works Loans Board (PWLB):

This is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Quantitative Easing (QE):

In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It *"does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller's bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy"*. Source: Bank of England.

Repo Rate:

The interest rate at which the central bank in a country repurchases government securities (such as Treasury securities) from commercial banks. The central bank raises the repo rate when it wishes to reduce the money supply in the short term, while it lowers the rate when it wishes to increase the money supply and stimulate growth.
Revenue Expenditure: Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
RPI: Retail Prices Index is a monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the RPI index.
(Short) Term Deposits: Deposits of cash with terms attached relating to maturity and rate of return (Interest).
Specified Investments: Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing: Borrowing for which the costs are supported by the government or third party.
Supranational Bonds: Instruments issued by supranational organisations created by governments through international treaties (often called **multilateral development banks**). The bonds carry a AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.
Treasury (T) -Bills: Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. Treasury Bills (T-Bills) are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have a AAA-rating.
Temporary Borrowing: Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.
Treasury Management Code: CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.
Treasury Management Practices (TMP): Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.

Unsupported Borrowing: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Variable Net Asset Value (VNAV): Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.
Yield: The measure of the return on an investment instrument.

DECISION-MAKER:		CABINET COUNCIL			
SUBJECT:		**IMPLEMENTING THE COUNCIL STRATEGY 2014-2017: TRANSFORMATION PROGRAMME UPDATE**			
DATE OF DECISION:		10 FEBRUARY 2015 11 FEBRUARY 2015			
REPORT OF:		CABINET MEMBER FOR EDUCATION AND CHANGE			
CONTACT DETAILS					
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STATEMENT OF CONFIDENTIALITY
N/A

EXECUTIVE SUMMARY

The role and shape of public services is changing dramatically. This is not only because of the reality of deficit reduction but also radical changes in the needs, behaviours and expectations of residents, customers, clients and communities. We and our public sector partners recognise that we serve the same population and that we can be more successful in improving outcomes, within reducing resources, by working together on a whole place thinking approach. This could result in the pooling of budgets and sharing resources to deliver services in a more cost effective way.

The City Council continues to face significant financial challenges with a projected funding gap of circa £60.7M by 2017/18. This gap is set to widen further due to increasing demand driven by demographics and long standing social, health and economic pressures faced by many residents, particularly our most vulnerable residents.

The council currently spends an estimated 41% of its effort in delivering front line services and this is in line with a number of other councils who have completed similar analysis. However as we want to ensure we continue to improve outcomes for our residents, we are committed to shifting a greater proportion of our reducing resources to front line service delivery.

While we have delivered significant budget reductions in the last few years and started to transform some services, we recognise that our traditional approach to making savings will not be able to deliver a significant contribution towards our funding gap and that radical transformation of the Council is necessary over the next 2 years.

We have to radically change how we do business and embrace new ways of working to become sustainable and deliver the outcomes and priorities of our Council Strategy 2014-17. The transformation programme is not expected to bridge the funding gap by

2017, however, it has identified a significant contribution of annual savings of up to £15M and it will help us implement a new operating model for the council. The proposals are still in their early development for planning purposes and for inclusion in the Council's Medium Term Financial Strategy, as detailed in Section A The Outline Business Case. As work progresses the potential level of savings will be confirmed, and further reports will be brought forward during 2015/16 to agree new savings and update on the budget gap remaining.

It is clear that the Council must address its significant cultural issues and in particular the way that it manages and engages with its key stakeholders (including customers, Members, external partners, staff and service providers). The Council must also address its gaps in efficient and effective operations (e.g. by reducing fragmentation and duplication, increasing innovation and increasing use of digital technology) and must have a much stronger customer focus and commercial orientation, including examining commercial opportunities to generate additional income and/or reduce costs.

We commissioned KPMG UK LLP ("KPMG") to work with us to develop a new operating model, to identify the contribution that the transformation programme could make and the scale of the potential investment. While this report reflects much of that work, we will not be progressing with all of KPMG's recommendations (e.g. Operational Commissioning).

By **2017 we expect to be a sustainable council** which is:

- **more self-reliant –** over time becoming less dependent on central government funding and increasing our income generation.
- **focused on outcome-based services** - regularly commissioning the services we need based on outcomes for our residents, and making evidence based decisions on those services we need to stop or change.
- **quicker to respond –** more able to adapt to changing circumstances and residents needs including improving our digital offer to our customers.
- **equipped to work in new ways –** by implementing new ways of working for our staff, seeking new ways of reducing our procurement spend and better use of our assets.
- **providing a mixed economy of service providers –** taking different approaches to delivering services, taking ideas from all sectors as well as our own.

Our transformation programme will focus on three key areas:

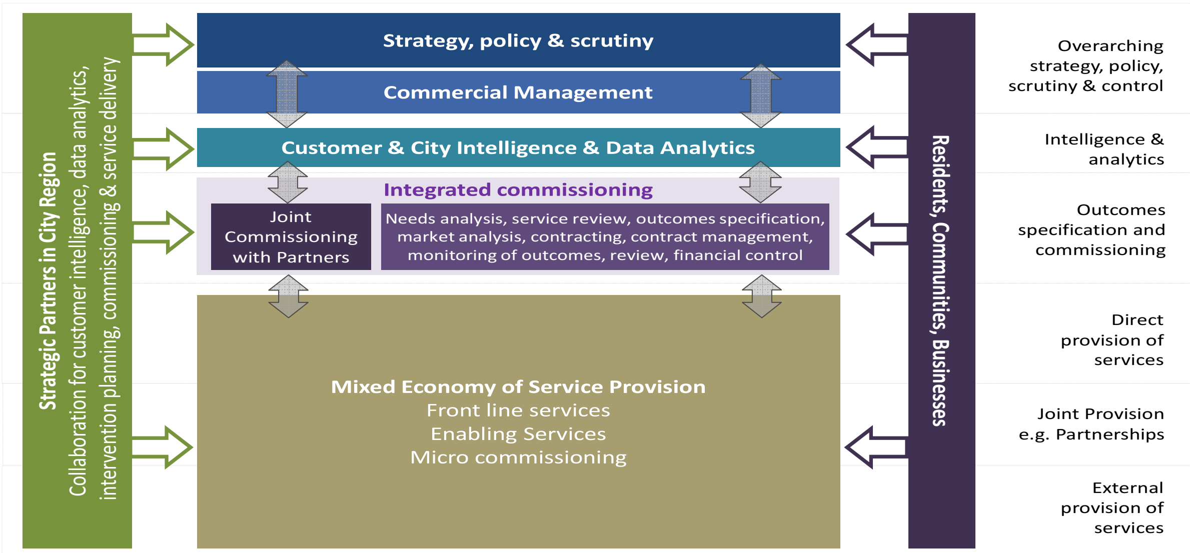
- **Implementing a new operating model** providing us with the ability to flex the size and shape of our organisation over time to meet demands and pressures, such as funding, demographic and policy changes. It will support the changing behaviours of our residents and enable further integrated partnership working with a mixed economy of service providers. Our operating model will make us a sustainable council.
- **Making us more efficient** by removing duplication and fragmentation from our front and back office and reducing our layers of management, gaining better data and information to make informed decisions and improve our demand management and delivering cashable savings. Finding the best way of doing things will make sure we all work in a consistent way.
- **Reviewing our front line service delivery function** to ensure it delivers the right

outcomes for our residents and represents value for money.

In doing so, we will:

- Fully implement a new operating model for the Council by 2017 which is aligned to and focused on delivering the outcomes and priorities of our Council Strategy 2014/17. Figure 1 outlines the proposed new operating model for the Council which is not an organisational structure for the Council.

Figure 1 Outlines the proposed new operating model for the Council



- Gain a much improved understanding of our demand and how to stop and reduce it.
- Reduce year on year overspends as well as reducing the costs and demand for social care services for our vulnerable children and adults.
- Develop a list of council services that will have to be stopped or reduced.
- Gain a better insight and understanding of where to prioritise our resources.
- Reduce the level of resources in our front and back office functions.
- Improve the way we commission our services both internally and externally.
- Further reduce our procurement spend on external supplies and services and a review of all contracts.
- Significantly reduce our management layers and widen our spans of control.
- Become more commercially focused in how we do business and use innovation to reduce costs and generate more income.
- Make it easier for our residents and customers to self-serve.
- Maximise our income opportunities.
- Make our work force more agile, responsive and independent of back office support.

Achievements made by the transformation programme since July 2014

- We have updated and redesigned our Gateway Service (Customer Contact Centre) to make it easier for our customers and residents to deal with their queries, seek advice and make payments. We have introduced self-service facilities and since its launch on 13 October 2014 we have received very positive feedback.

- We have redesigned our web site, our primary customer access channel, (live in October 2014), which now offers our customers and residents 24/7 access to information relating to services and have made it easier for customers and residents to make payments, seek information, submit enquiries and make requests for services.
- We are establishing a ‘Front Door’ – a unified point of access for adult social care and housing services:
  - Adults Services and Housing Services are expected to be the first services in the new ‘Front Door’ by the end of May 2015.
  - Implementation of the Southampton Information Directory (SID) has been completed in preparation for the Care Act, which comes into effect in April 2015, and the Children and Families Act, which came into force in September 2014.
- We have established a cross council, consolidated administration support function (business support), which will deliver an annual saving of £800k from April 2015.
- We will continue to reduce accommodation and work with our public sector partners through the One Public Estate programme. Key achievements have been:
  - the vacation of the One Guildhall Square building and leasing it to Southampton University from January 2015 which provides an annual income of £900k
  - saving of £108k per year from Castle Way
  - a capital receipt of £1.8M for Marland House
- We have started work on implementing new ways of working for our staff including mobile and flexible working, new performance management, skills and competency frameworks.
- We are reviewing our procurement spend to deliver further cashable savings by buying smarter and have enabled £3.54M savings to date with a forecast of £4.59M by year end. These figures include a forecast of £305k against the sub £100k project which has been successfully rolled out across the Council.
- We are reviewing our services focusing on why we offer them, who to, and challenging ourselves on whether we are offering value for money. In the first phase, we are progressing work on redesign of adult social care provider services transformation.

Approach to implementation

Given the challenges we face, it is clear that the way the whole council operates needs to change if we are to find new, more cost effective ways of meeting the needs of our customers and communities in this challenging environment. We recognise that we need to continue to facilitate economic growth and foster effective partnerships with a range of public, private, voluntary and community sector partners. If the council is to deliver the right outcomes for residents, it must also focus its efforts on the right delivery models for the future (some of which may not be the council), income generation, becoming more commercial, working with our partners to deliver shared services, making our processes more efficient and staff more effective through adopting new ways of working. All these changes emphasise the need for a new way of doing business (the new operating model of the Council) that supports the ongoing delivery of essential services to our residents. Our new operating model must enable us to deliver on the outcomes and priorities of our Council Strategy 2014-2017.

We will undertake a fundamental review of “what we are in business to do” (i.e. review our services) by following an outcome based budgeting approach to build the service mix, service standards, service delivery models and trading opportunities during 2015. Alongside this we will continue to pursue growth / trading opportunities with others, recognising that any additional income generated from growth / trading initiatives increases the available budget for service choices for Southampton.

Progress of the transformation programme to date has been resourced through using a mix of internal and external resources. However, we recognise the scale and complexity of the full implementation of the new operating model by 2017 will require significant resourcing, specialist skills and investment in innovation and technology. We also recognise that given the current demand pressures for some of our services we must ensure that business as usual is maintained. Therefore, we propose the sourcing of a strategic transformation partner is agreed to assist us in the delivery of the transformation programme. The partner arrangement will be established on a commercial basis linked to cashable benefit realisation.

RECOMMENDATIONS:

Cabinet is recommended to consider and recommend to Full Council, approval of the following recommendations:

(i) To approve the Outline Business Case set out in Section A of this report.

(ii) To endorse and recommend for approval by Full Council the new operating model for the Council set out in Section D of this report.

(iii) To approve the high level implementation plan set out in Appendix 1 of this report.

(iv) To note that regular updates on the position and progress of the Transformation Programme will be provided to Cabinet and (by agreement with the Chair) Overview and Scrutiny Management Committee.

(v) To authorise the Chief Executive to take any further action necessary to give effect to the decisions of the Executive in relation to this matter.

Cabinet is requested to approve the following recommendations:

(vi) To approve in principle, the procurement of a strategic partner to deliver the transformation programme and delegate authority to the Chief Executive following consultation with the Cabinet Member for Education and Change to enter into such an arrangement

(vii) To note that the Head of Legal & Democratic Services consequentially has authority to seal any contractual documentation arising from this.

Full Council is recommended to approve the following recommendations:

(i) To approve the Outline Business Case set out in Section A of this report.

(ii) To endorse and recommend for approval by Full Council the new operating model for the Council set out in Section D of this report.

(iii) To approve the high level implementation plan set out in Appendix 1 of this report.

(iv) To note that regular updates on the position and progress of the Transformation Programme will be provided to Cabinet and (by agreement with the Chair) Overview and Scrutiny Management Committee.

(v) To authorise the Chief Executive to take any further action necessary to give effect to the decisions of the Executive in relation to this matter.

REASONS FOR REPORT RECOMMENDATIONS

1. The financial challenges faced by the Council and the changing demands for all services makes it imperative for us to adopt radical and different approaches to meeting customer needs, service delivery models and maximising the potential of our staff. The report to Cabinet in July 2014 explained that in the next phase of the Transformation Programme, we will need to seek approval to take specific actions to become a sustainable Council, one which will help us deliver the savings and become more customer-focused and commercially minded. This report provides the detail and seeks approval of specific recommendations, including a proposed Target Operating Model for the council.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. The option of continuing to reduce services without making radical changes in how we work and deliver services was considered and rejected because this will not deliver a sustainable Council.

DETAIL (Including consultation carried out)

Introduction

1. In July 2014 we outlined the case for doing things differently and that to deliver the Council Strategy priorities over the next three years we will have to make significant changes in how we design, deliver and manage services, work collaboratively with partners, work and communicate with our residents; and how we use research, data and insight to make evidence based decision making. Cumulative budget reductions combined with changing demographics and the pressures of managing future demand mean we have no other option except to systematically redesign every aspect of how we work and deliver services. Our current business model has been in place for a long time and to date, it has enabled us to manage service delivery and meet objectives set out in strategies and plans. However, the dramatic changes in the role and shape of public services, the reality of deficit reduction and the radical changes in the needs, behaviours and expectations of customers, clients and communities require us to develop and implement a new business model to become sustainable.

2. The transformation programme has made progress since July 2014 and our achievements are detailed in the summary of this report. However, we recognise that the transformation programme alone cannot bridge our funding

gap – it is expected to make a defined contribution and importantly, it will help us implement a new operating model for the council. We have to radically change how we do business and embrace new ways of working to become sustainable and deliver the outcomes and priorities of our Council Strategy 2014-17. This report details our proposals in the following sections:

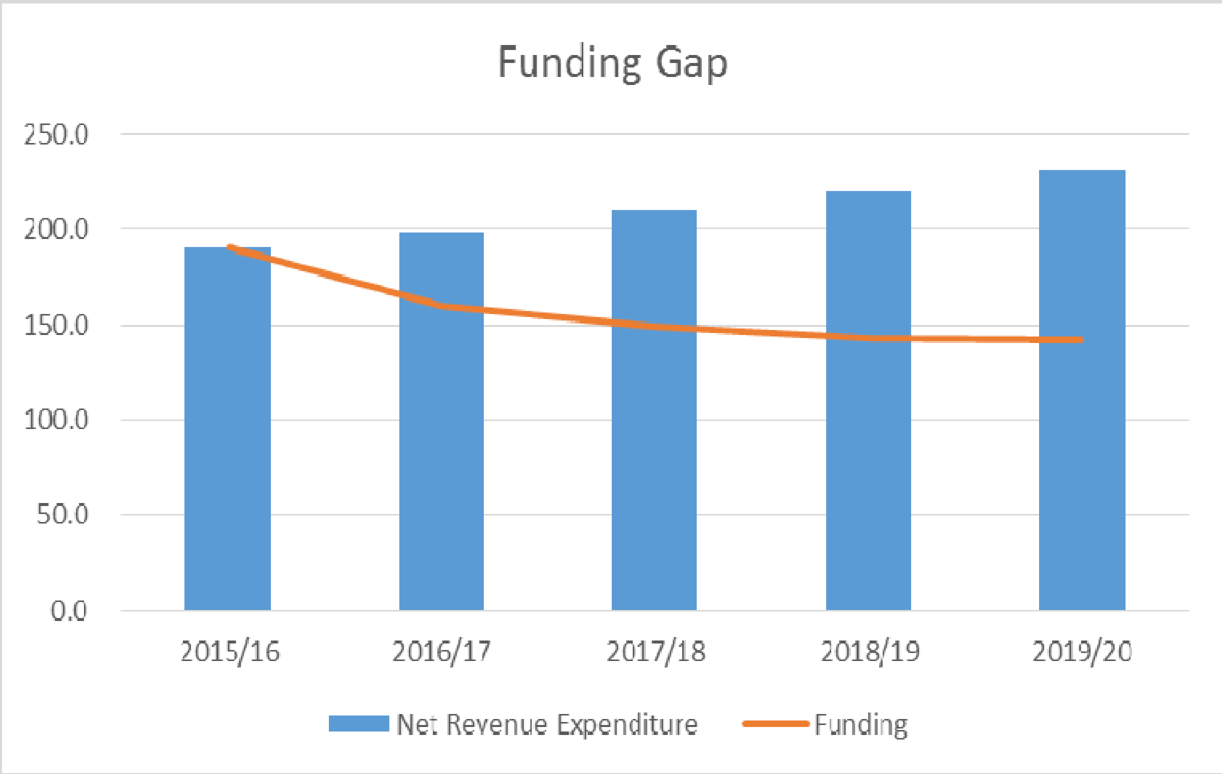
- Section A Outline Business Case
- Section B Strategic Context
- Section C Delivering a sustainable council
- Section D Our New Operating Model
- Section E Components of our new operating model
- Section F Implications of the new operating model

A. THE OUTLINE BUSINESS CASE

3. The reality of public sector finances means that we can expect continued reductions in central government grant to local government. If we are to deliver the right outcomes for our residents, we must focus our efforts on:
    - Getting the right delivery models for the future, some of which may not be the Council.
    - Managing better the demand for our services through further integrated working with our partners.
    - Increasing our income generation.
    - Becoming more commercially focused.

4. The overall forecast position for the medium term is currently an overall budget shortfall of £60.7M across the 2 year period 2016/17 – 2017/18, with a forecast shortfall of £39.1M in 2016/17, and £21.6M in 2017/18. Our priority is to ensure we transform quickly to remain sustainable.

Figure A-1 summarises the financial forecast for Southampton City Council to 2019-20


Funding Gap
250.0
200.0
150.0
100.0
50.0
0.0
2015/16
2016/17
2017/18
2018/19
2019/20
Net Revenue Expenditure
Funding

Financial Gap

5. Our forecast financial projection over the next 3 years is outlined in Figure A-2. It clearly illustrates a need to radically change our organisation to address the funding gap prediction if we are going to maintain our sustainability.

Figure A-2 Summary of Southampton City Council budget position to 2017/18

MEDIUM TERM FINANCIAL FORECAST

Portfolios	**2015/16 Forecast £M**	**2016/17 Forecast £M**	**2017/18 Forecast £M**
Children's Services	55.1	55.1	55.1
Communities	2.1	2.1	2.1
Environment & Transport	36.2	36.2	36.2
Health & Adult Social Care	67.5	67.5	67.5
Housing & Sustainability	2.8	2.8	2.8
Leader's Portfolio	5.1	5.1	5.1
Resources & Leisure	29.9	29.9	31.3
Add Pressure - Future Years (Known)	6.6	6.6	6.2
Add Pressures - Future Years (Unknown)	0.0	1.0	2.0
Base Changes & Inflation	0.0	8.1	16.9
Sub-total for Portfolios	**205.3**	**214.4**	**225.2**
Levies & Contributions	0.6	0.6	0.6
Capital Asset Management	(11.2)	(9.7)	(9.5)
Other Expenditure & Income			
Direct Revenue Financing of Capital	0.0	0.0	0.0
Trading Areas (Surplus) / Deficit	(0.0)	(0.0)	(0.0)
Net Housing Benefit Payments	(0.8)	(0.8)	(0.8)
Open Spaces and HRA	0.4	0.4	0.4
Risk Fund	4.5	4.8	5.3
Contingencies	0.3	0.3	0.3
Addition to / (Draw From) Reserves	1.9	0.0	0.0
Sub-total for Other Expenditure & Income	**6.3**	**4.7**	**5.3**
Net Revenue Expenditure	**201.1**	**210.1**	**221.6**
Draw from Balances:			
Addition to / (Draw From) Balances	(7.1)	2.5	4.0
Council Tax	(77.3)	(78.8)	(80.4)
Non-Specific Government Grants & Other Funding	(51.0)	(32.4)	(21.2)
Business Rates	(50.1)	(51.1)	(52.0)
Council Tax Collection Fund (Surplus) / Deficit	(2.8)	0.0	0.0
Business Rates Collection Fund (Surplus)/Deficit	(2.7)	0.0	0.0
Total Funding	**(191.1)**	**(159.8)**	**(149.6)**
Savings proposals Feb 15	(10.0)	(11.2)	(11.4)
DRAFT BUDGET GAP	**0.0**	**39.1**	**60.7**

Contribution from the transformation programme

6. The Council is clear that it can deliver effectively and be sustainable only through partnerships and trading with others, and through individuals and communities becoming more independent. This is reflected in our Council Strategy, priorities and outcomes. Our new operating model will focus on delivering further savings in the following areas:

- **Reducing our cost to serve** – by making our customers and residents more independent, through the use of self-service tools and seeking resolution to their enquiries through other sources such as partners and the voluntary sector. By doing so we can significantly reduce the cost of current customer services both for ourselves and to others. The average cost for customer transaction are outlined in Figure A-3, which clearly demonstrates by reducing more higher cost transactions, eg, face to face, and telephone and enabling our customers to have better access on line; we will deliver significant cashable savings in this area.

Figure A-3 Average Cost per Transaction by Customer Channel

Source	Face to Face	Telephone	Online
Society of Information Technology and Management (SOCITM)	£14.00	£5.00	£0.17p

- **Making our processes simple and efficient** – by stopping and removing unnecessary duplication which will make us more lean and efficient. This will reduce the level of resource we need in our service enabling functions, helping us to focus more of our resources on front line services.
- **Being smarter in the way we manage our demand** – by having the right level of insight across our whole organisation to better predict demand and assess trends.
- **Mixed economy of service providers –** by providing the best delivery model for our services which helps us to deliver the outcomes for our residents.
- **Becoming more commercially focused –** by seeking new ways of generating income and ensuring everything we do as an organisation delivers the best value for money by having sound commercial management controls.
- **Reducing our procurement costs** – by buying the goods and services we need in a smarter way and reducing demand to procure less or not at all.
- **Improving our front line services** – by delivering only those services which offer value for money and contribute to the outcomes of our Council Strategy. By making ourselves more efficient will help us decide the most appropriate way to deliver the service.
- **Reducing our levels of management and supervision** – by enabling our organisation to become more responsive to the changing needs of our residents and customers.
- **Making our work force more agile and dynamic** – by enabling our staff with the right equipment to do their job; having access to the right information; providing the right skills and by instilling a performance

management culture. By doing so they will become more independent through the use of self-service tools.

Medium Term Financial Strategy and the funding gap

7. The Council's budget report, including the Medium Term Financial Strategy (MTFS) for the period 2015/16 - 2019/20 is elsewhere on this agenda and will also be considered by Cabinet on the 10th February and Full Council on the 11th February 2015. The overall forecast position for the medium term is currently an overall budget shortfall of £60.7M across the 2 year period 2016/17 – 2017-18, with a forecast shortfall of £39.1M in 2016/17 and just short of £21.6M in 2017/18.

8. The budget report sets out the Administration's proposals for a balanced budget for 2015/16, based on raising Council Tax by 1.99%, and includes total savings proposals in the sum of £9.98M. At this stage, the Administration have been able to put forward a balanced budget for 2015/16 without the need to incorporate the savings which will be delivered by the Council's Transformation Programme and the implementation of the new operating model in 2015/16 and beyond.

9. The priorities of the Transformation Programme are:

- Implementing a new operating model for the Council by 2017, which is focused on delivering the outcomes and priorities of our Council Strategy 2014/17.
- Reduce year on year our overspends as well as reducing the costs and demands for social care services for our vulnerable children and adults.
- Develop a list of Council services that will have to be stopped or reduce.
- Reduce the level of resources in our front and back office functions.
- Further reduce our procurement spend on external supplies and services and a review of all contracts.
- Significantly reduce our management layers and widen our spans of control.
- Become more commercially focussed in how we do business and use innovation to reduce costs and generate more income.

10. This report explores how we will need to change the way we operate in order to meet the challenges the Council faces over the coming years. This new model of operating will ensure the Council focuses service delivery on meeting the outcomes really needed by local residents, communities and businesses.

11. The financial challenge facing the Council is obviously a major driver for this change, and we need to review the way we set budgets to align budgets with an outcome and commissioning based approach, as detailed in the Medium Term Financial Strategy (MTFS).

Identified Transformation Opportunities to Contribute to the Budget

HIGH LEVEL SAVINGS PROPOSALS

12. The initial work that has been carried out has identified potential recurrent savings of £15M from Transformation towards addressing the £60M budget gap. These potential savings also come with potential one off investment requirements of £4.5M revenue over the 2 year period, and £10M capital. The capital investment requirements will need to be built into the Capital

Programme review detailed in the Capital Strategy.

13. At this stage the proposals referenced in the Transformation Report are high level, and the potential savings, as set out below, are therefore indicative. However, the Chief Executive and the Council's Management Team will aggressively drive forward the identified savings opportunities and themes to deliver the maximum level of savings possible to contribute towards closing the Council's overall budget shortfall.

14. The following themes have been used in identifying and categorising the type of savings proposals being considered by each directorate for opportunities, including cross-cutting initiatives identified by the Transformation Programme to contribute savings towards addressing the identified funding shortfall of circa £60.7M through to 2017/18:

- New Service Delivery Model for proposals that are considering some form of external provision.
- Services Stopped or Reduced for proposals that are looking at reducing or stopping all or parts of the service.
- Restructure/Streamline Existing for proposals that the service continues to deliver the same outcomes and service levels with reduced costs; and
- Cross-Cutting, Council wide initiatives that seek to improve our current processes by removing duplication, fragmentation and implementing self-service channels for our customers and staff.

15. A key part of this approach will be to deliver the identified savings opportunities as early as possible during 2015/16, and work is already underway to achieve that objective. As work progresses the potential level of savings will be confirmed, and further reports will be brought forward during 2015/16 to agree new savings and update on the budget gap remaining

16. As the proposals are still in development, for financial planning purposes and for inclusion in the Council's Medium Term Financial Strategy, a prudent assessment has made of the likely level of savings which can be delivered across the identified themes. However, as referenced above, the aim will be to aggressively pursue these savings to deliver the maximum financial benefit which is possible.

17. Table A-4 presents a summary of the high level savings identified to date across the 4 themes. For presentation purposes, the savings are shown on a full year basis from 2016/17 onwards, although the clear intention is to progress the individual strands of work underpinning each theme at the earliest opportunity.

Figure A-4 High level savings identified to date

	2016/17	2017/18
	£M	£M
New Service Delivery Model	1.7	5.7
Services Stopped or reduced	0.6	0.6
Restructure and Streamline Existing Services	1.9	3.1
Cross Cutting	4.9	5.9
Total	**9.0**	**15.2**

18. On the basis of the high level work to date, the current proposals which are being worked up have the potential to contribute £15M towards the Council's overall medium term budget position by 2017/18.

19. It should be noted that at this time the £15M does not include any savings from the delivery of procurement efficiencies. The Council's Management Team are looking to drive out significant savings from third party contracts and is working with Capita to initially identify those contracts which may offer the largest scope for savings.

20. The next steps in the Transformation Programme are to go to detailed design which should be completed by Autumn 2015. At this stage the programme should have gone some way to addressing the £61M two year budget gap and identifying the necessary costs for 2016/17.

FINANCIAL RISKS

21. There are a number risks associated with the numbers above. These include:

- The proposals are in the very early stages and hence further work will be required to refine individual proposals and firm up the level of savings which each can deliver.
- The interconnection between some of these proposals has not been established in all cases so there may be some element of double-counting
- Many of the proposals will require up-front investment to deliver, and this will have to be delivered within the constraints of the Council's overall financial position. However, a significant element of the identified investment will be in new and upgraded technology capability, and this will be capital expenditure allowing the Council draw on available capital resources (e.g. capital receipts, borrowing) to fund the investment.

22. Cabinet is recommended to consider and recommend to Full Council to approve the Outline Business Case set out above.

B. STRATEGIC CONTEXT

23. Our city has an impressive track record of partnership working and going forward, building on this has to be a central element for the Council, irrespective of its shape and size. For the first time since Local Strategic Partnerships were abolished, key strategic partners have come together (as part of Southampton Connect) to agree a 10 year vision – 'city of opportunity where everyone thrives' with the goal of achieving prosperity for all.

24. The city's three main priorities of economic growth with social responsibility; skills and employment and healthier and safer communities are supported by the following four key themes:

- Fostering city pride and community capacity.
- Delivering whole place thinking and innovation.
- Improving mental health.
- Tackling poverty and inequality.

25. The achievement of these outcomes in the ten year City Strategy are more likely to flow from continued and extended forms of partnership working. They could have significant potential for managing demand, and hence reducing

costs to the Council, as they focus on particular issues relating to high cost customers, building community self-reliance and pooling diminishing resources to get better outcomes – issues that are relevant to most public bodies in the city.

26. The Council Strategy 2014 -17 defines our priorities and outcomes. However, with reducing funding and demand management challenges, we need to establish realistic performance outcomes for these priorities. The Cabinet, the Council's Management Team and Heads of Service developed performance outcomes for our priorities as part of the new operating model design. The Cabinet provided clear guidance to ensure we reflect the views of our residents and prioritise "services for all", "jobs for local people" and "prevention and early intervention" in which we seek to exceed and/or lead in.

Demand Management, Early Intervention and Prevention

27. We are facing significant demand pressures as a result of changes in customer needs and expectations coupled with a changing demography, lifestyles influenced by social, health, environmental and economic factors as well as the growth of new technologies and media. This rising demand, specifically for some high cost services, combined with year on year reductions in government grants, is placing the Council in an unsustainable position where projected budgets and services will not be sufficient to meet demand in the medium or longer term. This gives us an immediate significant financial challenge for 2016/17. We must manage our demand to ensure we maintain a sustainable future including the delivery of acute, high cost interventions, particularly for complex needs in social care.

28. In addition, a top priority for the Council is to reverse the trend of year on year overspends as well as to achieve a real reduction in the costs of social care services for children and adults. We are considering all options for delivering key services within the People directorate with a view to completing a full options appraisal business case during 2015.

Economic Growth

29. The Council's main goal is to improve outcomes for its residents and facilitating economic prosperity for residents is central to its commitment. Economic growth, therefore, is a high priority for the Council and a key driver for our new operating model. Three of the Council's "top five" outcomes for 2017 relate to economic growth, these being:

- Reducing unemployment.
- Improving educational attainment.
- Increasing investment into the city.

30. The Council's ambition is for Southampton to be "market leading" in economic growth with the Council being a leader / enabler of inclusive growth and a place shaper, facilitator and co-commissioner of solutions, working in partnership with others. The Council does not see its primary role as being a deliverer of economic growth solutions except where the market dictates.

31. The Council's role is highly dependent on it having the right insight, influence, relationships and collaborations (internally and externally) to play a leading role in shaping, driving and facilitating economic growth strategies and

interventions for the city. From our work in developing the new operating model we have identified a number of factors that we believe will be critical for the Council to successfully deliver its role and ambitions for economic growth in the city.

CITY VISION AND IDENTITY

32. Both the city and the Council strategies and related plans describe a range of economic related outcomes we are striving to deliver working closely with other private sector and third sector partners. Increasingly, the national framework promotes collaboration with Local Enterprise Partnerships (LEPs) and across wider local authority boundaries, and consideration of synergies and scale across regional and sub regional areas. In light of this and taking into account the Partnership for Urban Southern Hampshire functional economic area, Southampton has agreed to articulate its growth ambitions through the Solent LEP Transforming Solent Growth Strategy (2014).

33. This aims to unlock jobs and growth in the Solent through six enabling strategic priorities, each underpinned by ambitious growth targets to 2020:

- Supporting new businesses, enterprise and ensuring Small Medium Enterprises (SMEs) survival and growth
- Enabling infrastructure priorities including land assets, transport and housing
- Establishing a single inward investment model to encourage companies to open new sites
- Investing in skills to establish a sustainable pattern of growth, to the benefit of local residents
- Developing strategic sectors and clusters of marine, aerospace and defence, advanced manufacturing, engineering, transport and logistics businesses, low carbon, digital and creative and the visitor economy
- Building on our substantial knowledge assets to support innovation and build innovative capacity.

34. Within the Solent economy, Southampton holds the greater strength and potential for growth in relation to the LEP key sectors of marine/maritime and distribution. It also has additional sectorial strengths in business and professional services, retail, leisure, medical sciences, research and development. Since 2009, as a Council we have established an impressive track record in supporting economic growth by taking a proactive role in enabling significant private sector investment, jobs and infrastructure in the development of the city centre and waterfront and also through a programme of estate regeneration. Private investment, alongside a range of measures including reductions in unemployment and improvements in transport led to Southampton being ranked as the city with the most growth improvement of any other city between 2012 and 2013 in the PwC Good Growth index.

35. Through the City Deal and Growth Deal processes, the city has worked strategically with Portsmouth and the Solent LEP to negotiate devolved funding and powers to unlock key infrastructure, business support, employment and skills opportunities, and set the city and its partners in a prominent position to enter discussions regarding arrangements for future devolved arrangements. Alongside the Solent Growth Strategy, the city has

supported the development of the Solent LEP Skills Strategy 2014-16 and EU Strategic Investment Framework to provide the framework for targeted work to align public and private sector skills and employment funding and delivery with demand to support the growth of the city.

36. Within the context of the significant economic development achievements to date, opportunities remain to further enhance the significant growth potential Southampton has to offer. Future discussions with our partners could include:

- Developing a definable city identity as described in KPMG's 'Magnet Cities' research, which supports the presence of young wealth creators to correlate with the city's economic growth.
- Further strengthening integration across economic, social, health and environmental agendas to achieve ambitions of inclusive growth and support wider transformation and the new operating model objectives.
- Further building on an intelligence-led approach that places current and future needs of business and residents at the centre of the city's planning and provision.

CITY INTELLIGENCE AND INSIGHT

37. As a Council we will also have the opportunity to leverage the capabilities of our approach to gathering business intelligence to work with partners. This will be to collect and analyse data and deliver intelligence and insight on the local economy, supply and demand factors, the specific needs of the local residents and businesses, the makeup of the current population and potential trends and opportunities for the city. It will enable us and our partners to support strong, evidence based decision-making on the prioritisation of strategies and interventions.

38. Having a clear diagnostic, based on strong data / evidence, is a crucial first step in ensuring that every pound spent by the Council and its city partners on economic growth / development related services and interventions brings real added value to the city, its businesses and its residents and is consistent with an ambitious, jointly owned, economic vision and strategy for Southampton.

INTEGRATED APPROACH

39. There are strong indicators that there are opportunities for the Council to further strengthen its relationship with partners in relation to delivering further economic growth for Southampton. Continuing to actively foster strong relationships with these partners as well as with the big existing employers, the Port, the universities and potential investors will need to be a key focus of the Council if it is to deliver on its economic development ambitions and role.

40. Working with Partners

(a) Business process for economic growth

The business process, for facilitating economic growth, relies on local data and evidence collection by the Council and our partners which generates a strong understanding of the economic landscape of Southampton. This includes understanding current businesses and their needs, a detailed makeup of the population, evidence on reasons for low retention rates and comparative baselines of economic performance. Much of this work is already in train, with the primary opportunity to identify linkages, understand trends and draw attention to the major issues and challenges in the current state of the economy along with the 'Magnet Story' vision, ambition and a definition for the city's future identity. These initial activities will translate into a list of specific interventions / potential projects or programmes.

(b) Form of partnership working

There are a number of forms that the Council's economic growth and development related activity and partnerships might take in future. The form that is selected will be shaped by the structures currently in place locally, by those elsewhere in the market, and by the options that are currently under consideration and will be examined through the service design gateway process.

41. The structures currently in place and/or under consideration include:

- The existing structure and teams within the Council.
- Solent LEP, Southampton Connect and Future Southampton.
- The Joint Venture (LLP) recently established with BV Strategies Facilitated Ltd (BVSF) to facilitate comprehensive property-based regeneration and development projects in Southampton and to maximise the return to the Council from its land and property portfolio and potential interests.
- Establishing a Joint Venture with a private sector partner for the provision and commercialisation / trading of economic development and regulatory related services (similar to Barnet Council's Joint Venture – JV), including planning, building control, economic development, strategic property (investment), highways professional services.
- The combined authority model that has been adopted in five regions of the UK to date, most commonly to pool responsibilities and budgets and seek additional delegations from central government in order to deliver transport, economic development and regeneration policies and plans more effectively over a wider area. A combined authority is a legally recognised entity able to assume the role of an integrated transport authority and economic prosperity board. This gives it the power to exercise any function of its constituent councils that relates to economic development and regeneration, and any functions available to integrated transport authorities.

42. Clearly there is either complementarity or overlap in the role and remit of a number of these structures, in particular between the Joint Venture with BVSF, the proposed JV for economic development and regulatory services, and the combined authority model. We will need to exploit the opportunities that the three models can deliver to provide the best outcomes for the city and the Council.

43. Our new operating model has the flexibility to accommodate each of these options. We will therefore need to examine the pros and cons of each of the options in detail through the service design gateway process and select preferred models that best fit the Council's strategy and ambitions for the city, ensuring that selected models inter-relate and provide ongoing benefits.

C. DELIVERING A SUSTAINABLE COUNCIL

What is a new operating model and why do we need to change?

44. An operating model is simply a representation of the high level activities required to deliver a certain way of working. It is not an organisational structure and does not cover the details of processes and jobs. Our new operating model will enable us to:

- Find the best way of doing things and make sure we all work that way consistently.
- Provide an infrastructure able to support the Council in delivering its outcomes and priorities.
- Reduce process duplication and fragmentation to deliver value for money.
- Maximise on how we innovate and continuously improve.
- Devolve decision-making as close to the customer as possible.

45. These principles set a clear direction for the Council's new operating model which delivers an explicit separation between strategy and provision but with effective relationships between the two; an organisation that is focussed on outcomes and has the ability to flex over time, which is represented by a clear separation of commissioning and front line service delivery. This does not however mean we will only be a "commissioning council". We will build on the work we have done to date with Health and focus on integrating our commissioning approach further and becoming more commercially focused using our data and insights to inform our decisions on where we spend and how best to spend.

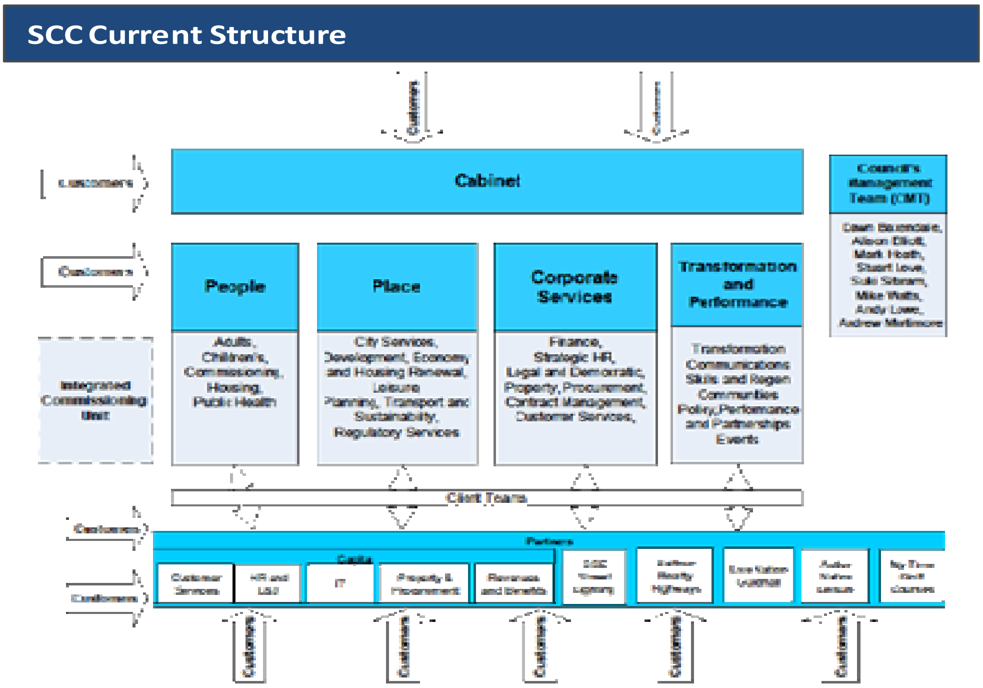
46. Our transformation programme will focus on three key areas:

- **Implementing a new operating model** providing us with the ability to change shape over time to meet demands and pressures, such as funding, demographic and policy changes. It will fulfil the changing behaviours of our customers and enable further integrated partnership working with a mixed economy of service providers.
- **Making us more efficient** by removing duplication and fragmentation from our front and back office and reducing our layers of management, gaining better data and information to make informed decisions and improve our demand management and delivering cashable savings. Finding the best way of doing things will make sure we all work in a consistent way.
- **Reviewing our front line service delivery function** to ensure it delivers the right outcomes for our residents and represents value for money.

How we currently work

47. Our current way of working has served us well to this point. However, our current silo based structures and way of working do not allow us to maximise opportunities to become more efficient and take a joined up one Council approach to delivering outcomes for our residents. Our current model is outlined in Figure C-1.

Figure C-1 our current way of working



Changing the way we operate

48. Changing the way the whole council operates is a fundamental step in ensuring we are a sustainable organisation by 2017. A new council operating model has been developed by the Cabinet and Council's Management Team (CMT) with significant input and insight from Heads of Service, KPMG and the Council's Transformation Programme team. Union representatives have been engaged throughout the design of the new operating model through various ways including surveys and regular updates. The Union's primary request is that we try to make our current services in house more efficient and seek to trade where possible, recognising that there would be a shift in skills required.

49. Sustainability of the new operating model is also about having the right behaviours and right performance culture within the organisation. Our new operating structure and associated performance culture for the Council will need to ensure that the objectives that underpin the change to a customer centric approach are embedded within the new culture of the Council, and that they are not eroded over time resulting in a gradual return to a fragmented, disaggregated operating model.

THE NEED FOR CHANGE

50. It is clear that the Council's current operating model, and its current approach to identifying savings and income generating opportunities, is not going to deliver the level and pace of change that is needed to make us a highly effective and sustainable organisation. Our service review processes, which start with the current position and explore opportunities to restructure (internally or through alternative delivery models), streamline, reduce, stop and trade services, are not going to be an effective approach to bridge the Council's funding gap.

51. The status quo is not sustainable. A significant change in the Council's way of working is required to address the Council's £60.7M funding gap in 2017/18 whilst protecting the delivery of key services for our residents.

52. Our new operating model places significant focus on the Council getting "the basics right" for our customers by:

- Ensuring services are specifically tailored and designed to deliver the outcomes that are really needed by local residents, communities and businesses (i.e. the Council's "customers").
- Providing support and interventions as early as possible, at the right time, to increase opportunities for local residents, communities and businesses to develop and grow, improve levels of self-sufficiency and reduce long term demand and dependency on Council services.
- Employing the most effective, targeted and sustainable service delivery models, whether they be in-house, in partnership or externally provided.
- Instilling a performance culture into all of the Council's operations, ensuring all service providers (internal and external) are accountable for the quality of services delivered for the Council.
- Leveraging the skills, capacity and capabilities of the Council and the city, acting collaboratively to further improve the potential for economic growth, income generation and financial sustainability.

53. We will achieve this by:

- Placing our residents and customers at the heart of the Council's decision making to secure better outcomes
- Using innovation and digital tools to improve our service to customers
- Continuing to foster highly effective strategic partnerships, in which the interests of all partners are aligned and there is an appropriate sharing of incentives, risks, costs and benefits
- Focusing on delivering the Council Strategy, priorities and priority outcomes and managing performance, with objectives and targets aligned to Council priorities
- Continuing to be a key driver and enabler for economic growth in the city and increase our focus on commerciality and income generation
- Reducing unnecessary duplication and fragmentation across the whole Council
- Empowering our staff to innovate and deliver outcomes in line with the council strategy
- Leveraging our knowledge, skills and capacity (public, private and third sector) to deliver highly effective services and whilst also enabling reductions in level and range of Council services
- Providing a mixed economy of service provision, reflecting the Council's priorities and best combines the capabilities, capacity and interests of both the Council and the external market.

MIXED ECONOMY OF SERVICE PROVISION (SERVICES FOR ALL)

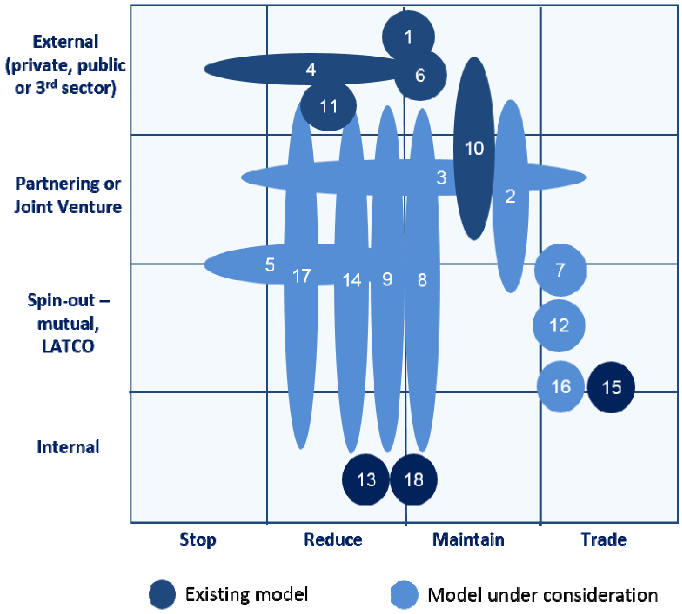
54. We are currently examining a range of options appraisals for future service provision that focus on:

- improving the efficiency and effectiveness of service delivery to reduce costs
- enhancing the outcomes achieved for our residents
- reducing the scope and cost of services delivered on behalf of the Council
- generating additional income

55. We are also in discussions with Association for Public Service Excellence (APSE) to conduct a review of the effectiveness and efficiency of services with potential for trading / income generation, including consideration of the most appropriate models for trading whether that be arm's length, a mutual spin out or another vehicle.

56. The alternative ways of delivery currently under consideration are summarised in the Figure C-2, which taken together set a clear "direction of travel" for the council to move towards a "mixed economy of service delivery".

Figure C-2: Mixed economy of service provision currently under consideration



Mixed economy currently being considered:

1. Highways services, ROMANSE, CCTV & street lighting contracts
2. Transport policy, parking & Itchen Bridge
3. Development & Regulatory Services (e.g. planning, city & economic development, regeneration, regulatory services and housing renewal / improvement services. Possibly include management of open spaces)
4. Existing leisure & cultural venue operating contracts
5. Culture Trust or similar (possibly with other authorities)
6. Waste disposal contract
7. Housing DLO
8. Children's Services
9. Adults services
10. Public health service contracts
11. Enabling/support services
12. Legal alternative business structure (ABS)
13. Libraries transformation
14. Waste collection
15. Commercial waste
16. Grounds & buildings maintenance
17. Fleet management
18. Housing transformation

57. The full options appraisals are currently under consideration and are being managed by the Service Design work stream of the transformation programme. The business cases will consider all options for our front line services and enabling support services. They will examine the needs to be addressed and the alternative approaches that could be considered. This work will include market sounding/testing with a wide range of potential delivery options, the assessment and forecasting of the financial and non-monetary costs and benefits and the risks and issues for each option. The business case will identify a preferred option that will provide the optimum balance of cost, benefit, risk and issues by reference to the needs of our residents and the associated outcomes being sought.

58. The business cases will cover service proposals of various types, including:

- Alternative models for delivering services, including some which have trading / growth potential (e.g. economic development & regulatory services, highways, transport and parking services, arts and heritage services, social care services, housing repairs and maintenance, and the legal alternative business structure (ABS)).
- Service restructuring/streamlining (e.g. leisure, waste collection, business support and enabling services).
- Service transformation through new technology (e.g. digital by default and self-service).

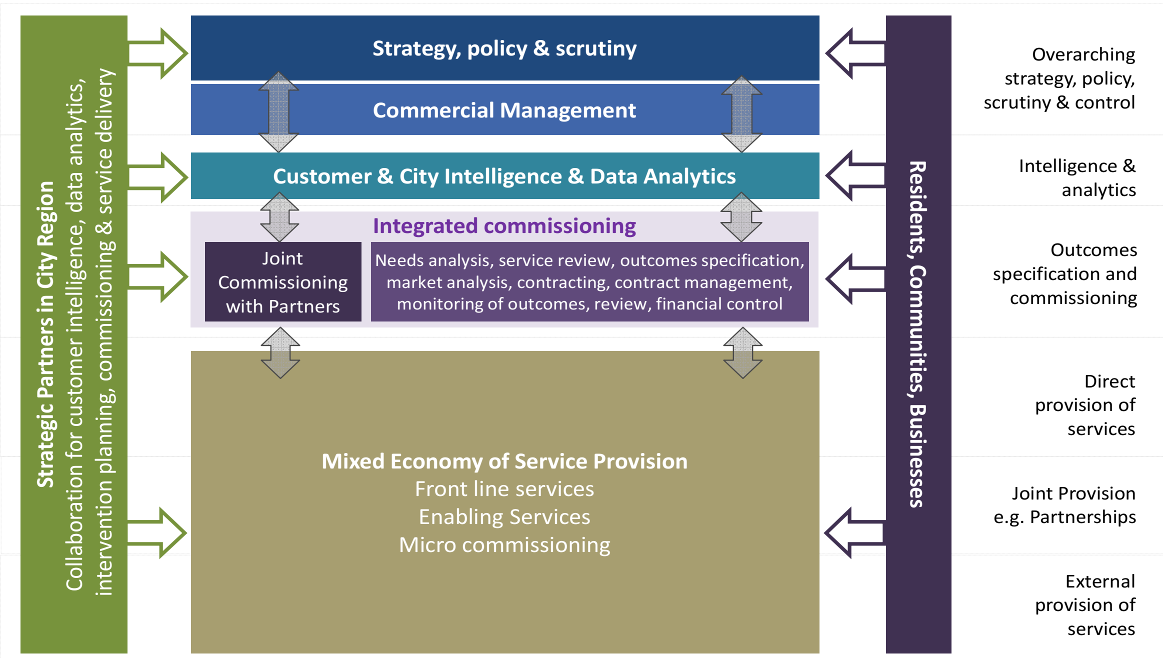
59. It will also be important for there to be independence in the service design process. The Transformation Programme will act as a challenge and advisor role. The options appraisals work has commenced and is due for completion during 2015.

D. OUR NEW OPERATING MODEL

60. The new operating model will enable us to work differently adapting to changes in how we deliver “services for all”. The new functions will provide the flexibility and agility for us to adapt to changes in our mixed economy model approach to service provision and relationships with our partners. Cabinet is recommended to consider and recommend to Full Council to approve the new operating model set out in this section of the report.

61. Our new model will enable us to make decisions on what services to provide, how, and by whom, being driven by evidence based analysis of the most effective means of addressing customer needs and delivering the required outcomes. The key features of the new operating model are shown in Figure D-1.

Figure D-1: Functional overview of the new operating model for Southampton City Council



62. Our new operating model will be configured in the following way and will apply to the whole council irrespective of how the service is funded:

- A **customer intelligence and data analytics** function will provide the market intelligence and data analytics capability to deliver real customer and city insights, supporting the extended integrated commissioning function in its development of commissioning strategies and plans, improving outcomes for customers and delivering a financially sustainable Council.
- We will focus on becoming more **commercial in everything we do**, challenging what we spend and how we spend it. We will seek opportunities to increase income at every opportunity. Directed by the Chief Executive, **commercial management** will incorporate our strategic support functions of the organisation.
- Building on the work with Health an extended **integrated commissioning** function will determine the services to be provided, how, and by whom, setting the commissioning strategies for the Council and managing the commissioning of services and outcomes throughout the strategic planning, contracting and monitoring and review stages of the commissioning cycle. This includes both frontline services and externalised enabling services.
- Services will continue to be provided by a **mixed economy of service providers**, using a mix of internal service delivery, partnerships and external service delivery, who are “contracted” on a performance basis to deliver the outcomes commissioned by the Council. The mixed economy model is driven by the need for services to be more effective, targeted, integrated and flexible in addressing the needs of customers, and the recognition that the Council’s current service model is not achieving the right commercial balance of service cost and income generation to make the Council financially sustainable in the longer term. The mixed economy model applies to front line and service enabling functions across the Council.

Sustainability of our new operating model

63. Future change will not only relate to the increasing financial pressures placed on local authorities and the need to streamline, reduce or stop services as previously described. It will also relate to the potential for movement in the structure of local government, particularly with the increasing trend towards a “combined authority” approach for selected services (such as transport, economic development and regeneration, or further integration with health and adult social care), as opposed to more traditional collaboration and partnerships.

64. Our new operating model is structured to provide the Council with flexibility in the ways that it structures its responses to resident’s needs, including using partnering or combined authority models, and to provide a robust basis from which to assess and implement change. This will come from:

- Our continued emphasis on a mixed economy of service providers and the performance regime within which they will operate, which will provide stronger, more robust benchmarks and performance frameworks that will at least need to be matched by any alternative models (including combined authority models) that are considered by the Council.

- Our intelligence hub, which will support the Council in researching and testing the benefits with customers of changing delivery models.
- Our strategic partnering approach that will be embedded within all of the Council's agreements with service providers, which should provide the Council with some flexibility to change the mix of service providers and the scope of services that they provide.
- Our integrated commissioning approach, which requires Commissioners to regularly examine the available models of service delivery, including partnerships, to establish which models will deliver the best outcomes for the Council and its customers.

65. Critically, sustainability of the new operating model is also about having the right behaviours and right performance culture within the organisation. For example, the new operating structure and associated performance culture for the Council will need to ensure that the objectives that underpin the change to an integrated, commissioning orientated approach are embedded within the new culture of the Council, and that they are not eroded over time resulting in a gradual return to a fragmented, disaggregated operating model.

Partnerships and Collaboration

66. Successful partnerships and collaboration will be a critical success factor of our new operating model. We will continue to work together with our strategic partners and partner authorities in the city region and city to:

- To create a better and improved insight across the city.
- To develop integrated strategies for delivering common outcomes.
- To improve the design and commissioning of our services.
- To make decisions about who provides what and how, and to review and evaluate how well they are doing.

High level organisational design

67. Our new operating model will focus on collaboration, co-operation and co-production to deliver high quality outcomes through integrated commissioning and partnership approaches, underpinned by strong commercial, market and business intelligence and data analytics capabilities.

68. Figure D-2 outlines the high level organisational model design aligned to the new operating model. This does not represent the structure for the organisation, it informs the creation of the functions, roles, and technical skills required during the implementation stage.

Figure D-2 High level organisational design

MEMBERS

69. The new operating model starts with the role of Cabinet and Members in determining strategies, priorities, outcomes and agreeing the financial budgets. Members will also retain a strong overview and scrutiny role in respect of service delivery. This will be achieved through Member participation in a new Council wide Strategic Commissioning Board.

COUNCIL'S MANAGEMENT TEAM (CMT)

70. CMT will remain responsible for leading the day to day operation of the Council which includes the Strategic Hub, Commissioning Hub and Service Delivery, and will be accountable to Cabinet and Council for the Council's overall performance in delivering the policies, strategies and outcomes set by Members within the agreed financial budgets.

STRATEGIC HUB

71. As directed by the Chief Executive, the Strategic Hub will be commercially orientated, incorporating the key strategic support functions. It will contain the intelligence hub for the council.

COMMISSIONING HUB

72. The Commissioning Hub incorporates the functions involved in commissioning services for residents, whether those services are provided internally, in partnership or externally. It will encompass the Council's commissioning activity, which includes the processes of resident needs assessment. It will work closely with supplier market analysis, market development, and procurement and contract management.

73. The extension of an "integrated commissioning" approach across ALL Council services provides clearer separation of the strategic decision making, and tactical planning role of the Council and the actual delivery of services. It provides an enhanced, more independent and clearer role for Member scrutiny, with internally delivered services and those delivered on a

partnership basis subject to the same type of rigour and challenge as any external third party service provider.

SERVICE DELIVERY

74. Service delivery will continue to be a mixed economy of service providers (for frontline and enabling services), which includes services delivered internally, externally, and on a social enterprise, partnership or joint venture basis as commissioned by the Commissioning Hub. All services will be "contracted", with robust service performance and budget agreements for internal service providers (against which the service's performance will be monitored and evaluated) and service contracts for external service providers. All services will be subject to a robust performance regime, which will include a requirement for service providers (internal and external) to operate a collaborative appraisal which provides a cultural fit with the Council. It requires the service provider to work co-operatively with the Council and with its partners and other providers to proactively manage the demand for Council services, optimise the outcomes for customers and support the financial sustainability of the Council.

75. Research on alternative ways of delivering our services and different service models together is underway. A cross Council approach is being taken with the introduction of a set of service gateway checkpoints undertaken to ensure all service options are fully appraised and the appropriate consultation and impact is considered. When appropriate, larger/significant service redesign proposals will be presented to Members for consideration.

STRATEGIC PARTNERS

76. The new operating model will incorporate partnerships with other public sector bodies, including the voluntary sector and strategic partners at every level, from relationships held at the Member level (e.g. for common policies and strategies), at the Strategic Hub level (e.g. for shared customer engagement, intelligence and data analytics), at the commissioner level (e.g. for integrated commissioning, including for example the Integrated Commissioning Unit), and at the service provider level (e.g. for shared services).

Changing the way we work – Valued Workforce

77. Sustainability of the new operating model is also about having the right behaviours and right performance culture within the organisation. Our new operating structure and associated performance culture for the Council will need to ensure that the objectives that underpin the change to an integrated, customer centric, commissioning orientated approach are embedded within the new culture of the Council, and that they are not eroded over time resulting in a gradual return to a fragmented, disaggregated operating model.

78. The initiatives and reviews undertaken by the council in response to the financial and cultural challenges provide a strong case for changing how we work, evidenced by a number of recurring themes across the organisation such as the Staff Survey 2014 and the recent peer reviews.

79. It is clear that the Council must address its significant cultural issues and in particular the way that it manages and engages with its key stakeholders

(including customers, Members, external partners, staff and service providers). The Council must also address its gaps in efficient and effective operations (e.g. by reducing fragmentation and duplication, increasing innovation and increasing use of digital technology) and must have a much stronger customer focus and commercial orientation, including examining commercial opportunities to generate additional income and/or reduce costs.

80. Our new operating model will require all staff to take greater accountability for services to our customers, whether they are internal or external to our organisation. The speed and flow of communication up and down the organisation and across organisational boundaries will be an important element of enabling the effective delivery of customer insights. We need to create an environment where the Council is a great place to work and attracts the best leaders and staff, who are motivated by a customer focused and performance orientated environment. We will develop an agile, confident, talented and dynamic workforce able and prepared to make decisions at the right level.

81. The changes in culture and behaviour have to be driven top down in the organisation. Senior managers, middle managers and supervisors will be required to demonstrate their commitment to make this happen. Non-compliance will not be an option.

Our Structure

82. The new organisation will be flatter, leaner and more agile allowing it the flexibility to adapt quickly to internal and external challenges and opportunities. We will empower our staff to take managed risks and will be made accountable for decisions to deliver the right outcomes for our customers.

83. To create a more flexible, responsive and empowered organisation, the number of management and supervisory layers will be reduced and spans of staff control increased which will reduce costs. We will do this by:

- Removing layers of management and improving communication flows between front line staff and managers will improve the speed of decision making. The average ratio of staff to manager across our council is one to six. Too much supervision often results in disempowering staff, stifling innovation and limiting productivity. In line with practice from other sectors, we will seek to attain an average span of control of one manager to ten staff wherever possible. Taking into account there will be statutory limitations in some areas of the organisation where this is not possible.
- Moving away traditional role progression and rewards by length of service to more lateral career based structures where employees are valued on contribution and skills.
- Investing in internal systems that currently provide poor quality and unreliable management data, making fast and effective decision making difficult to achieve.
- Creating a performance management framework that will ensure accountabilities for all employees are clearly defined.

Our New Culture and Behaviours

84. We will redefine the organisation wide behaviours that will underpin and drive the new culture that is applicable to everyone in the organisation. The new organisational behavioural themes underpinning the new culture will be:

- Customer and community
- Commercial mind-set
- Leadership
- Team Work
- Outcomes and results

85. Our Workforce Strategy will focus on preparing and enabling organisational change by implementing an integrated People and Change Plan. The role of the strategic leader is currently focused towards operational delivery – doing the doing, rather than focused on developing the service, managing performance, coaching and mentoring the team. In future, they will have a clear focus on performance of the entire organisation and their contribution to the outcomes sought by the Council. This shift to new behaviours and focus will be a critical success factor of the new operating model. The balance of effort is outlined in Figures D-3 and D-4. Our aim is a significant reduction in the management layers and spans in the council, work on which has already commenced with changes to the top four layers of the council to be implemented by September 2015.

86. The transition to the new operating model will require the creation of a new Performance Management Framework that will apply to all managers and staff across the organisation. This will align the objectives of all staff to the strategic goals and priorities of the council and enable the whole organisation to work together in a way that best supports the new strategic direction, culture and behaviours. All staff will be measured, evaluated, supported and developed in the behaviours required to deliver the new culture and operating model. At the different organisational contribution levels there will be clearly established individual accountabilities, measures, objectives and behaviours that are aligned to the Council strategy and culture. Managers will participate in leadership assessment and development programme(s). This will ensure the best leaders who have the right approach and are capable to deliver transformation are retained and developed.

Figure D-3 the new behaviours required to underpin our new operating model

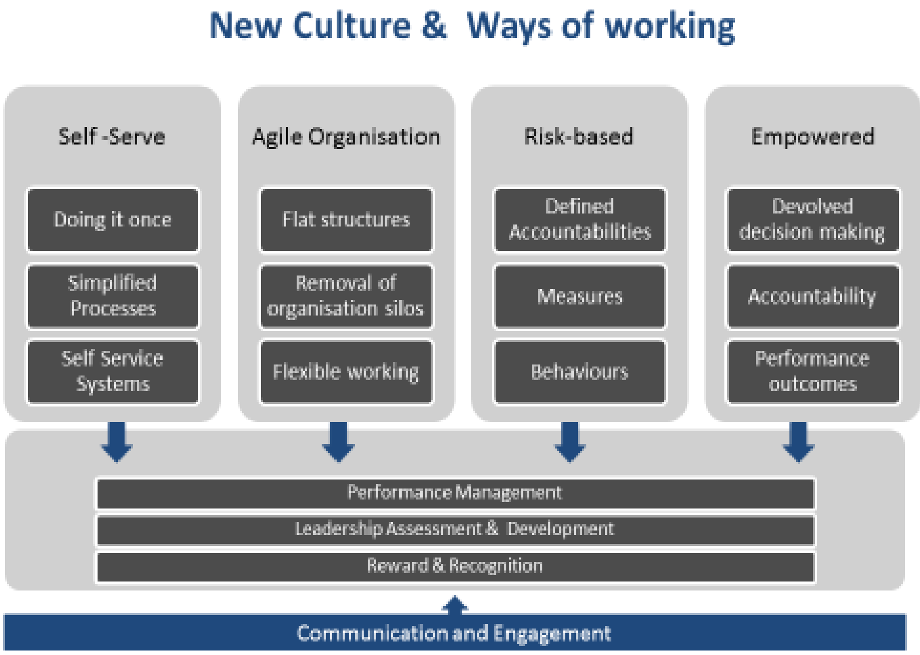
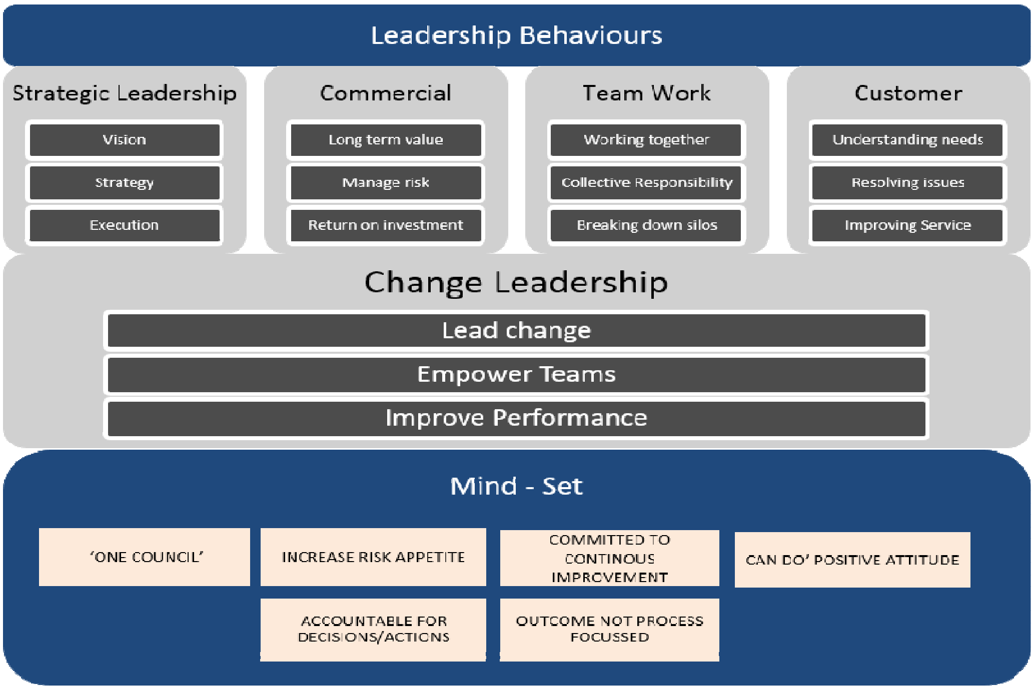


Figure D-4 the role of the manager in the our new operating model



87. The organisational change will require significant support, investment and careful management throughout the transition to our fully implemented new operating model by 2017. This work will be governed by the transformation programme.

E. COMPONENTS OF OUR NEW OPERATING MODEL

Customer and City Intelligence

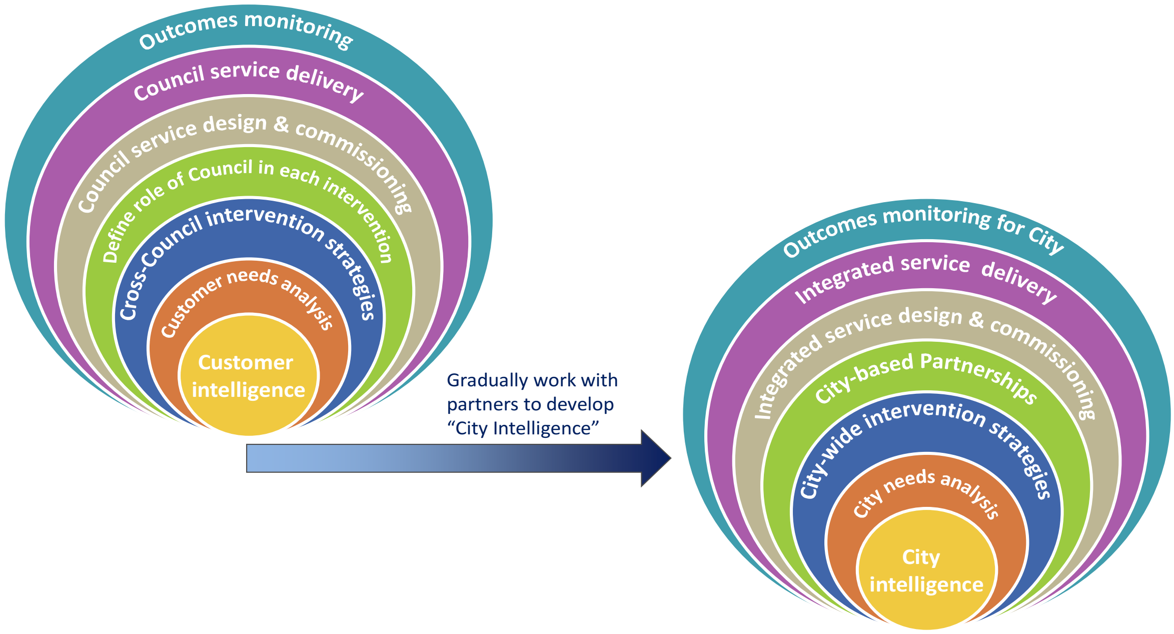
88. Successfully delivering and maintaining a customer orientated approach to transformation will be dependent on customer insight being at the centre of the business planning process, and being used to shape future services and achieve outcomes. Customer insight is not simply data or research, but the interpretation of a wide range of information and knowledge and will play a central, critical role. Our approach will be:

- Offering our customers and our staff a single, integrated record of their transactions and related information (the "single view" of the customer).
- Ensuring a customer led approach to how we redesign our services.
- Designing service delivery for the majority while understanding and offering the specific assistance required by those disadvantaged by a move to digital self-service.
- Understanding and managing customer demand, and being agile in our response to issues.
- Continuing to engage with individual customers, customer groups and communities in ways that will enable much more self-service, less direct reliance on the Council, and encourage communities to become more self-reliant.

89. We will continue to embrace the use of digital media, innovation and technology. A great number of our customers are already undertaking self-service – the use of online banking, shopping online and with some government services like car tax payments. The recent changes in car tax process is a relevant example of how a creative, digital led approach can make the life of customers easier and substantially reduce the cost of service delivery with the recent removal of the need for paper tax discs.

90. Joining up our customer data and insight will be key in improving our customer experience. We will work with our partners and other public bodies in the city, longer term, to join up and share more insight. This truly integrated commissioning and service delivery approach would optimise customer outcomes across all public services in the city. We need to continue to build a more co-ordinated approach to collecting customer data and intelligence over the next 2 years for the Council. In the longer term, once we have established our customer and intelligence hubs, we will work with our partners to seek a more co-ordinated and digital approach to collecting customer and city intelligence, through the establishment of a city wide "intelligence hub" which is outlined in Figure E-1.

Figure E-1: Customer & City intelligence at the heart of Council decision making



Customer Hub

91. Our definition of a customer is anyone who receives the services we deliver such as residents, local businesses, visitors, partners and our communities.

92. The aim of the Customer Hub is to provide our customers with a consistent approach to accessing the information and services they need using the most efficient and effective means possible.

93. In some areas across the Council, our access channels are fragmented and duplicated which can be frustrating for our customers and for our staff trying to resolve their queries. This current way of working is not sustainable and needs to be addressed so we can reduce our costs. We need to concentrate our reducing resources on providing services that our customers need and want and to understand how well our services are working. We need to listen to our customer feedback, analyse our data and insight and use this information to help us improve and deliver better services that provide better value for money.

94. To do this we will:

- further improve the access channels our customers use by providing a high quality technology platform
- reduce the high cost access channels such as face to face and telephony where possible by adopt a "digital by default" [1]approach to our customer service hub
- improve the way we communicate and inform our customers
- aim to resolve our customers' queries first time in a simple way
- ensure the information and advice they are given is correct

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[1] Cabinet Office has delivered a Digital Strategy for Government which should be seen as a benchmark for developing a digital strategy http://publications.cabinetoffice.gov.uk/digital.

- ensure our customer service offering reflects the local needs of our residents and communities
- ensure our customers have a seamless experience when accessing our services
- research, anticipating, targeting and responding to the changing needs of our customers

THE ROLE OF THE CUSTOMER HUB

95. We will interact and listen to our customers' views in different ways. We will use innovation, social media, focus groups and customer satisfaction surveys to gain better insight. A key focus of our Customer Hub will be gathering and analysing customer related activity to improve the services we deliver and reduce our costs.

98. With better insight of our customers' needs we can ensure they access the right provider for the information or service they require. This may not be the Council in all cases. The Customer Hub will prioritise reducing demand of customer access that is not the responsibility of the Council through working with partners.

99. The Customer Hub will be responsible for embedding customer service as a core competency for all our staff to ensure a consistent quality of service is provided regardless of the service access or the method used.

100. The Customer Hub will implement new improvements on line by providing a Southampton Customer Portal/Single Account which other councils have implemented over the last 3-5 years.

101. As we provide more information to our customers and learn more about their needs, our dialogue and interaction with them will be richer and better informed. Recognising this, our existing Contact Centre (telephony channel) and face to face Gateway service will need to adapt to meet this new way of working. Our contact centre staff will be dealing with more complex queries and interacting with our customers using social media tools such as web chat and video. This will require new technical skills and behaviours.

102. Building on our recently refurbished Gateway service, our Customer Hub will continue to play a key role in how we engage with our customers face to face. Our staff will help our customers become more independent through providing "assisted self-service" and by providing appointment based services with the access to the right level of technical and professional expertise. We will continue to make better use of existing Council and other community locations to offer integrated local access points. We will provide face to face access for our most vulnerable customers and residents.

103. We will offer access to online communities to support innovation and collaboration across the city. This will be used by customers and communities with the aim of fully empowering people not simply to look to the Council for assistance, but to first look to each other. With the right information and active forums such a city wide resource could be of tremendous benefit to customers but also result in large reductions in contacts to the Council. For instance it could be considered as a combination of Wikipedia for the city and

people helping each other in much the same way as many customers will be familiar with using Trip Advisor and similar online forums.

Intelligence Hub

104. We need a co-ordinated and refined way of aggregating and analysing data to deliver real customer and city insights which support the development of commissioning strategies and plans, improved outcomes for customers and a financially sustainable Council. The establishment of the Intelligence Hub is therefore a central component of our new operating model.

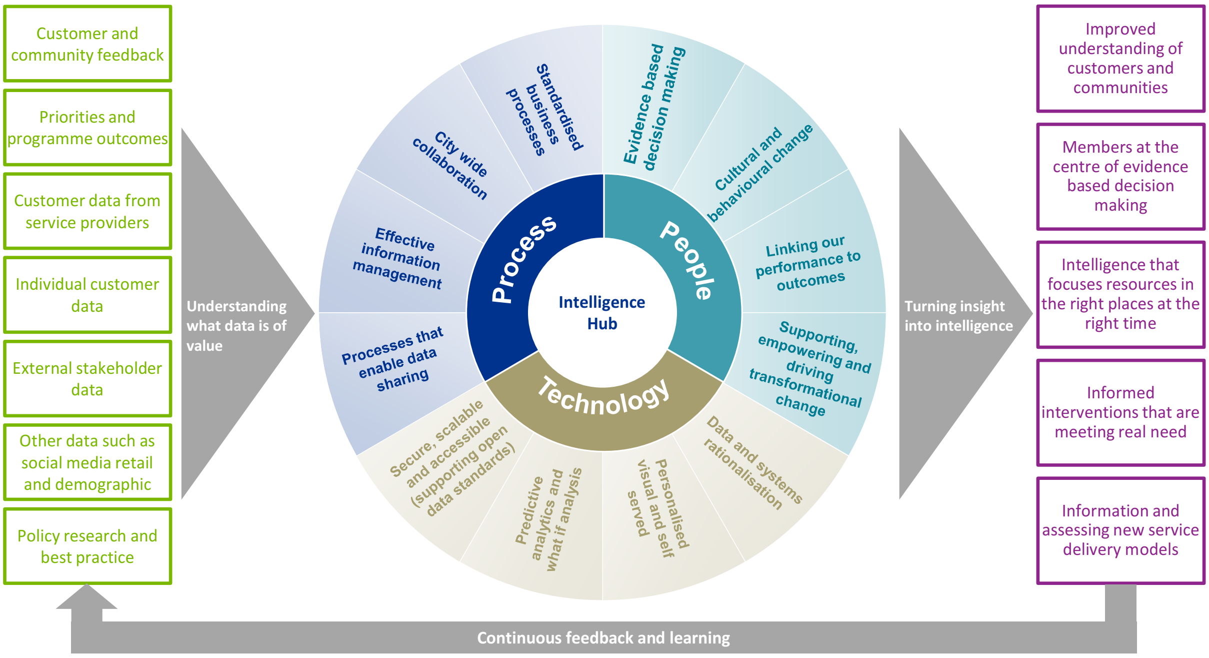
105. The Intelligence Hub will be a unit that brings together specialists, researchers, data analysts and technologies to deliver highly valuable business intelligence and customer insight. The Intelligence Hub will develop its specialisms over time, focusing first on the areas of intelligence and insight that offer greatest benefit for the Council and its customers (e.g. looking for innovative ways of influencing the demand for social care services in the city in the short, medium and long term).

106. By being targeted in its approach, and by focusing on analysing data and delivering insight that has real value, the Intelligence Hub will improve the Council's ability to:

- Gain a true understanding of the Council's customers and communities (how they live their lives and what their needs are).
- Prioritise effort by targeting resources where they are needed, supported where appropriate by a strategic needs assessment.
- Understand the impact services and interventions are having within communities.
- Work more collaboratively across the Council, and with key partners (e.g. Police, the Clinical Commissioning Group and voluntary and community sector), to structure more targeted initiatives (including prevention and early intervention initiatives) to achieve the best outcomes for customers.
- Engage with customers, communities, elected Members and partners to enrich the Council's information and assist in the application and deployment of intelligence.
- Better understand the Council's relationships and key dependencies.
- Link actions to outcomes to apply learning and better inform the commissioning cycle.
- Provide and publish corporate performance dashboards to a wide range of stakeholders, including comparative information.
- Understand the performance of resources (including those commissioned).
- Publish information in line with the principles of Open Data.
- Carry out demand forecasting and what if analysis to inform better decision making.
- Inform the development and delivery of community led assets to provide viable alternatives to more traditional service provision and make communities more resilient.
- Rationalise the Council's systems and processes.

107. Its purpose will be to aggregate and analyse data and share information'[2] and insights to help the Council better understand its customers and communities, their needs and patterns of behaviour and how they go about their business. All data and information collected, analysed and shared will be subject to statutory data protection laws. It will support commissioning activity, inform service delivery and help the Council to focus its expenditure on true need and interventions that will make a real difference to customers, based on real evidence and insight. Figure E-2 outlines the basic components and role of the Intelligence Hub within the new operating model.

Figure E-2 outlines the new operating model Intelligence Hub



108. The left hand side of the diagram gives examples of the likely data feeds into the Intelligence Hub; some of this data will be qualitative (e.g. customer and community feedback), whilst other data will be quantitative (e.g. systems transactional data). An important role for the Intelligence Hub will be to understand what data really matters, and to use the insights derived from the analysis of this data to enable the Council to take decisions that benefit the customer and drive transformational change for the Council. The key components and outputs of the Intelligence Hub are shown in the centre three categories; People, Process and Technology.

109. The Intelligence Hub will have access to customer and service data extracted from the Customer Hub and also other information sources both from within the Council and across the partner landscape. The Intelligence Hub will deliver rich strategic and operational insights across the Council's services, and in the longer term to partners within the city, which will support management across a wide range of areas. Irrespective of the final organisational structures and responsibilities, the functions of the Customer Hub and Intelligence Hub will be intrinsically linked.

[2] All data and information will be subject to The Data Protection Act which controls how personal information is used by organisations, businesses or the government

Figure E-3: Example areas supported by the Intelligence Hub

Analytics & Decision Support	Performance & Risk Management	Information Management
•Predictive analytics – identifying trends/patterns/behaviours, making insights understandable and actionable via scenario analysis, data exploration, regression analysis, options modelling, etc. •Testing of hypotheses – examining the likely impact of choices, actions and potential new initiatives, for example in relation to prevention and early intervention •Decision support – intelligence & insight to inform strategic, tactical and operational decisions •Dashboards and reporting – providing real-time insight into operational and financial performance in order to facilitate timely, well-informed decisions •Data visualization – providing a mechanism to communicate organisational information in a clear and an effective manner through graphical means	•Performance management – performance analytics giving insight for measuring, managing and optimising Council performance •Demand management – demand analytics giving insight for measuring, managing and optimising customer demand •Resource management - analytics giving insight for measuring, managing and optimising Council resources •Planning and analysis – analytics to support financial management, reporting, planning, forecasting and budgeting processes, profitability management and strategic finance •Risk management – processes relating to identifying, analysing and managing a wide range of business risks within an organization	•Data management and integration – includes the collection, organisation and distribution of all types of data, to manage the full data life-cycle needs of the Council •Data quality – managing information as a corporate asset to maintain and enhance its value, using quality-driven processes, standards and technologies •Data platform – establishing and managing the servers, databases, software, networks and storage used to deliver and maintain information across the Council •Access and distribution – the processes which support the movement, integration, transformation and delivery of information from the information sources to the analysts/users

110. The Intelligence Hub will enable the Council to make commercially informed decisions through the provision of reliable reporting. This in turn will ensure statutory compliance and improve effectiveness and efficiency. In addition the Intelligence Hub will provide a platform for a continuous improvement culture in the Council and a robust basis for strong governance which is crucial for long term efficiency and effectiveness.

111. The Intelligence Hub will extend the capabilities of the planned Strategy Unit to provide a much broader and deeper business intelligence operation. The Hub's resources will need to have specialist skills and be proficient in the tools and techniques required to source and analyse data and produce intelligence and insight that will make a real difference in terms of the outcomes that the Council is able to provide for its customers.

Commissioning Hub

112. The Commissioning Hub will incorporate the main functions involved in commissioning services for customers, including needs assessment, service specification, supply market analysis, market development, and the procurement, management and review of service providers. Whichever models are selected through the review of services we will extend our commissioning approach to all services.

Commissioning cycle

113. Our commissioning cycle will be in three stages as outlined in Figure E-4. As the commissioning cycle is applied to all services, including those delivered internally, its purpose is not to drive further externalisation of service delivery but to ensure the Council is delivering the right services to the right standards at the right time, and using the most effective models to address customer needs.

Figure E-4 Example commissioning cycle for Southampton City Council

114. The three stage commissioning cycle: Strategic Planning (which includes needs assessment), Contracting and Monitoring and review. Our current 4 step commissioning cycle separates the needs assessment element of commissioning, our new model includes needs assessment as part of the strategic planning function.

115. The commissioning cycle is surrounded by five cross-cutting priorities, which directly support the delivery of the Council's strategy:

- Customer focused services.
- Prevention and early intervention.
- Protecting vulnerable people.
- Economic growth.
- Sustainable Council.

116. Throughout this commissioning cycle the new operating model places a continuous focus on the needs and outcomes required for our residents, and the best way of delivery. All services will be "contracted" and will be subject to robust performance regimes, outcome based specifications and financial budgets / savings targets, and externally provided services contracted under performance related, outcome based contracts.

117. Our commissioning approach will have a stronger focus on achieving a cultural fit with the Council, securing high quality service performance and delivering the right outcomes for the customer, whilst also ensuring that the Council is financially sustainable. In this context, "achieving a cultural fit with the Council" means service providers will be:

- Delivering value for money, the required savings and contributing to the outcomes of the Council.
- Buying into the Council's priorities and values.
- Working collaboratively with the Council and its other service providers, sharing information and insight to enable continuous improvement in commissioning of services and in the outcomes delivered for customers.
- Being flexible to changes in the scope of services to be delivered under

the contract to underpin the outcomes for customers and the financial sustainability of the Council.

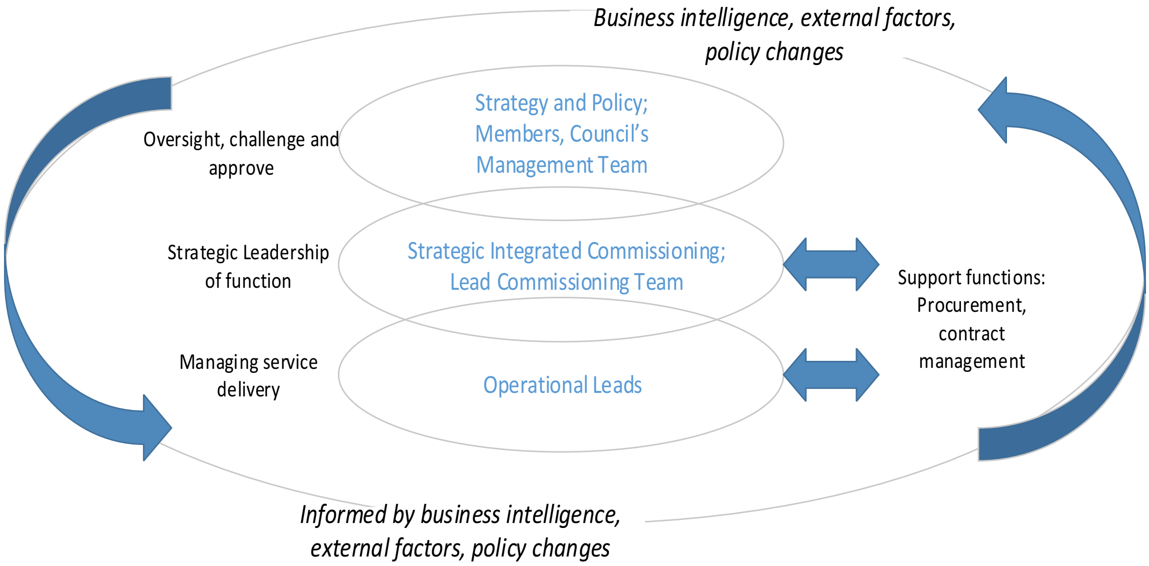
118. These "behaviours" will be embedded within the "contract" that is put in place with each provider and the provider's performance (and potentially the payments made to them) will be measured by the extent to which the service provider exhibits these behaviours.

COMMISSIONING GOVERNANCE

119. We will adopt a single, council wide approach to Commissioning. Our commissioning decisions will be informed by data and insight of our residents, communities and businesses to ensure we achieve our outcomes.

120. The Leader, Chief Executive and Cabinet will be accountable for strategic commissioning oversight, challenge, scrutiny and approval of commissioning strategies and outcomes. They will agree the Council's commissioning framework and form the Council's Strategic Commissioning Board. This is outlined in Figure E-5.

Figure E-5 Integrated commissioning governance for Southampton City Council



STRATEGIC INTEGRATED COMMISSIONING

121. Within the agreed Council Commissioning Framework, the primary responsibility for commissioning will reside with a small number of Strategic Commissioners (or Lead Commissioners), who will be responsible for assessing the strategic needs and outcomes for customers within the city, and for developing the Council's future commissioning strategies to best address those needs and deliver the required outcomes. The integrated commissioning strategies will be developed with relevant partners (i.e. public bodies) external to the Council. A current example of joint integrated commissioning is the Integrated Commissioning Unit (ICU) and Joint Integrated Commissioning Strategy for Southampton City Council and the Southampton City Clinical Commissioning Group.

122. It is envisaged that Strategic Commissioners will each be responsible for a defined resident segment related to specific outcomes (e.g. social care) and that their roles and performance measures will be structured to ensure that

they operate as an integrated strategic commissioning team. They will be jointly accountable for examining and developing cross-cutting opportunities (such as prevention and early intervention initiatives) and for developing integrated commissioning strategies that optimise outcomes for customers and costs to the Council.

123. They will be held to account by a Council wide Strategic Commissioning Board, which will be primarily comprise the Council's Cabinet Members and the Chief Executive and key members of the Council's Management Team. The Board will operate at a strategic rather than operational level, having an oversight, challenge and approval / scrutiny role in respect of the Council's commissioning strategies and in respect of the delivery of the required outcomes for local residents, communities and businesses.

Service Delivery

124. Responsibility for the day-to-day delivery of the Council services will be with the operational leads who will also undertake the responsibly of line managing the internal service provision and the contracts. Their role includes oversight, appraisal and development of the supplier market and delivery options, preparing a commissioning plan for the services (in line with the commissioning strategy), engaging the market and selecting the most appropriate suppliers, managing the relationships and contracts with the suppliers, and reviewing the performance of suppliers and the outcomes delivered against targets set out in the commissioning strategy and contracts, and against the wider market performance. The actual performance achieved by service providers against targets will feed into the review and strategic planning stages of the commissioning cycle and will inform the lead commissioners' future commissioning decisions.

125. The operational leads will be supported by a number of support functions including procurement, finance, contract management, business intelligence central procurement function. They will collaborate with external partners where collaboration has been identified as the best way of securing high quality service performance and delivering the right outcomes for customers, whilst also ensuring that the Council is financially sustainable (e.g. the ICU).

126. Both the Strategic Commissioners and the Operational Leads will be supported by the Council's Intelligence Hub. The Intelligence Hub will source and analyse customer data, undertake primary market research and analysis, and deliver knowledge and insight to inform both the strategic decision making of the Strategic Commissioners and the operational decision making.

Making us more efficient

127. Further efficiencies can be achieved by working differently and smarter. We have established where our effort is spent today across our organisation to understand and better inform our priorities for transformation. We have captured a sound evidence base which outlines how much staff effort is being applied to key processes across front line service delivery and front and back office support services. Building of a robust evidence base helps us focus our attention in the right area of the organisation to simplify and standardise our processes.

BUILDING AN EVIDENCE BASE

128. During July to September 2014, Price Waterhouse Coopers (PwC) helped us to establish our evidence base by gathering the effort levels currently being applied across 40 key processes across the council. Over the last five years, PwC have completed this type of review across over 60 other public sector organisations. Therefore we need to be prepared to base our estimates for the level of potential savings which can be released on the experience of other organisations, who have achieved savings through removing process duplication and fragmentation and delivering efficiency improvement. The business case development stage for these savings is currently under way.

129. Other councils have used the outcomes of this type of review to take forward specific process reviews to stop, reduce and simplify back office processes. They have done this by simplifying and redesigning simpler ways of working, consolidating their customer enquiry handling, working towards a common way of undertaking simple and ruled based assessment and in turn enabling staff to become self-sufficient, adopting mobile and flexible working practices and using self-service tools. In turn other councils used this evidence base to identify and deliver efficiencies, which has resulted in financial savings.

130. The savings potential identified as part of this review indicates through reducing and improving some of the core processes undertaken by the Council an indicative saving range of £5.9 - 9.8M (these figures include the agreed savings for the existing Business Support Phase 1 project and the Front Door project, and these savings are included within the 2015/16 budget, therefore the potential new savings from this work will be within the range of £4.4-7.9 million.) We recognise that we will have to take decisions without having all the assessment and assurances and manage the risks accordingly.

WHAT HAS IT TOLD US?

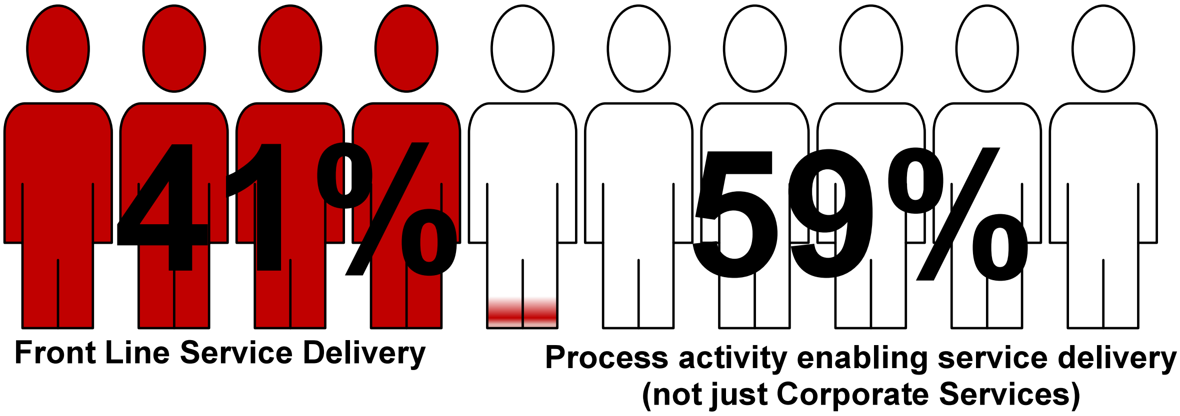
131. The review has shown us that we have the equivalent of 3,681 Full Time Equivalent (FTE) effort taking place across the council. This figure includes the resource effort from our partners Capita and Balfour Beatty. It is also important to highlight that the effort has been estimated by consolidating each activity undertaken across the 40 most common processes across the organisation. This evidence provides us with an opportunity to refocus our activities to create a more consistent customer experience and reduce complexity and simplifying the way we do things.

132. Overall we apply 41% (1,521 FTE effort) of our resources on delivering frontline service delivery and over (2,160 FTE effort) 59% facilitating and supporting our front line service delivery, this is shown in Figure E-6.

133. This does not mean that we spend 41% of our budget on front line services and more work needs to be done to understand how the effort translates into budgets and does not represent the number of staff dedicated solely to doing those activities. However, it does outline that we have a number of common processes being undertaken in different ways across the council, which provides us with opportunity to tackle inefficiencies and make us more efficient. It also outlines that we have an imbalance in terms of front line service delivery and back office support which can point to a symptom of a

directorate based approach with localised support. This limits the opportunities to eliminate and simplify the way we do things.

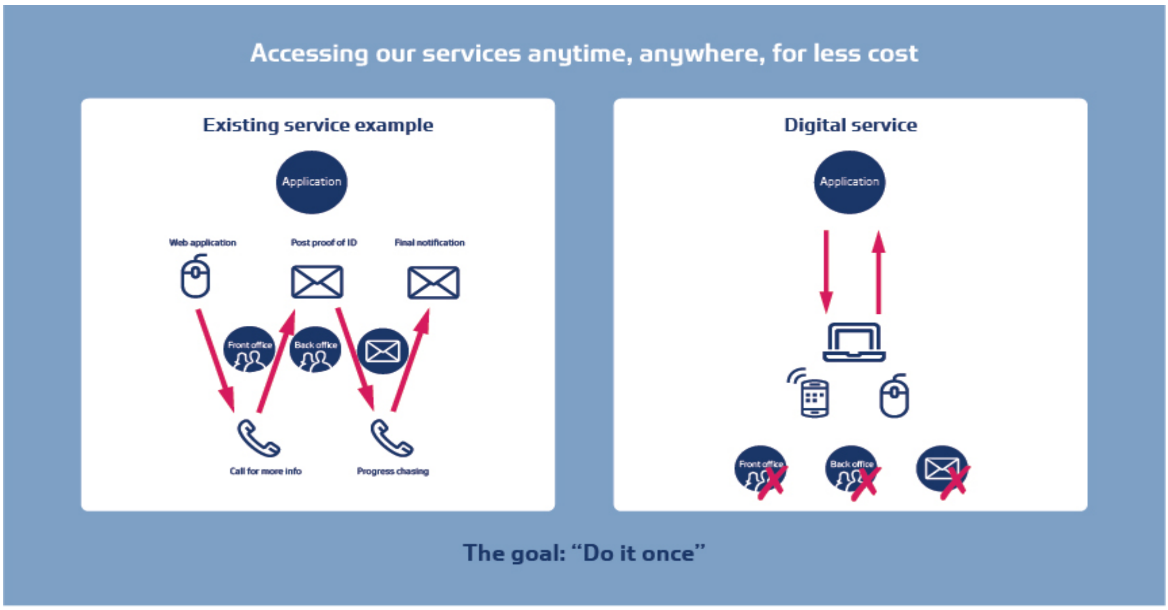
Figure E-6 representation of the current effort by core process for the Council



134. It has told us that nearly a sixth of our resource effort is spent on customer contact handling telling us that we have an inconsistent way in some areas of the council dealing with our customer enquiries. 194 FTE resource effort is spent on undertaking assessment across 136 teams. Therefore further improvements in consolidating and simplifying our rules based assessment processes will be undertaken. These improvement initiatives are a key priority for the Customer work stream to ensure we join up our front and back office activities to improve our customer service.

135. Figure E-7 outlines the current way we handle our customer enquiries (left) and the right illustrates how we are going to streamline and improve our customer handling in a more joined up way, making transactions seamless to our customer and enabling us to further reduce costs.

Figure E-7 The improved customer journey for our customers



136. As we want to ensure we continue to make ourselves more efficient and work smarter, we are committed to shifting a greater proportion of our reducing resources to front line service delivery. Irrespective of what shape the council will be in the future, this work has given us clear evidence to support the stopping, consolidation and reducing fragmentation and duplication of core processes across the Council. It will also help us redesign how we deal with our residents and customers' needs and demands in a more effective way.

Reviewing every front line service delivery function

137. We are reviewing all the services we provide. Our reviews will focus on operational delivery, innovation and cost effective services making sure our customer needs are met. Service delivery will be a major source of customer intelligence and ideas on how services can be made more efficient and will feedback that information to our business intelligence, customer and commissioning functions of our new operating model.

138. The Service Design work stream will focus on identifying how to structure the services we currently operate putting the customer at their heart rather than simply following the way we organise our services internally.

139. The following services are currently undertaking a service review:

Place Directorate

Project
New delivery options for development and regulatory services
New delivery options for Transport and Highways and Parking
Leisure Facilities Review
Waste Transformation
Culture Trust
Libraries Transformation

People Directorate

Project
New delivery options for adults and children's services
New delivery Model Housing DLO
Housing Transformation

Corporate Services

Project
Removing duplication in enabling and support services functions inc. finance, HR, property, creditors and debtors, Customer Services, etc.
Legal Alternative Business Structures (ABS)

F. IMPLICATIONS OF THE NEW OPERATING MODEL

140. Moving towards an outcome based operating model has major implications for the Council. These implications include the future size, shape and form of the Council and how we are organised to meet the needs of our residents and customers. It is inevitable that the structure and roles within the Council

will be different within this new model. There will be wider implications on the workforce as a whole and on the services the Council provides and commissions, but these will change and evolve as the new operating model is implemented.

141. A phased (transitional) approach to the restructure of the organisation will be undertaken by the Chief Executive to implement the new operating model. A phased approach to restructure has a major advantage in terms of managing risk as it ensures that the Council continues to protect the business as usual aspects of its work whilst developing and implementing the new operating model.

Accountabilities and Responsibilities

142. Our New Operating Model will require a very different organisational culture with a significant different set of leadership competencies and behaviours. The skills and capabilities of our staff will need to change to support the implementation of our new operating model.

Role of Councillors

143. Our new operating model will change the work we work at all levels including the role of the Councillor. Therefore, a work stream “the Role of the Councillor” has been established and is led by the Head of Legal and Democratic Services. It will focus on working with Councillors to understand the implications of their role and identify any changes needed for them to fulfil their responsibilities within the new operating model. The “Role of the Councillor” work stream will be cross party.

144. Lead Members will need to be clear about the distinction between commissioning and providing a service, and that being both a provider of services and a commissioner might lead to a conflict of interest. A clear accountability framework will therefore need to be established which will:

- Ensure accountabilities are clearly defined and agreed, particularly for our statutory roles e.g. safeguarding the vulnerable, section 151 officer, monitoring officer etc.
- Clear accountability for safeguarding vulnerable adults and children will need to be built into the implementation of the new model.
- Explicitly define accountabilities in management and service delivery functions and show how it will be fulfilled.

145. With such significant implications, the transition to our new operating model will need to be planned and implemented properly. The Implementation Phase will plan and execute the transition with governance from Cabinet and the Council’s Management Team (CMT).

146. Our new operating model will be used by the Transformation Programme to design the new capabilities and functions, redesign business processes, information flows and organisation structures. As it develops, each function of the new operating model will be described in terms of the processes it carries out, i.e. inputs, activities and outputs, plus the resources and skills required. In parallel Leadership Structure will need to change to allow these newly defined functions to operate successfully.

147. The Mixed Economy of Service Provision will be developed incrementally as current services emerge from their service review and are implemented. Depending on the outcome of the Service Review this could be a straightforward internal improvement project or it could be any of a number of different vehicles for delivering a redefined service offering. Each function, and the relationships between them, will develop in the detailed design and implementation phases.

The Implementation Plan

148. The Transformation programme is structured into three phases:

- **Phase 1 Shaping July 2014 to February 2015** which is nearing completion and is subject to Cabinet and Full Council approval in February 2015. This phase has focused on building the evidence base for change, our new operating model development and managing through the key work stream deliverables outlined in the Executive Summary section.
- **Phase 2 Detailed Design (bringing the operating model to life); February-October 2015.** This phase will design the new capabilities required of the operating model, options appraisals for the services and implementation of the early business cases for the front office and service enabling opportunities work. It will have a key focus on designing how all aspects of our new operating model will work, ensuring that our business as usual is not impacted.

  The high level plan for phase 2 is outlined in Appendix 1.
- **Phase 3 Implementation (making the operating model business as usual); February 2015-June 2017**. This phase will run in parallel to the detailed design, focusing on implementation of projects to achieve savings for 2016/17 onwards.

149. Cabinet is recommended to consider and recommend to Full Council approval of the high level Implementation Plan set out in this section and in the Appendix of this report. Cabinet is also requested to note that regular updates on the position and progress of the Transformation Programme will be provided to Cabinet and (by agreement with the Chair) Overview and Scrutiny Management Committee and authorise the Chief Executive to take any further action necessary to give effect to the decisions the Executive in relation to this matter.

Implementation Options

150. The current approach to the delivery of the transformation programme has made best use of available internal skills and experience within the programme, supported by some short term external resource. The external resources have been appointed, to date, on either a day rate basis or fixed price basis. However, given the timeframe of the new operating model to be fully implemented by 2017, the current high levels of demand within business as usual within the Council, limited funds for investment and the significant savings target of £60.7M, it is recognised that this current arrangement of delivery will not be sustainable. With this in mind we have consider 3 options for delivery:

- Option 1 - use of internal resources only

- Option 2 - use of internal resources with a blend of external subject matter expertise
- Option 3 - use of a strategic transformation partner with a commercial arrangement linked to cashable benefit realisation

151. With this in mind, we have undertaken market testing to assess our best option for delivery. The objective of the market testing, undertaken in January 2015, was to ascertain how we fully implement the new operating model by 2017 and deliver the savings required whilst maintain our business as usual activity.

152. The findings from the market testing has informed our recommendation which is to procure a strategic transformation partner as soon as possible. The final costs will be determined following the evaluation of the associated procurement tendering process. We will seek a contractual arrangement structured on a fixed fee and cashable savings realisation arrangement.

153. Cabinet is recommended to approve in principle, the procurement of a strategic partner to deliver the Transformation Programme and delegate authority to the Chief Executive following consultation with the Cabinet Member for Education and Change authority to enter into such an arrangement

Cabinet is also requested to note that the Head of Legal & Democratic Services consequentially has authority to seal any contractual documentation arising from this.

154. The Equality Duty is a duty on public bodies which requires the Council to show that it has 'had regard' to the impact of its decisions on its equality duties and the need to advance equality of opportunity between people who have protected characteristics and those who do not. While the Equality Duty does not impose a legal requirement to conduct an Equality Impact Assessment, it does require public bodies to show how they considered the Equality Duty and that they have been consciously thinking about the aims of the Equality Duty as part of the process of decision-making. The Council also has a duty to consider the community safety impact of its decisions.

155. The proposed new operating model and the implications of implementing the model will affect every part of the council – the way we work and do business. It will result in changes to our organisation, staff, working practices, services to customers, and the manner in which they engage with us. Therefore rigorous equalities and safety impact assessments will take place for all aspects of the programme on a work stream by work stream basis and will be monitored through existing governance arrangements.

Process of developing the new operating model and consultation

156. The new Operating Model has been developed by the Cabinet, Council's Management Team (CMT) with significant input and insight from the Heads of Service, KPMG and the Council's Transformation Programme team.

157. We commissioned KPMG to work with us to develop a new operating model and to identify the contribution that the transformation programme could make and the scale of the potential investment. While this report reflects much of that work, we will not be progressing with all of KPMG's

recommendations (e.g. Operational Commissioning).

158. Union representatives have been engaged throughout the design of the new operating model through various ways including surveys and regular updates. Consultation processes have been built into the service design and development process and consultation will be undertaken by managers in line with council procedures for all decisions relating to the transformation programme.

RESOURCE IMPLICATIONS

Capital/Revenue

The initial work that has been carried out has identified potential recurrent savings of £15M from Transformation towards addressing the £60M budget gap. These potential savings also come with potential one off investment requirements of a maximum £4.5M revenue over the 2 year period, and £10M capital. The capital investment requirements will need to be built into the Capital Programme review detailed in the Capital Strategy. The key resource implications are as set out in paragraphs 9 – 24.

Property/Other

Any impacts relating to property will be assessed by the Service Design Board on behalf of the Transformation Programme.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

Other Legal Implications:

POLICY FRAMEWORK IMPLICATIONS

Whilst the Council's Policy Framework and Budget are silent on the specifics of how the Council works in detail, the adoption of an operating model as proposed in this report will fundamentally change how the Council works. As a result, it will have significant implications for both. This makes the decision as to the adoption of the new operating model a change to the current budget and policy framework and hence a decision for Full Council.

Council Strategy 2014-17

City Strategy 2015-2025

KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	All

SUPPORTING DOCUMENTATION

Appendices

1.	High Level Plan

Documents In Members' Rooms

1.		

Equality Impact Assessment

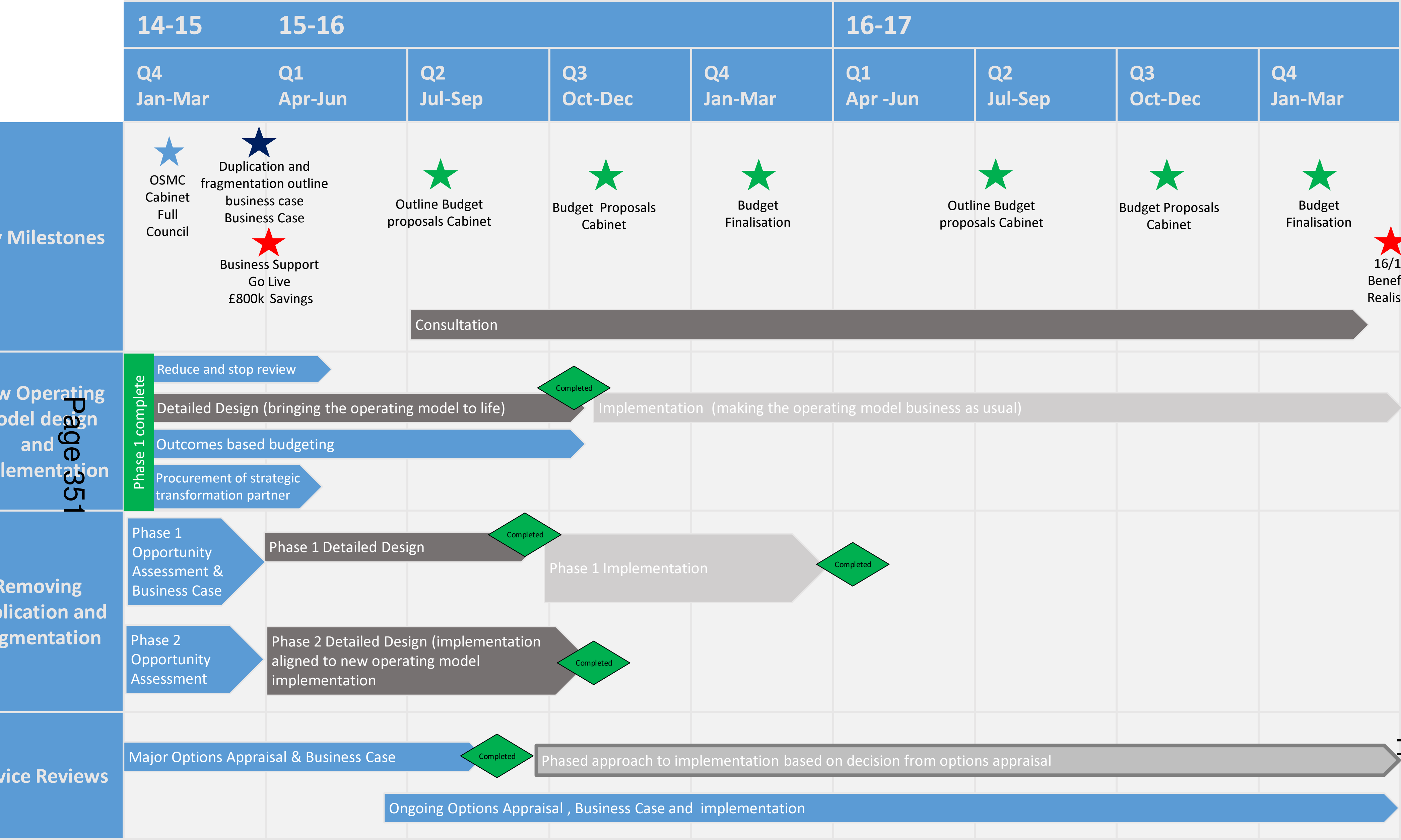
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	Yes

Other Background Documents

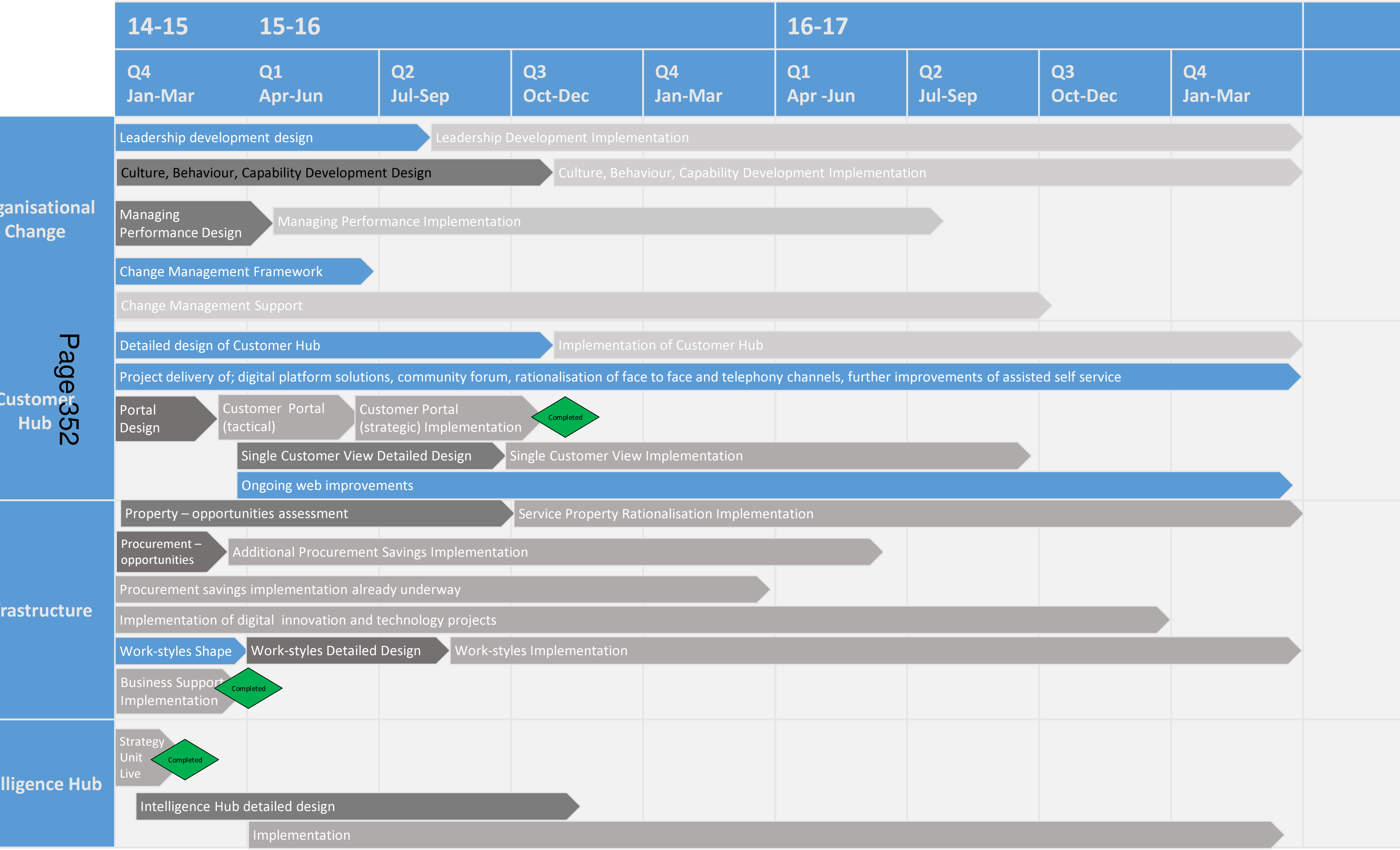
Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	New Target Operating Recommendations Report authored by KPMG	January 2015

Appendix A High Level Plan



Appendix A High Level Plan



DECISION-MAKER:	COUNCIL			
SUBJECT:	SAFE CITY AND YOUTH JUSTICE STRATEGIES			
DATE OF DECISION:	11 FEBRUARY 2015			
REPORT OF:	CHIEF EXECUTIVE			
CONTACT DETAILS				
AUTHOR:	**Name:**	**Suki Sitaram**	**Tel:**	**023 8083 2060**
	E-mail:	**Suki.sitaram@southampton.gov.uk**		
Chief Executive	**Name:**	**Dawn Baxendale**	**Tel:**	**023 8083 2966**
	E-mail:	**Dawn.baxendale@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY		
None.		
BRIEF SUMMARY		
This report details the urgent decision made by the Chief Executive on 30 November 2014 to approve the Safe City and Youth Justice Strategies.		
RECOMMENDATIONS:		
	(i)	To note the urgent decision taken by the Chief Executive made under delegated authority 1.1.3 of the Council's constitution.
REASONS FOR REPORT RECOMMENDATIONS		
1.	To approve the Safe City Strategy 2014/17 and the Youth Justice Strategic Plan 2014/15 following recommendation for approval by Cabinet on 18 November 2014.	
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED		
2.	None as the Council would not be meeting its statutory obligations and would not be able to draw down funding for the Youth Offending Service and this would have an acceptable impact on being able to maintain the service.	
DETAIL (Including consultation carried out)		
3.	The Police and Justice Act 2006 places a duty on Crime and Disorder Reduction Partnerships to meet established national minimum standards. This includes producing an Annual Strategic Assessment to inform the Safe City Strategy. This Strategy is included in the Council's Policy Framework and has to be approved before publication. The Safe City Strategy was launched by Southampton Connect on 20 November 2014 and the Council has to agree its contribution to the delivery of this strategy.	
4.	The Youth Offending Service is required to publish a Youth Justice Strategic Plan in line with the Crime and Disorder Act, 1998, Part iii, Section 40. The Youth Justice Strategic Plan is also included in the Council's Policy Framework and has to be approved before publication. The approval of Youth Justice Strategic Plan strategy is vital for the drawdown of the YJB Effective Practice Grant, which has to be done now.	
5.	Cabinet agreed on 18 November 2014 to recommend to Full Council to	

	approve the strategies on 19 November 2014. However the Council agenda did not include this item. As the next full Council meeting was in February 2015, these strategies had to be approved on an urgent basis by the Chief Executive using her delegated authority.
RESOURCE IMPLICATIONS	
Capital/Revenue	
6.	None.
Property/Other	
7.	None.
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
8.	The Police and Justice Act 2006 and the Crime and Disorder Act 1998, Part iii section 40.
Other Legal Implications:	
9.	None.
POLICY FRAMEWORK IMPLICATIONS	
10.	None.

KEY DECISION?	No	
WARDS/COMMUNITIES AFFECTED:	All	
SUPPORTING DOCUMENTATION		
Appendices		
1.	None.	
Documents In Members' Rooms		
1.	None.	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.		Yes/No
Other Background Documents **Equality Impact Assessment and Other Background documents available for inspection at:**		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.		
2.		