

# COUNCIL MEETING

Wednesday, 20th February,  
2019 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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<b>WARD</b>	<b>COUNCILLOR</b>	<b>WARD</b>	<b>COUNCILLOR</b>
<b>Bargate</b>	Bogle Noon Dr Paffey	<b>Millbrook</b>	Furnell Galton Taggart
<b>Bassett</b>	Hannides B Harris L Harris	<b>Peartree</b>	Bell Houghton Keogh
<b>Bevois</b>	Barnes-Andrews Kataria Rayment	<b>Portswood</b>	Claisse Mitchell Savage
<b>Bitterne</b>	Jordan Murphy Streets	<b>Redbridge</b>	McEwing Pope Whitbread
<b>Bitterne Park</b>	Fuller Harwood White	<b>Shirley</b>	Chaloner Coombs Kaur
<b>Coxford</b>	D Thomas T Thomas	<b>Sholing</b>	J Baillie Guthrie Wilkinson
<b>Freemantle</b>	Leggett Parnell Shields	<b>Swaythling</b>	Fielker Mintoff Vassiliou
<b>Harefield</b>	P Baillie Fitzhenry Laurent	<b>Woolston</b>	Mrs Blatchford 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. By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.

Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so.

Details of the Council's Guidance on the recording of meetings is available on the Council's website.

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

The Southampton City Council Strategy (2016-2020) is a key document and sets out the four key outcomes that make up our vision.

- Southampton has strong and sustainable economic growth
- Children and young people get a good start in life
- People in Southampton live safe, healthy, independent lives
- Southampton is an attractive modern City, where people are proud to live and work

**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

**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.

<b>Proposed dates of meetings (Municipal year 2018/19)</b>	
<b>2018</b>	<b>2019</b>
18 July	20 February (Budget)
19 September	20 March
21 November	15 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

### **RULES OF PROCEDURE**

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

### **BUSINESS TO BE DISCUSSED**

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

### **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.

Richard Ivory  
Service Director, Legal and Governance  
Civic Centre, Southampton, SO14 7LY

Tuesday, 12 February 2019

**TO: ALL MEMBERS OF THE SOUTHAMPTON CITY COUNCIL**

You are hereby summoned to attend a meeting of the COUNCIL to be held on WEDNESDAY, 20TH FEBRUARY, 2019 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 THE REVISED MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2019/20 TO 2022/23 □ (Pages 1 - 120)**

Report details the Medium Term Financial Strategy (MTFS) for the period 2019/20 to 2022/23 and provides the budget position for 2019/20 and later years for the General Fund and the Housing Revenue Account (HRA).

**5 THE GENERAL FUND AND HOUSING REVENUE ACCOUNT CAPITAL STRATEGY AND PROGRAMME 2018/19 TO 2022/23 □ (Pages 121 - 188)**

Report of the Cabinet Member for Finance and Customer Experience. The purpose of this report is to update the Capital Strategy and to inform Council of any major changes in the overall General Fund and HRA Capital Programme for the period of 2018/19 to 2022/23, highlighting the changes in the programme since the last reported position to Cabinet in November 2018.

**6 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2019/20 TO 2022/23 (Pages 189 - 242)**

Report of the Interim Director, Finance and Commercialisation detailing 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.

**7 APPOINTMENT OF INTERIM S151 OFFICER** (Pages 243 - 244)

Report of Chief Executive detailing the cover for the interim arrangements for the statutory role of S151 Officer.

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



Richard Ivory  
Director of Legal and Governance

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# Agenda Item 4

<b>DECISION-MAKER:</b>	<b>CABINET COUNCIL</b>		
<b>SUBJECT:</b>	<b>THE REVISED MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2019/20 to 2022/23</b>		
<b>DATE OF DECISION:</b>	<b>19 FEBRUARY 2019 (Cabinet) 20 FEBRUARY 2019 (Council)</b>		
<b>REPORT OF:</b>	<b>CABINET MEMBER FOR FINANCE AND CUSTOMER EXPERIENCE</b>		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	Sue Cuerden Stephanie Skivington	<b>Tel:</b> <b>023 8083 4153</b> <b>023 8083 2692</b>
	<b>E-mail:</b>	<a href="mailto:Sue.cuerden@southampton.gov.uk">Sue.cuerden@southampton.gov.uk</a> <a href="mailto:Stephanie.skivington@southampton.gov.uk">Stephanie.skivington@southampton.gov.uk</a>	
<b>S151 Officer</b>	<b>Name:</b>	Sue Cuerden	<b>Tel:</b> <b>023 8083 4153</b>
	<b>E-mail:</b>	<a href="mailto:Sue.cuerden@southampton.gov.uk">Sue.cuerden@southampton.gov.uk</a>	

## STATEMENT OF CONFIDENTIALITY

N/A

## EXECUTIVE SUMMARY

This report details the Medium Term Financial Strategy (MTFS) for the period 2019/20 to 2022/23 and provides detail to inform Council in setting Council Tax and rents for 2019/20.

Outcome Based Planning and Budgeting (OBPB) has been further progressed, following its implementation in 2017/18, and continues to allow the council to focus and utilise resources towards agreed priorities and outcomes. A further element has been introduced in the 2019/20 budget setting process to incorporate business academies, and begin to embed commercialisation across the Council. This gives certainty to residents, businesses and service users that service provision has been prioritised and funded for 2019/20, within a stable financial framework.

The OBPB process will be further reviewed and refined in 2019/20 to ensure that the budget gap in 2020/21 and future years can be mitigated.

The objective of the MTFS is to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council's outcomes.

The Strategy is based around 6 key aims:

- To provide financial parameters within which budget and service planning should take place;
- To ensure the council sets a balanced budget;
- To focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources, ensuring services are defined on the basis of a clear alignment between priority and affordability;

- To ensure 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 fees, charges and 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 whilst gradually reducing the council's reliance on Central Government funding; and
- To ensure that the council's long term financial health and viability remain sound.

Draft budget proposals were considered by Cabinet in October 2018, prior to commencement of full consultation with a range of stakeholders. This report includes the analysis on consultation feedback, which has been considered by the Cabinet, to enable the finalisation of the budget proposals included within this report for recommendation by Cabinet to Council on 20<sup>th</sup> February 2019 when it will set the budget. Equality and Safety Impact assessments have also been amended in light of the consultation feedback.

In response to the consultation feedback, and further member considerations, Cabinet have revised the draft proposals. The main changes are:

- An amendment to the proposed saving to close residential care homes. Following consultation feedback and further consideration by officers and members, the proposal in principle is to close Glen Lee, and make more efficient use of Holcroft House subject to staff consultation and a further report to Cabinet to make a final decision. This is further detailed in Document in Members Room 4.
- Two elements of the Adult Social Care Charging Policy proposals will not be implemented i.e. an annual fee to administer a Deferred Payment Agreement will not be levied; and the proposal to remove the exemptions given to previous clients of the Locally Based Hospital Units (LBHU) for non-residential care charges will not be implemented. Further detail is included in Document in Members Room 5.

Additionally, as a result of changes in service requirements, demand and unachieved savings, the report identifies the new pressures that impact on the General Fund in 2019/20 and the proposals to fund those additional pressures. In regard to the HRA, the report makes recommendations in relation to rents, service charges, and other charges to council tenants, and leaseholders, from 1st April 2019 for the 2019/20 financial year.

The report summarises the Housing Revenue Account (HRA) 30 year Business Plan and the assumptions behind it, including details of savings proposals recommended to close the HRA budget gap.

The Government announced its latest budget assumptions in the Autumn Statement on 29<sup>th</sup> October 2018. The implications of these announcements, along with the Local Government Finance Settlement (LGFS) have been included within the updated MTFs and budget position, along with an update on the impact of other national and local factors such as leaving the European Union and the changed assumptions in relation to Business Rate Retention (BRR).

The Ministry of Housing, Communities & Local Government (MHCLG) announced on the 13<sup>th</sup> December that Southampton City Council, along with Portsmouth City Council and Isle of Wight Council, had been successful in a joint bid to be a Pilot for 75% Business Rates Retention in 2019/20, and to continue the Solent Authorities Business Rates Pool.

The impact of the latest capital programme and Capital Strategy, are also included in the MTFs, with the detail reported in the General Fund & Housing Revenue Account Capital Strategy & programme 2018/19 to 2022/23. This has been updated for changes as recommended by the Council Capital Board.

The MTFS is supported by the approved Efficiency Plan for the council, which was a requirement of accepting the 4 year settlement offer. This has been updated and is included as an annex to the MTFS.

**RECOMMENDATIONS:**

**CABINET**

**General Fund**

	i)	Note the position on the forecast adverse outturn position for 2019/20 as set out in paragraphs 31 to 38.
	ii)	Note the revised Medium Term Financial Strategy 2019/20 to 2022/23 as detailed in Appendix 2.
	iii)	Note the aims and objectives of the Medium Term Financial Strategy which will be presented to council for approval on 20 February 2019.
	iv)	Note that formal budget consultation began on 24th October 2018 and ended on 16 <sup>th</sup> January 2019. The outcome of the consultation is outlined in paragraphs 151 to 155.
	v)	To approve in principle the proposal for the closure of Glen Lee Residential Care Home, subject to formal staff consultation and a further report to Cabinet to make a final decision.
	vi)	To approve the Adult Social Care Charging Policy as amended following consultation as detailed in Members Room Document 5.
	vii)	Note that the Executive's budget proposals will impact on staffing and that consultation will be undertaken in line with legislation and the Council's agreed processes before proposals are implemented. The savings proposals set out in Appendix 1 propose the deletion of 87.31 Full Time Equivalent (FTE) posts, of which 18.33 FTE are vacant, leaving 68.98 FTE at risk of redundancy or TUPE transfer.
	viii)	Note that the Executive's budget proposals are based on the assumptions detailed within the MTFS and that this includes a council tax increase of 2.99%, allowable under general powers to increase council tax without a referendum.
	ix)	To note that the report identifies additional general fund pressures totalling £17.71M in 2019/2020 as detailed in paragraphs 42 and 55.
	x)	To note that further proposals will need to be considered to address the 2020/21 and future years budget gap.
	xi)	Notes and recommends to Council to approve a change in the Council Tax – Empty Property Premium as noted in paragraphs 72 to 75.
	xii)	Notes and recommends to council where appropriate, the MTFS and General Fund Revenue Budget changes as set out in council recommendations i) to xxi).

**Housing Revenue Account**

	xiii)	To note that, from 1st April 2019, a standard decrease be applied to all dwelling rents of 1.0%, as set out in paragraph 117 of this report, equivalent to an average decrease of £0.84 per week in the current average weekly dwelling rent figure of £84.39. This will be the final year of the required decreases.
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xiv)	To note an increase in weekly service charges as detailed in paragraph 118 from 1st April 2019 (including supported accommodation).
xv)	To note savings totalling of £3.15M in 2019/20 as detailed in paragraph 120.
xvi)	To note and recommend the Housing Revenue Account Revenue Estimates as set out in the report.
xvii)	To note the 30 year Business Plans for revenue and capital expenditure set out in Appendices 7 and 8 respectively, that based on current assumptions are sustainable and maintain a minimum HRA balance of £2.0M in every financial year.
xviii)	To note that 2019/20 is a 53 week rent year and that rental income and service charge payments will be paid by tenants in 49 instalments across this period.

## **COUNCIL**

### **General Fund**

i)	Notes the general budget consultation process that was followed as detailed in paragraphs 151 to 155.
ii)	Notes that the budget consultation feedback has been taken into consideration by the Cabinet and has informed their final budget proposals. Further details are contained within the Members Room document 3.
iii)	Notes the Equality and Safety Impact Assessment process that was followed as set out in paragraphs 161 to 164. The updated ESIA's and Cumulative Impact Assessment are available documents in the Members Room, documents 1 and 2.
iv)	Note the position on the forecast adverse outturn position for 2018/19 as set out in paragraphs 31 to 38.
v)	Approves the revised Medium Term Financial Strategy (MTFS) for the period 2019/20 to 2022/23 attached as Appendix 2.
vi)	Approve the General Fund Revenue Budget as detailed in Annex 1 of the MTFS in Appendix 2.
vii)	Approves the revised proposals (following consultation) which reduce cost and generate income that amount to £6.77M in 2019/20 increasing to £10.93M in 2020/21. These proposals are detailed in paragraphs 44, 56 and 57 and in the Outcome Plan Appendices in Appendix 1.
viii)	Note that the Executive's budget proposals will impact on staffing and that consultation will be undertaken in line with legislation and the Council's agreed processes before proposals are implemented. The savings proposals set out in Appendix 1 propose the deletion of 87.31 Full Time Equivalent (FTE) posts, of which 18.33 FTE are vacant, leaving 68.98 FTE at risk of redundancy or TUPE transfer.
ix)	Notes that the Executive's budget proposals are based on the assumptions detailed within the MTFS and that this includes a council tax increase of 2.99%, allowable under general powers to increase council tax without a referendum.
x)	Approves additional general fund pressures totalling £17.71M in 2019/20 as detailed in paragraphs 42 and 55.
xi)	Approves a change in the Council Tax – Empty Property Premium as noted in paragraphs 72 to 75.

xii)	To delegate authority to the Service Director – Finance & Commercialisation (S151 Officer), following consultation with the Cabinet Member for Finance and Customer Experience, to do anything necessary to give effect to the proposals contained in this report.
xiii)	Sets the Council Tax Requirement for 2019/20 at £99.75M as per Appendix 3.
xiv)	Notes the estimates of precepts on the council tax collection fund for 2019/20 as set out in Appendix 4.
xv)	Delegates authority to the Service Director – Finance & Commercialisation (S151 Officer) to implement any variation to the overall council tax arising from the final notification of the Hampshire Fire and Rescue Authority precept and the Police and Crime Commissioner for Hampshire precept.

### **Housing Revenue Account**

xvi)	Approves that, from 1st April 2019, a standard decrease be applied to all dwelling rents of 1.0%, as set out in paragraph 117 of this report, equivalent to an average decrease of £0.84 per week in the current average weekly dwelling rent figure of £84.39. This will be the final year of the required decreases.
xvii)	Approve an increase in weekly service charges as detailed in paragraph 118 from 1st April 2019 (including supported accommodation).
xviii)	Approve savings totalling of £3.15M in 2019/20 as detailed in paragraph 120.
xix)	Approves the Housing Revenue Account Revenue Estimates as set out in the report.
xx)	Approves the 30 year Business Plans for revenue and capital expenditure set out in Appendices 7 and 8 respectively, that based on current assumptions are sustainable and maintain a minimum HRA balance of £2.0M in every financial year.
xxi)	To note that 2019/20 is a 53 week rent year and that rental income and service charge payments will be paid by tenants in 49 instalments across this period.

### **REASONS FOR REPORT RECOMMENDATIONS**

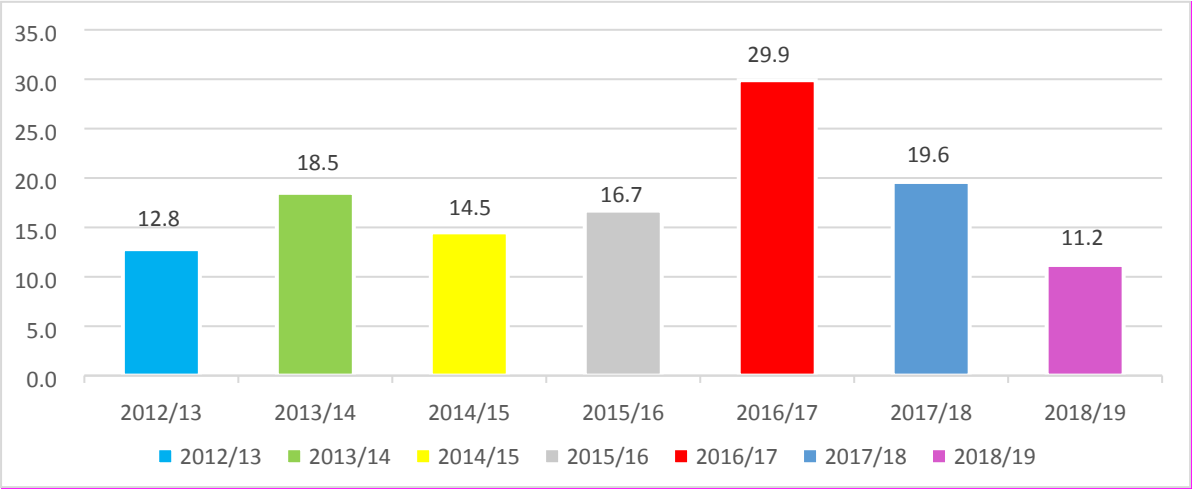
1.	The council is a large and complex organisation managing the delivery of a vast range of businesses either directly or through/with others. Its core purpose is to improve the quality of life for residents and effective financial management is key to this. It is important that Members are aware of the major financial opportunities and challenges and that they make informed decisions. The council regularly revises its MTFS so that the financial position is clear for budget proposals to be drawn up for the forthcoming year.
2.	The council has implemented a focused approach on Outcomes Based Planning and Budgeting which looks at utilising decreasing resources towards agreed priorities and outcomes.
3.	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 presented to full council.

### **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

4.	Alternative options for revenue spending and MTFS assumptions form an integral part of the development of the overall MTFS that will be considered at the council budget setting meeting on 20 <sup>th</sup> February 2019.
5.	Part of setting the General Fund Budget and Medium Term Financial Strategy and Model, requires a view to be taken on the revenue cost of capital to the Council and proposals have been considered by the council's Capital Board in order to ensure the most appropriate use of capital resources in meeting the council's desired outcomes and the Executive commitments. A Capital Strategy and Programme Update report is included elsewhere on the agenda, and the latest position is included in the MTFS Model.
6.	This report sets out the HRA revenue budgets for 2019/20 and the 30 year HRA business plan covering the period 2019/20 to 2048/49. The proposed changes to rents and other charges are an integral part of the revenue estimates for 2019/20.
7.	Additional alternative options identified in relation to the Care Home, Adult Social Care Charging Policy and HRA Service Charges proposals are set out in full in the Document in Members Rooms relating to each of these proposals respectively.
<b>DETAIL (Including consultation carried out)</b>	
	<b><u>BACKGROUND</u></b>
8.	Each financial year the council is required to set the level of council tax for the residents of Southampton. In doing this the council reviews its Medium Term Financial Strategy to ensure we are still on track to achieve a balanced position and are aware of the required efficiencies in future years.
9.	Since 2011/12 the council has faced year on year reductions in government grants, of which the Revenue Support Grant (RSG) was a significant source of income. The current MTFS assumptions were based on Central Government Funding proposals pre the General Election in June 2017. Under those proposals the intention was to radically change the way local authorities are funded by moving to full 100% business rate retention and phasing out the Revenue Support Grant by 2020. Alongside this there would be additional responsibilities for local government to ensure the move is fiscally neutral to central government plans. Business rates and council tax will then be the main source of income to fund general fund council services.
10.	The proposed changes to the business rate retention required primary legislation amendments and was incorporated into the Local Government Finance Bill 2017. However, the bill was not ratified following the General Election with the focus now being on negotiations for leaving the European Union. However, there is ministerial support to continue working towards to 100% Business Rate Retention and reviewing relative needs via a Fair Funding Formula. Further detail is included in paragraphs 19 to 21.
11.	The Provisional Local Government Finance Settlement, issued on 13 <sup>th</sup> December 2018, has indicated that there will be a move to 75% business rate retention in the medium term from 2020 onwards although this has not been reflected in the MTFS update at this time. The MTFS will be updated as further details are confirmed but is expected to be fiscally neutral.
12.	A 75% Business Rate Retention Pilot bid was submitted to the MHCLG on the 25 <sup>th</sup> September 2018 for the Solent Region. This included the forming of a business rates pool arrangement comprising of Southampton City Council, Portsmouth City Council and the Isle of Wight Council. The MHCLG confirmed on the 13 <sup>th</sup> December 2018 that the bid has been successful.

The Pilot bid covers the financial year 2019/20 only. This has been factored into the updated MTFs and further details are included in paragraphs 19 to 21.

13. Over the last 6 years the council has approved savings of £123.2M but to be sustainable in the future will require us to continue to change, reduce, stop and in some cases, develop new services. The amount of savings per year is shown in the following graph:



14. The MTFs, approved by Council in February 2017, introduced a different approach to financial management, with the aim of aligning delivery of the Executive’s key outcomes (described in the Council Strategy 2016-20) with affordability. This aims to help the council to invest its reducing resources in activities that have the greatest impact on the delivery of priority outcomes. The council also wants to achieve better outcomes for all residents by improving quality and performance, managing demand of its high cost services and becoming more commercial. Therefore financial plans were drawn up on the basis of the four main outcomes and these are supported by an internal plan to enable the council to become a modern and sustainable organisation.

15. In September 2016, the council approved the Southampton City Council Strategy 2016-20. The Strategy sets out the council’s strategic vision until 2020 and has four key outcomes, along with an internal outcome, which are:



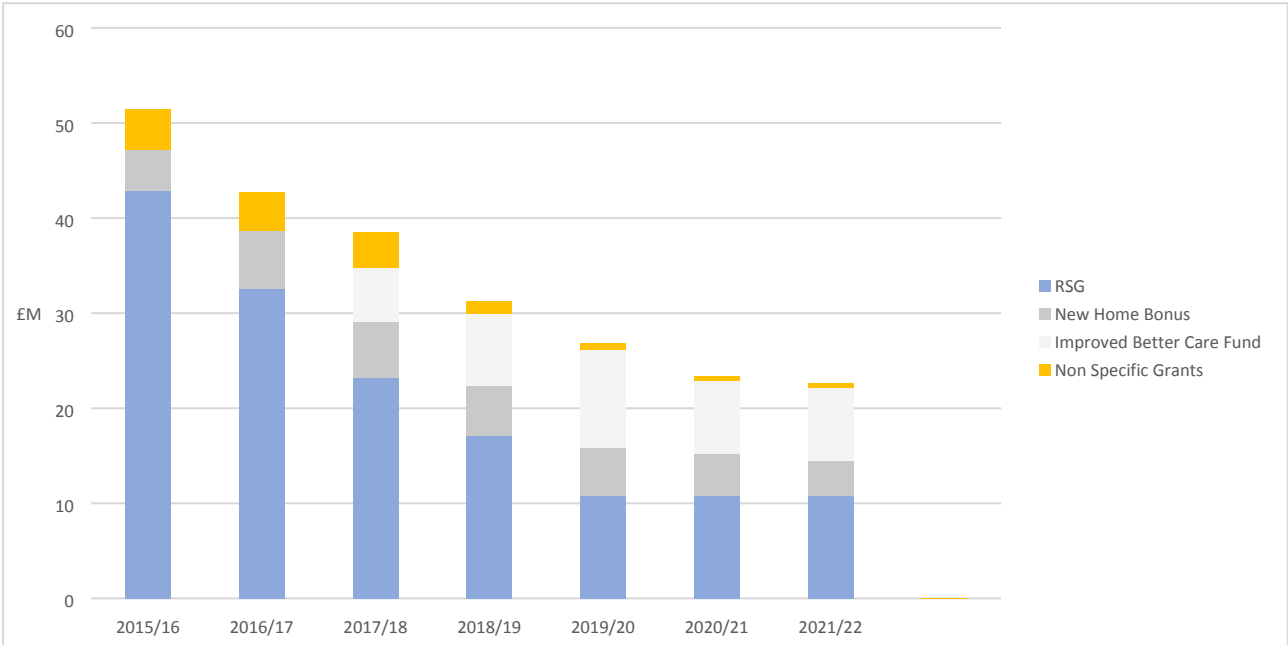
16. The outcome plans were approved by Council in July 2018. Appendix 1 contains the updated financial summaries for each of the outcomes.

17. Local government has had to evolve significantly in response to ongoing changes in the city’s profile, trends in customer behaviour driven by technology, national and local policies and the austerity challenges. For us this is accompanied by ongoing challenges in the shape of managing demand in adults and children’s social care.  
 Chart 1 below shows how the government funding to the council has reduced and the projection is that by 2020 the Government is expecting councils to become financially

independent through business rates and council tax which will replace government grants as our main sources of income.

18. As a result we have added demand management strategies for social care to the MTFs as detailed in annexes 3 and 4 of Appendix 2.

**Chart 1 – Government Funding Reductions**



For comparison purposes 2018/19 & 2019/20 still contain the RSG the council would have received without the Business Rates Retention Pilot.

**BUSINESS RATES POOL AND 75% BUSINESS RATES RETENTION PILOT**

19. Following a successful application to the MHCLG Southampton will be a 75% Business Rate Retention pilot and will remain as part of the Solent Pool. As a result the Council will forgo Revenue Support Grant and continue to pay a business rates tariff rather than receive a top up. All implications of this have been included in the MTFs.

20. The governance arrangement will be unchanged from the current pilot arrangements with a Board consisting of the three council leaders, giving opportunity for the 3 councils to retain half of the government’s share of business rates growth and invest this in services, financial stability and sustainable, and reinvesting in promoting further growth in the city.

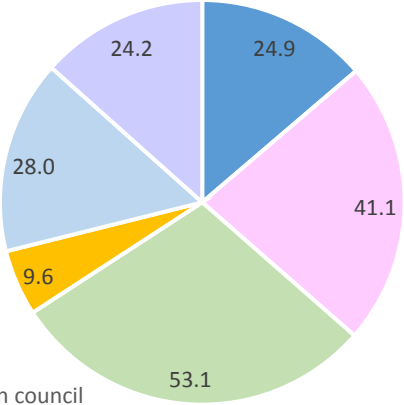
21. The council’s financial benefit from any growth from 2019/20 pilot will not impact until 2020/21. This is expected to be in the region of £2.0M and has been included in the financial position within this report for 2020/21 only due to the business rates pilot being one year only at the present time.

**MEDIUM TERM FINANCIAL STRATEGY AND MODEL**

22. The council currently spends £610M delivering services and funds this from income from central government grants, council tax, business rates, rents, and other fees and charges. Two areas of income we receive (Schools grants and Benefits payments) are passed directly from the council to the Schools and Benefits recipients, and the Rents we get from Housing tenants must only be spent on providing council housing services. The rest of the council’s income (£239M) is included in the General Fund and is used to fund all other services.

23. Chart 2 below shows how this is spent over the approved Outcomes.  
Chart 2 – Budgeted Spend Per Outcome 2018/19



	<p style="text-align: center;"><b>Budgeted Spend 2018/19 £M</b></p>  <table border="1" data-bbox="319 689 1212 913"> <thead> <tr> <th>Category</th> <th>Value (£M)</th> </tr> </thead> <tbody> <tr> <td>A sustainable modern council</td> <td>24.9</td> </tr> <tr> <td>Children and young people get a good start in life</td> <td>41.1</td> </tr> <tr> <td>People in Southampton live safe, healthy, independent lives</td> <td>53.1</td> </tr> <tr> <td>Southampton has strong, sustainable economic growth</td> <td>9.6</td> </tr> <tr> <td>Southampton is an attractive and modern city, where people are proud to live and work</td> <td>28.0</td> </tr> <tr> <td>Centrally Held Funds</td> <td>24.2</td> </tr> </tbody> </table>	Category	Value (£M)	A sustainable modern council	24.9	Children and young people get a good start in life	41.1	People in Southampton live safe, healthy, independent lives	53.1	Southampton has strong, sustainable economic growth	9.6	Southampton is an attractive and modern city, where people are proud to live and work	28.0	Centrally Held Funds	24.2	
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24.	<p>Council approved a 5 year MTFS in February 2018, the objective of which is to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council's priority outcomes.</p>															
25.	<p>There are 6 key aims of the Strategy:</p> <ul style="list-style-type: none"> <li>• To provide financial parameters within which budget and service planning should take place;</li> <li>• To ensure the council sets a balanced budget;</li> <li>• To focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources. Ensuring services are defined on the basis of a clear alignment between priority and affordability;</li> <li>• To ensure the council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;</li> <li>• To plan the level of fees, charges and taxation in line with levels that the council regard as being necessary, acceptable and affordable to meet the council's aims, objectives, policies and priority whilst gradually reducing the council's reliance on Central Government funding; and</li> <li>• To ensure that the council's long term financial health and viability remain sound.</li> </ul>															
26.	<p>The updated MTFS focuses on determining the financial position for the period up to and including 2022/23. However the financial position post 2019/20 becomes more uncertain as this is post the current Comprehensive Spending Review period, and when 75% Business Rates Retention and Fair Funding Formula should come into effect. The MTFS takes into account major issues affecting the council's finances, including international, national and regional economic influences as well as local factors and priorities. It identifies risks and opportunities and looks to mitigate the risks through provisions within reserves and balances to ensure the council has adequate resources to cover the uncertainty and risk. It provides the framework and assumptions for developing the overall budget, taking into account any agreed, unavoidable service pressures. The MTFS recognises the key role</p>															

	that financial resources play in the future delivery of services, and enabling the effective planning, management and delivery of those services. The MTFs is therefore key to the effective delivery of the council's overall aims of achieving better outcomes for residents in a financially sustainable way.																				
27.	The budget proposals contained within this report seek to increase council tax by 2.99% which (based on 2018/19) represents £0.86 per week for residents in a Band D property but will help the council to continue to deliver services that matter most to residents.																				
28.	In February 2018 the forecast financial position was a budget gap of £6.95M for 2019/20 and a £14.10M budget gap for 2020/21 as set out in Table 1 below. <b>Table 1 Gap in funding</b>																				
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29.	Since February 2018 the MTFs has been reviewed and updated to include pressures and benefits that have arisen in that time. The following sections describe the detail of the items that have been taken into account in revised the Medium Term Financial position.																				
	<b>ISSUES THAT HAVE BEEN CONSIDERED</b>																				
30.	The MTFs has been reviewed to take into account the following: <ul style="list-style-type: none"> <li>• The current forecast outturn position for 2018/19 including potential ongoing non-achievement of approved savings;</li> <li>• A review of pressures facing the council; and</li> <li>• A review of base budget assumptions such as pay and inflation assumptions.</li> <li>• The Provisional Local Government Finance Settlement (PLGFS) - The Government announced its latest assumptions in the Autumn Budget on 29<sup>th</sup> October 2018. The implications of these announcements, along with the Provisional Local Government Finance Settlement have been included within the updated MTFs and budget position contained within this report, along with an update on the impact of other national and local factors such as Brexit and the updated Business Rate Retention (BRR) assumptions.</li> </ul>																				
	<b><u>2018/19 Forecast Outturn Position</u></b>																				
31.	Whilst this report is concerned with an update of the MTFs for the period from 2019/20 onwards, there are elements of the 2018/19 forecast outturn that will have an impact on the overall financial position. The latest position, as at 31 <sup>st</sup> December 2018, is that there is a forecast service underspend against budget of £0.58M.																				

32.	<p>Table 2 below shows the summary forecast outturn position:</p> <p><b>Table 2 – 2018/19 Summary Forecast Outturn Position</b></p> <table border="1" data-bbox="217 286 1417 678"> <thead> <tr> <th data-bbox="217 286 1074 465"></th> <th data-bbox="1074 286 1246 465">Forecast Outturn Variance £M</th> <th data-bbox="1246 286 1417 465">Forecast Outturn Variance %</th> </tr> </thead> <tbody> <tr> <td data-bbox="217 465 1074 517"><b>Baseline Portfolio Total</b></td> <td data-bbox="1074 465 1246 517"><b>7.70 A</b></td> <td data-bbox="1246 465 1417 517"><b>4.18 A</b></td> </tr> <tr> <td data-bbox="217 517 1074 568">Other Expenditure &amp; Income</td> <td data-bbox="1074 517 1246 568">5.66 F</td> <td data-bbox="1246 517 1417 568">3.07 F</td> </tr> <tr> <td data-bbox="217 568 1074 620">General Government Grants</td> <td data-bbox="1074 568 1246 620">2.62 F</td> <td data-bbox="1246 568 1417 620">1.42 F</td> </tr> <tr> <td data-bbox="217 620 1074 678"><b>Net Underspend</b></td> <td data-bbox="1074 620 1246 678"><b>0.58 F</b></td> <td data-bbox="1246 620 1417 678"><b>-</b></td> </tr> </tbody> </table>		Forecast Outturn Variance £M	Forecast Outturn Variance %	<b>Baseline Portfolio Total</b>	<b>7.70 A</b>	<b>4.18 A</b>	Other Expenditure & Income	5.66 F	3.07 F	General Government Grants	2.62 F	1.42 F	<b>Net Underspend</b>	<b>0.58 F</b>	<b>-</b>
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33.	<p>The overall forecast overspend on portfolios is £7.70M which has been offset by the release of central funding. This relates to:</p> <ul style="list-style-type: none"> <li>• Following a review of central inflation requirements, £2M has been released to help meet the forecast shortfall in both procurement and digital savings;</li> <li>• Additionally, £0.3M of contingencies have been released to meet additional incinerator outage costs, with a further £3.38M released to meet demand pressures.</li> <li>• Winter Pressures funding of £1.11M was announced in the Autumn Budget Statement to be received in 2018/19 for use to meet Adult Social Care Pressures.</li> <li>• Additional Social Care Grant was announced in Spring 2018, this is to be used to offset the Adult Social Care overspend (£0.68M).</li> <li>• A Business Rate Levy refund has been announced as part of the Provisional Local Government Finance Settlement December 2018 of £0.84M.</li> </ul>															
34.	<p>The key areas of overspend are:</p> <ul style="list-style-type: none"> <li>➤ Adults Portfolio, with a £4.69M forecast overspend;</li> <li>➤ Children’s &amp; Families, £2.71M forecast overspend; and</li> <li>➤ Aspiration, Schools &amp; Lifelong Learning, £1.31M forecast overspend.</li> </ul> <p>This is further detailed in Table 3 below.</p>															
35.	<p>It should be noted that as forecast overspends have been identified, the relevant Service Director has been expected to develop an action plan to detail what measures and interventions would be undertaken to manage the pressure. It is expected that the requirement for action plans will continue into 2019/20, with an overarching expectation that pressures arising must be accommodated within the overall service budgets. This has led to significant improvement in the overall forecast position. The following table details how these pressures have been mitigated in 2018/19 and how they have impacted on the 2019/20 proposed estimates:</p>															

36.

**Table 3 – Impact of 2018/19 Pressures**

Outcome	2018/19 Pressure		How this is being dealt with in the MTFS Model
	Description	£M	
Strong and sustainable economic growth.	Unachieved saving for property rationalisation. Savings have not been realised in the Capital Asset budget in relation to this. It has to date been managed from one-off underspends and increases in income.	1.70	In 2018/19 this is being met from underspends in the Central Repairs and Maintenance budget and an overachievement of income in investment property. In the MTFS from 2019/20 this has been added in as a budget pressure in future years, partially off-set by a compensating increase in the investment property budget to recognise the additional income generated.
Children and young people get a good start in life	Adverse variance in Looked After Children as being unable to meet savings targets due to numbers of high cost LAC children in service.	2.88	This is being addressed through the Children's Demand Strategy developed as part of the business planning process – targeting Residential step downs and preventing children coming into care with locality based model.  The ongoing impact has been addressed in the 2019/20 and future years in the MTFS.
Children and young people get a good start in life.	The pressure on Home to School Transport has arisen as a result of increasing demand particularly since 2015 when a change in legislation required the authority to provide transport for children aged 0-25 that have additional educational needs.	1.10	The Service is working on the following plans to address the pressure by; Providing training for independent travel for post 16. Charging for Post 16 Home to School Transport provision. Withdrawing Early Learning Group Home to School transport provision.  The ongoing impact has been addressed in the 2019/20 and future years in the MTFS.

Outcome	2018/19 Pressure		How this is being dealt with in the MTFS Model
	Description	£M	
Children and young people get a good start in life.	Pressure has arisen in the Jigsaw service due to increasing demand and higher costs of placements. Of these, £0.09M is from increased Direct Payments and £0.26M is for additional residential placements.	0.35	To mitigate this pressure the Service is undertaking case by case reviews to identify opportunities to reduce existing provision where possible and ensuring that new placements are best value and appropriate.
Southampton is an Attractive Modern City where people are proud to live and work	<u>Regulatory Services</u> Cemeteries and Crematorium has a forecast reduction in income since the new crematorium in Romsey opened. A marketing plan is being developed and fee increases are proposed to mitigate this impact.	0.55	A pressure of £0.4M has been built into the MTFS proposals.
Southampton is an Attractive Modern City where people are proud to live and work	<u>Regulatory Services</u> The introduction by government of an online service for Nationality Checks has caused a loss of income to the service as applicants are no longer obliged to take this service from the registration office, resulting in a reduction in income.	0.08	A pressure of £0.08M has been built in to the MTFS to reflect this loss.
Southampton is an Attractive Modern City where people are proud to live and work	<u>Local Authority Trading Company (LATCo)</u> Whilst some of the income generating ideas that were part of the LATCo proposals have been progressed it has not been possible to take forward all the ideas as quickly as originally envisaged. This has created a pressure in 2018/19 and 2019/20, however services that were in phase 1 do go on to achieve more than the original amount allocated to them.	0.33	Pressure built in to MTFS for 2019/20, assumption that income will increase as services become more commercial in the longer term.

Outcome	2018/19 Pressure		How this is being dealt with in the MTFS Model
	Description	£M	
Southampton is an Attractive Modern City where people are proud to live and work	<u>Parks and Open Spaces</u> The Council has been working through a significant backlog of essential tree works since the previous contract was brought back in house in April 2017. This has resulted in less ability to focus on income generating work, creating a pressure. The backlog will continue to be addressed throughout 2018/19 and 2019/20.	0.16	Pressure built into the MTFS for 2019/20 only, to reflect expectation that there will be increased focus on income generating activity from 2020/21.
Southampton is an Attractive Modern City where people are proud to live and work	<u>Waste Collection and Disposal</u> A saving proposal regarding the introduction of CCTV was expected to reduce the security costs at the depot however this has not proved realisable.	0.08	A pressure for damage and repair costs has been identified and built in to the MTFS for 2019/20, and is offset through savings arising from AWC on waste disposal contract.
Southampton is an Attractive Modern City where people are proud to live and work	<u>Waste Collection and Disposal</u> Post February Budget report saw a significant change in market values for dry & mixed recyclables, particularly for cardboard and mixed paper commodity. Indications are that market prices are set to continue to decrease due to the uncertainty pertaining to export markets for recyclables, particularly within the fibre markets. Additionally, lower than anticipated take up of income for bins, and the decision to freeze charges for green waste collection have also created a pressure.	0.12	A pressure to reflect reduced income has been built in to the MTFS, and is offset through savings arising from AWC on waste disposal contract.

Outcome	2018/19 Pressure		How this is being dealt with in the MTFS Model
	Description	£M	
Southampton is an Attractive Modern City where people are proud to live and work	<u>Waste Collection and Disposal</u> Due to the age of the refuse collection vehicles the cost of repair has increased and with this the cost of hire vehicles.	0.21	A pressure for damage and repair costs has been identified and built in to the MTFS for 2019/20. The Council agreed to the purchase of new vehicles at its meeting in December 2018.
People in Southampton live safe, healthy independent lives.	<u>Residential Homes</u> Residential homes overspend due to a significant increase in the use of temporary staffing at Glen Lee and Holcroft House residential care homes, in order to ensure safe and high quality care.	0.58	The mitigation in future years relates to the proposed future of residential homes savings proposal, including a staff restructure of Holcroft House to improve resilience and reduce the use of agency staff (subject to a separate staff consultation and Cabinet decision) and additional funding of £100k, which has been identified as a pressure.
People in Southampton live safe, healthy independent lives.	<u>Long Term Care</u> Additional demographic demand pressures and resulting unachieved savings for long term care.	4.03	Further reviews currently taking place which could help mitigate overspend for 2019/20. The pressure is split £2.16M for demand and £1.89M for unachieved savings. The Future Adult Social Care demand strategy currently being agreed is expected to arrive at additional savings.
People in Southampton live safe, healthy independent lives.	Unachieved savings on Adult Mental Health & Out Of Hours Services	0.90	Further reviews currently taking place which could help mitigate overspend for 2019/20. The Future Adult Social Care demand strategy currently being agreed is expected to arrive at additional savings.
<b>Total</b>		<b>13.07</b>	

37. Where a 2018/19 pressure has been identified as having a longer term impact the financial implications have been included within the updated MTFS position. Details are included

	within Table 4 below and the revised financial sections of the Outcome Plans at Appendix 1.																																										
38.	Further details on the forecast outturn position for 2018/19 are included within the Revenue Financial Monitoring for the period to the end of December 2018 report to be considered by Cabinet at its meeting on the 19 <sup>th</sup> February 2019.																																										
	<b><u>Medium Term Financial Forecast</u></b>																																										
39.	Table 4 below identifies the changes to the Medium Term Financial Strategy Model as reported to Cabinet in October 2018.																																										
40.	<p><b><u>Table 4 - MTFS Model</u></b></p> <table border="1"> <thead> <tr> <th></th> <th>2018/19 £M</th> <th>2019/20 £M</th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> </tr> </thead> <tbody> <tr> <td><b>Budget Gap - February 2018</b></td> <td><b>0.00</b></td> <td><b>6.95</b></td> <td><b>14.10</b></td> <td><b>10.94</b></td> <td><b>10.94</b></td> </tr> <tr> <td>2018/19 Pressures and Mitigations</td> <td>5.32</td> <td>6.16</td> <td>4.87</td> <td>4.17</td> <td>3.93</td> </tr> <tr> <td>Future Pressures</td> <td>0.00</td> <td>4.85</td> <td>4.85</td> <td>6.85</td> <td>7.85</td> </tr> <tr> <td>Savings Proposals</td> <td>0.00</td> <td>(6.44)</td> <td>(10.45)</td> <td>(10.60)</td> <td>(10.60)</td> </tr> <tr> <td>Review of central resources &amp; Non recurrent funding</td> <td>0.00</td> <td>(11.53)</td> <td>(8.77)</td> <td>(7.41)</td> <td>(7.41)</td> </tr> <tr> <td><b>Amended Budget Gap - October 2018</b></td> <td><b>5.32</b></td> <td><b>0.00</b></td> <td><b>4.60</b></td> <td><b>3.95</b></td> <td><b>4.71</b></td> </tr> </tbody> </table>		2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	<b>Budget Gap - February 2018</b>	<b>0.00</b>	<b>6.95</b>	<b>14.10</b>	<b>10.94</b>	<b>10.94</b>	2018/19 Pressures and Mitigations	5.32	6.16	4.87	4.17	3.93	Future Pressures	0.00	4.85	4.85	6.85	7.85	Savings Proposals	0.00	(6.44)	(10.45)	(10.60)	(10.60)	Review of central resources & Non recurrent funding	0.00	(11.53)	(8.77)	(7.41)	(7.41)	<b>Amended Budget Gap - October 2018</b>	<b>5.32</b>	<b>0.00</b>	<b>4.60</b>	<b>3.95</b>	<b>4.71</b>
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41.	In October 2018 Cabinet noted a revised Medium Term Financial Position, which presented a balanced position in 2019/20, but amended the savings requirement by 2022/23 to £4.71M. The following paragraphs summarise the reasons for the changes.																																										
	<b><u>October 2018 Pressures</u></b>																																										
42.	<p>Table 5 below shows the total pressures detailed in the Medium Term Financial Strategy Update report to Cabinet in October 2018. This is a combination of pressures arising in 2018/19 which will impact on future years (offset by mitigations), and new pressures arising from 2019/20 and future years. Table 3 in paragraph 36 details the 2018/19 pressures.</p> <p><b><u>Table 5 – Additional Pressures October 2018</u></b></p> <table border="1"> <thead> <tr> <th>Outcome</th> <th>2019/20 £M</th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> </tr> </thead> <tbody> <tr> <td>Southampton has strong, sustainable economic growth</td> <td>1.67</td> <td>1.67</td> <td>1.67</td> <td>1.67</td> </tr> <tr> <td>Children and young people get a good start in life</td> <td>4.82</td> <td>4.04</td> <td>3.44</td> <td>3.20</td> </tr> <tr> <td>People in Southampton live safe, healthy, independent lives</td> <td>3.49</td> <td>3.39</td> <td>5.39</td> <td>6.39</td> </tr> <tr> <td>Southampton is an attractive and modern city, where people are proud to live and work</td> <td>0.86</td> <td>0.46</td> <td>0.36</td> <td>0.36</td> </tr> <tr> <td>A sustainable modern council</td> <td>0.16</td> <td>0.16</td> <td>0.16</td> <td>0.16</td> </tr> <tr> <td><b>Total 2018/19 Pressures and New Pressures Arising 2019/20 October 2018</b></td> <td><b>11.01</b></td> <td><b>9.72</b></td> <td><b>11.02</b></td> <td><b>11.78</b></td> </tr> </tbody> </table>	Outcome	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	Southampton has strong, sustainable economic growth	1.67	1.67	1.67	1.67	Children and young people get a good start in life	4.82	4.04	3.44	3.20	People in Southampton live safe, healthy, independent lives	3.49	3.39	5.39	6.39	Southampton is an attractive and modern city, where people are proud to live and work	0.86	0.46	0.36	0.36	A sustainable modern council	0.16	0.16	0.16	0.16	<b>Total 2018/19 Pressures and New Pressures Arising 2019/20 October 2018</b>	<b>11.01</b>	<b>9.72</b>	<b>11.02</b>	<b>11.78</b>							
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<b>Total 2018/19 Pressures and New Pressures Arising 2019/20 October 2018</b>	<b>11.01</b>	<b>9.72</b>	<b>11.02</b>	<b>11.78</b>																																							



43.	<p>Table 6 below summarises the 2019/20 and future years pressures that were identified at that time.</p> <p><u>Table 6 – 2019/20 Summary of Pressures Identified October 2018</u></p> <table border="1" data-bbox="217 353 1407 1496"> <thead> <tr> <th data-bbox="217 353 831 432"><b>Outcome</b></th> <th data-bbox="831 353 971 432"><b>2019/20 £M</b></th> <th data-bbox="971 353 1123 432"><b>2020/21 £M</b></th> <th data-bbox="1123 353 1264 432"><b>2021/22 £M</b></th> <th data-bbox="1264 353 1407 432"><b>2022/23 £M</b></th> </tr> </thead> <tbody> <tr> <td data-bbox="217 432 831 510"><b>Children and Young People get a good start in life</b></td> <td data-bbox="831 432 971 510"></td> <td data-bbox="971 432 1123 510"></td> <td data-bbox="1123 432 1264 510"></td> <td data-bbox="1264 432 1407 510"></td> </tr> <tr> <td data-bbox="217 510 831 544">Reduction in agency spend</td> <td data-bbox="831 510 971 544">0.40</td> <td data-bbox="971 510 1123 544">0.40</td> <td data-bbox="1123 510 1264 544">0.40</td> <td data-bbox="1264 510 1407 544">0.40</td> </tr> <tr> <td data-bbox="217 544 831 584">Looked After Children Services Provision</td> <td data-bbox="831 544 971 584">2.63</td> <td data-bbox="971 544 1123 584">2.63</td> <td data-bbox="1123 544 1264 584">2.63</td> <td data-bbox="1264 544 1407 584">2.63</td> </tr> <tr> <td data-bbox="217 584 831 663">Explore opportunities to integrate QA functions with another council</td> <td data-bbox="831 584 971 663">0.04</td> <td data-bbox="971 584 1123 663">0.04</td> <td data-bbox="1123 584 1264 663">0.04</td> <td data-bbox="1264 584 1407 663">0.04</td> </tr> <tr> <td data-bbox="217 663 831 696">Education Psychology - 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enquiries from corporate SCC accounts	0.16	0.16	0.16	0.16	<b>Total Pressures 2019/20 and Future Years</b>	<b>4.85</b>	<b>4.85</b>	<b>6.85</b>	<b>7.85</b>
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	<b>October 2018 Savings</b>																																																																																															
44.	<p>Table 7 below summarises the savings identified in October 2018 by Outcome. Where relevant, approval was sought to consult on the proposals the result of which is discussed in paragraphs 151 to 155.</p>																																																																																															

**Table 7 – Summary of Savings Identified October 2018**

<b>Outcome</b>	<b>2019/20 £M</b>	<b>2020/21 £M</b>	<b>2021/22 £M</b>	<b>2022/23 £M</b>
Children and Young People get a good start in life	(1.73)	(2.57)	(2.57)	(2.57)
People in Southampton lead safe , healthy, independent lives	(1.33)	(3.09)	(3.09)	(3.09)
Southampton is an attractive and modern city where people are proud to live and work.	(0.26)	(0.31)	(0.36)	(0.36)
Southampton is a City with Strong, Sustainable, Economic Growth	(1.24)	(1.74)	(1.94)	(1.94)
A Modern Sustainable Council	(1.87)	(2.73)	(2.64)	(2.64)
<b>Total Savings 2019/20 and Future Years</b>	<b>(6.44)</b>	<b>(10.45)</b>	<b>(10.60)</b>	<b>(10.60)</b>

45. Full details of each of these pressures and savings can be found in the October 2018 Medium Term Financial Strategy Report. This can be viewed by following the link below, Agenda Item 10. These are also detailed in Appendix 1 within the Outcome Financial Appendices.

[Cabinet Report October 2018](#)

### **Funding Adjustments**

46. A review was undertaken of central resources and available non-recurrent funding which could be released to mitigate the above net pressures. This included:

- The utilisation of £2.5M additional business rates generated as a result of the 2018/19 Business Rate Retention Pool Pilot;
- A review of Business Rates and Council Tax Growth;
- £3.3M of Collection Fund surplus reported at the end of 2017/18 which is available to support the 2019/20 position;
- A council tax increase of 2.99%; and
- A review of direct revenue contributions to capital has identified that £1.44M can be released to support the revenue position.

### **MTFS Adjustments**

47. **Reduction in Centrally Held Allocations**  
Held centrally are a number of allocations for inflation, increments, pension changes, redundancy and interest rate rises. This have been reviewed and due to staffing restructures, the low level of inflation and interest over the past year some of this allocation has been released.

### **Provisional Local Government Finance Settlement**

48. The Provisional Local Government Finance Settlement (PLGFS) for 2019/20 was published on the 13<sup>th</sup> December 2018.

49. This settlement marks the final year of the 4 year settlement that was accepted by Southampton City Council (SCC) along with 97% of local authorities. The main points that impact on the Council were:

- Consultation documents have been published on the next stage of the implementation of further business rates retention and the Fair Funding review, for

	<p>implementation in April 2020. This takes into account the outcome of the consultation on relative needs which took place in early 2018. The deadline for consultation responses is the 21<sup>st</sup> February 2019;</p> <ul style="list-style-type: none"> <li>• Southampton has been accepted as a 75% business rate retention pilot in a pooling arrangement with Portsmouth and the Isle of Wight (The Solent Region Pool), alongside 14 other new pilots;</li> <li>• £180M of business rates levies surplus will be distributed to authorities on a needs basis - payment will be made in 2018/19 (£0.84M for SCC);</li> <li>• Social Care funding announced in the Autumn Budget 2018 was confirmed;</li> <li>• There has been no change in the New Homes Bonus baseline growth position of 0.4% in the 2019/20 settlement;</li> <li>• LGFS 2018 announced that a Green Paper on future challenges in Adult Social Care would be published in the summer of 2018. The paper is still awaited and is expected to be published before the end of 2018/19;</li> <li>• The Council Tax referendum limit has been set at 3% for 2019/20 (the same as the limit for 2018/19); and</li> <li>• A £24 Council Tax flexibility has been afforded to the Police and Crime Commissioner.</li> </ul>																																																																						
50.	The full details of all changes notified within the PLGFS are detailed within the MTFs in Appendix 2.																																																																						
51.	The final Local Government Finance Settlement was published on 29 <sup>th</sup> January 2019 with no changes to the provisional settlement impacting on the Council.																																																																						
	<b>FURTHER CHANGES</b>																																																																						
52.	Table 8 below details further changes since the position reported to Cabinet in October 2018, including the impact of the Provisional Local Government Financial Settlement.																																																																						
53.	<p><b><u>Table 8 – Further Changes</u></b></p> <table border="1"> <thead> <tr> <th><b>February Budget Report 2019</b></th> <th><b>2019/20 £M</b></th> <th><b>2020/21 £M</b></th> <th><b>2021/22 £M</b></th> <th><b>2022/23 £M</b></th> </tr> </thead> <tbody> <tr> <td><b>Budget Gap October 2018</b></td> <td>0.00</td> <td>4.60</td> <td>3.95</td> <td>4.71</td> </tr> <tr> <td>Additional pressures</td> <td>6.70</td> <td>6.80</td> <td>6.80</td> <td>6.80</td> </tr> <tr> <td>Removal of Savings post consultation</td> <td>0.09</td> <td>0.55</td> <td>0.55</td> <td>0.55</td> </tr> <tr> <td>Executive Commitments</td> <td>0.03</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td>Social Care Demand Reserve</td> <td>1.00</td> <td>1.00</td> <td>1.00</td> <td>0.00</td> </tr> <tr> <td>Changes in Growth Assumptions</td> <td>(0.24)</td> <td>0.19</td> <td>0.32</td> <td>(1.70)</td> </tr> <tr> <td>Business Rates Additional Surplus from BRR Pilot</td> <td>(0.78)</td> <td>(2.00)</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td>Potential Additional Savings</td> <td>(0.33)</td> <td>(0.33)</td> <td>(0.33)</td> <td>(0.33)</td> </tr> <tr> <td>Treasury Management</td> <td>(1.36)</td> <td>(1.19)</td> <td>(1.32)</td> <td>0.00</td> </tr> <tr> <td>Changes in Other Central Grant Funding</td> <td>(4.07)</td> <td>(0.60)</td> <td>(0.55)</td> <td>0.09</td> </tr> <tr> <td>Changes in Central Funding</td> <td>(0.46)</td> <td>0.44</td> <td>1.41</td> <td>1.49</td> </tr> <tr> <td>Surplus carried forward from 18/19</td> <td>(0.58)</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td><b>Amended Budget Gap February 2019</b></td> <td><b>0.00</b></td> <td><b>9.46</b></td> <td><b>11.83</b></td> <td><b>11.60</b></td> </tr> </tbody> </table>	<b>February Budget Report 2019</b>	<b>2019/20 £M</b>	<b>2020/21 £M</b>	<b>2021/22 £M</b>	<b>2022/23 £M</b>	<b>Budget Gap October 2018</b>	0.00	4.60	3.95	4.71	Additional pressures	6.70	6.80	6.80	6.80	Removal of Savings post consultation	0.09	0.55	0.55	0.55	Executive Commitments	0.03	0.00	0.00	0.00	Social Care Demand Reserve	1.00	1.00	1.00	0.00	Changes in Growth Assumptions	(0.24)	0.19	0.32	(1.70)	Business Rates Additional Surplus from BRR Pilot	(0.78)	(2.00)	0.00	0.00	Potential Additional Savings	(0.33)	(0.33)	(0.33)	(0.33)	Treasury Management	(1.36)	(1.19)	(1.32)	0.00	Changes in Other Central Grant Funding	(4.07)	(0.60)	(0.55)	0.09	Changes in Central Funding	(0.46)	0.44	1.41	1.49	Surplus carried forward from 18/19	(0.58)	0.00	0.00	0.00	<b>Amended Budget Gap February 2019</b>	<b>0.00</b>	<b>9.46</b>	<b>11.83</b>	<b>11.60</b>
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55.	<p>Since the October 2018 report was published there have been further changes to the position identified. These are set out below.</p> <p><u>Safe, Healthy &amp; Independent Lives - £6.60M</u></p> <ul style="list-style-type: none"> <li>• <u>Additional non achieved savings £6.40M</u> Savings unachieved due to increasing demand in relation to client care which has been reflected in an increase in average costs per client. This includes £0.1M pressure relating to the annual running costs of the residential care homes in relation to cover required for sickness, annual leave and training.</li> <li>• <u>Benefits Advice &amp; Support - £0.08M (2019/20 &amp; 2020/21)</u> Further investment is required in providing benefits advice and support for targeted tribunal work with those affected by WR on disability benefits, and additional support for claimants with complex cases/claims who need support early in the claim process to reduce the risk of having to go to appeal.</li> <li>• <u>Domestic Violence Service - £0.12M recurring.</u> In order to meet the current demand on the service it is necessary to increase the team by 3 FTE. The service provides support to victims at crisis point providing intensive advocacy and support for a short time to reduce serious risk of harm. The increase in demand has also been mirrored in the voluntary sector with all service providers being under significant pressure to meet the current levels of demand.</li> </ul> <p><u>Strong Economic Growth £0.10M</u></p> <ul style="list-style-type: none"> <li>• Following a Court of Appeal ruling that cash machines should not be assessed separately for business rates in supermarkets, it is expected that there will be a fall in business rates income once these appeals have been settled. This is estimated to impact the Council by £0.10M per annum.</li> </ul>
<b><u>Removal of Savings Post Consultation</u></b>	
56.	<p>In response to the consultation feedback, and further member considerations, Cabinet have revised the draft proposals considered by Cabinet in October 2018. The main changes are:</p> <ul style="list-style-type: none"> <li>• An amendment to the proposed saving to close residential care homes. Following consultation feedback and further consideration by officers and members, the proposal in principle is to close Glen Lee and make more efficient use of Holcroft House. This reduces the saving by £0.41M. This is further detailed in Document in Members Room 4.</li> <li>• Two elements of the Adult Social Care Charging Policy proposals will not be implemented i.e. an annual fee to administer a Deferred Payment Agreement will not be levied; and the proposal to remove the exemptions given to previous clients of the Locally Based Hospital Units (LBHU) for non-residential care charges will not be implemented. Further detail is included in Document in Members Room 5.</li> </ul>
<b><u>Additional Savings</u></b>	

57.	<p>Further savings have been identified totalling £0.33M and relate to a number of small business as usual savings. These have now been included in the relevant outcome financial appendices as detailed in Appendix 1. These are further summarised in Table 9 below. It should be noted that these savings do not impact on staffing and do not require further consultation. Implementation costs will be funded by existing resources where possible or from a contribution from the MTFS reserve.</p> <p><u>Table 9 – Summary of Additional Savings</u></p> <table border="1" data-bbox="215 470 1332 795"> <thead> <tr> <th data-bbox="215 470 790 593"><b>Outcome</b></th> <th data-bbox="790 470 925 593"><b>Sum of 2019/20 £M</b></th> <th data-bbox="925 470 1061 593"><b>Sum of 2020/21 £M</b></th> <th data-bbox="1061 470 1197 593"><b>Sum of 2021/22 £M</b></th> <th data-bbox="1197 470 1332 593"><b>Sum of 2022/23 £M</b></th> </tr> </thead> <tbody> <tr> <td data-bbox="215 593 790 627">A Modern Sustainable Council</td> <td data-bbox="790 593 925 627">0.20</td> <td data-bbox="925 593 1061 627">0.20</td> <td data-bbox="1061 593 1197 627">0.20</td> <td data-bbox="1197 593 1332 627">0.20</td> </tr> <tr> <td data-bbox="215 627 790 694">Southampton is a City with Strong, Sustainable, Economic Growth</td> <td data-bbox="790 627 925 694">0.04</td> <td data-bbox="925 627 1061 694">0.04</td> <td data-bbox="1061 627 1197 694">0.04</td> <td data-bbox="1197 627 1332 694">0.04</td> </tr> <tr> <td data-bbox="215 694 790 761">People in Southampton lead safe, healthy, independent lives</td> <td data-bbox="790 694 925 761">0.09</td> <td data-bbox="925 694 1061 761">0.09</td> <td data-bbox="1061 694 1197 761">0.09</td> <td data-bbox="1197 694 1332 761">0.09</td> </tr> <tr> <td data-bbox="215 761 790 795"><b>Grand Total</b></td> <td data-bbox="790 761 925 795"><b>0.33</b></td> <td data-bbox="925 761 1061 795"><b>0.33</b></td> <td data-bbox="1061 761 1197 795"><b>0.33</b></td> <td data-bbox="1197 761 1332 795"><b>0.33</b></td> </tr> </tbody> </table>	<b>Outcome</b>	<b>Sum of 2019/20 £M</b>	<b>Sum of 2020/21 £M</b>	<b>Sum of 2021/22 £M</b>	<b>Sum of 2022/23 £M</b>	A Modern Sustainable Council	0.20	0.20	0.20	0.20	Southampton is a City with Strong, Sustainable, Economic Growth	0.04	0.04	0.04	0.04	People in Southampton lead safe, healthy, independent lives	0.09	0.09	0.09	0.09	<b>Grand Total</b>	<b>0.33</b>	<b>0.33</b>	<b>0.33</b>	<b>0.33</b>
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<b><u>Central Funding Adjustments</u></b>																										
58.	<p><u>Business Rates</u></p> <p>As a result of the Solent Region Business Rate Pilot, SCC will not receive RSG of £10.79M in 2019/20 as this is offset by the increased retention of Business Rates. In addition to this the council has received additional section 31 grants to compensate for the Government’s announcement for reliefs to the High Street.</p>																									
59.	<p><u>Collection Fund – Growth Business Rates &amp; Council Tax</u></p> <p>A further review has also been undertaken to assess the expected growth in Business Rates and Council Tax and a further adjustment has been included to reflect the expected profiling of growth in the City and the impact over the medium term.</p>																									
60.	<p><u>New Homes Bonus</u></p> <p>The forecast for New Homes Bonus in future years has been reduced to reflect the level of growth achieved in 2018/19, which was 0.86% compared to the previous forecast of 0.96%. Therefore, the forecast for future years has been reduced to reflect the actual level of growth achieved in 2018/19 and also assumes that the Government continues to apply a 0.4% baseline below which growth will not be rewarded.</p>																									
61.	<p><u>Central Grants</u></p> <p>Additional grants have now been notified for 2019/20 that were not expected to continue. Council Tax Support Administration Grant will be higher by £0.12M in 2019/20; Housing Benefit Admin Support Grant (£0.86M) has been notified, and with the announced delay in the full roll out of Universal Credit, further grant assumptions have now been built over the term of the MTFS. This have been offset by removing other minor grants for which no notification has been received and no grant has actually been notified or received in 2018/19.</p> <p>Further additional social care grant monies have been announced of £3.0M (including £1.10M for Winter Pressures) which have been built into the position for 2019/20.</p>																									
62.	<p><u>Treasury Management</u></p> <p>A review of capital funding for the capital programme and likely debt management costs in 2019/20 has been undertaken allowing the release of £0.58M. This has been achieved</p>																									

	mainly as a result of slippage on the capital programme, and the identification of other funding sources allowing the reduction in the council's anticipated borrowing requirement.
	<b><u>Other Changes</u></b>
63.	<p><b><u>Business Rates Retention</u></b></p> <p>£2.5M additional business rates were assumed in setting the 2019/20 budget in February 2018 as the result of the successful application for a Solent Authority 100% Business Rate Pilot. It is now expected to be a £3.28M, with the additional £0.78M now being shown in the MTFS.</p> <p>A further £2.0M is expected in 2020/21, as a result of the successful application to continue the Solent Authority Business Rate Pool Pilot at 75% in 2020/21.</p>
64.	<p><b><u>2018/19 Surplus</u></b></p> <p>As detailed in paragraph 31 to 38, there is an anticipated £0.58M overall underspend against the budget in 2018/19. This surplus will be carried forward to support the closing of the 2019/20 budget gap.</p>
65.	<p><b><u>Social Care Demand Reserve</u></b></p> <p>It is proposed to create a reserve to manage the fluctuations specifically in relation to Social Care demand. The aim of the reserve is to meet the cost of demand compared to an 'average' year funding requirements rather than rebaselining the social care budget each year based on demand assumptions at that time. This is in effect a 'smoothing' mechanism to help deal with peaks in demand. £1.0M a year will be added from 2019/20 funded from releasing central inflation funding.</p>
	<b><u>Executive Commitments</u></b>
66.	<p><b><u>People in Southampton live safe, healthy, independent lives</u></b></p> <p><b><u>Green City Charter - £0.03M</u></b></p> <p>The council is proposing to develop a new citywide Green City Charter which will seek to deliver actions that will reduce pollution and waste, minimise the impact of climate change, stop health inequalities and create a more sustainable approach to economic growth. The Green City charter will identify a clear set of objectives that are aligned with national priorities. As well as setting a set of commitments and actions for the Council to deliver, it will seek support from partners across the city to do the same. A sum of £0.03M has been identified to develop a work plan involving both internal and external engagement to develop the proposal further, ensure priorities reflect the city's needs and establish a set of ambitious targets and a delivery plan for the Council. The Green City Charter and the council's action plan will be presented to Cabinet in spring 2019.</p>
	<b>THE COLLECTION FUND</b>

67.	<p>The income from council tax and non-domestic rates is reflected initially in the Collection Fund Account, which is a statutory account that records the collection and distribution of taxation.</p> <p>Utilising the Key Assumptions within the MTFs, the forecast position for Southampton City council for the collection fund is shown in Table 10.</p> <p><b><u>Table 10 – Collection Fund</u></b></p> <table border="1" data-bbox="215 488 1492 739"> <thead> <tr> <th></th> <th>2018/19 £M</th> <th>2019/20 £M</th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> </tr> </thead> <tbody> <tr> <td>Council Tax – General Precept</td> <td>88.94</td> <td>92.71</td> <td>95.12</td> <td>97.22</td> <td>99.06</td> </tr> <tr> <td>Council Tax – Adult Social Care Precept</td> <td>6.99</td> <td>7.04</td> <td>7.04</td> <td>7.04</td> <td>7.04</td> </tr> <tr> <td>Business Rates</td> <td>99.21</td> <td>78.06</td> <td>55.90</td> <td>58.27</td> <td>59.36</td> </tr> </tbody> </table>		2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	Council Tax – General Precept	88.94	92.71	95.12	97.22	99.06	Council Tax – Adult Social Care Precept	6.99	7.04	7.04	7.04	7.04	Business Rates	99.21	78.06	55.90	58.27	59.36
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<b><u>Council Tax</u></b>																									
68.	<p>The Executive are recommending an increase in council tax for 2019/20 of 2.99%, with regard to the general power to increase council tax prior to referendum. £99.75M is the level of council tax required to provide a balanced budget for 2019/20. This is then divided by the council tax base set by the S151 Officer, following consultation with the Cabinet Member for Finance and Customer Experience, to give the basic amount of council tax for a Band D equivalent of £1,535.52. This is the equivalent of an increase of £0.86 per week. The full calculation is set out in Appendix 3. This does not include amounts from other precepting authorities.</p>																								
69.	<p>The estimates of the payments from the collection fund in the form of precepts for 2019/20 are set out in Appendix 4. This also details the increase in council tax by property band for 2019/20. This includes preliminary figures for the Police &amp; Crime Commissioner (PCC) and the Fire Authority. The LGFS allows for an increase up to £24 for PCC and this has been proposed giving an increase of 14.39% on their precept. The Fire Authority have proposed an increase of 2.99% on their precept. Whilst these are the proposed increases these are subject to formal approval.</p>																								
70.	<p>The figures for both the PCC and the Fire Authority may not be approved until after 20<sup>th</sup> February 2019 and therefore this report requests a delegation of authority to the S151 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.</p>																								
71.	<p>The Council Tax base for 2019/20 has been set at 64,959 properties using delegated powers granted by full council on 17<sup>th</sup> January 2007. This reflects the expected growth in the tax base and any adjustments for the Council Tax Reduction Scheme.</p>																								
<b><u>Council Tax – Empty Homes Premium</u></b>																									
72.	<p>From April 2019 Councils are being given powers to charge greater Council Tax premiums on homes left empty for over two years.</p> <p>To help reduce the number of long-term empty properties further, the Chancellor confirmed at the Autumn Budget 2017 that the Government would double the cap on the empty homes premium.</p> <p>In July 2018 the government announced further changes introducing an amendment that would allow councils to increase the council tax on homes left empty;</p>																								

	<ul style="list-style-type: none"> <li>• 1<sup>st</sup> April 2019 100% for properties that have been empty for less than 5 years (after the qualifying period of 2 years);</li> <li>• 1<sup>st</sup> April 2020 200% for properties that have been empty for 5 years or more but less than 10 years; and</li> <li>• 1<sup>st</sup> April 2021 300% for properties that have been empty for 10 years or more.</li> </ul> <p>Decisions on whether to charge a premium, and the exact rates to be charged will remain a matter for councils, taking local circumstances into account.</p>
73.	By raising the premium from 50% to 100% in 2019/20 an additional £0.11M could be raised based on the current year known properties. In 2020/21 this could potentially double if the maximum percentage increases were adopted.
74.	It is proposed that Council approve this change in respect of the Empty Property Premium. It should be noted that formal consultation on this change is not required.
75.	At the current time the financial implications from the change in this policy have not been included in the MTFs. If adopted, these will be included in future updates of the MTFs for 2019/20 and future years.
	<b><u>Business Rates</u></b>
76.	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.
77.	The non-domestic rates (NDR) estimate for 2019/20 has now been completed and the statutory notification return (NNDR1 Form) has 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 Budget Statement 2018 changes (funded by Section 31 Grant) the council's net rates payable for 2019/20 is £118.44M.
78.	After allowing for estimated losses in collection of £2.37M and estimated repayments in respect of the 2018/19 Rates of £5.57M giving a collectable rates figure of £110.51M.
79.	This is further adjusted to exclude Transitional Arrangements additional income of £1.42M, all payable to central government, and £0.31M costs of collection giving non domestic rating income of £108.78M.
80.	As detailed in paragraphs 19 to 21, SCC is part of the Solent Region Business Rates Pool and 75% Business Rates Retention Pilot for 2019/20. Any pilot has to be fiscally neutral to the government therefore the council foregoes Revenue Support Grant £10.79M and becomes a tariff authority rather than receiving a top up grant (£4.55M). The tariff will be £10.12M for 2019/20.
81.	In addition to income received from the collection of Business Rates, the council will receive grants under Section 31. Under the pilot scheme in 2019/20 these amount to £6.15M.
82.	It should be noted that as a result of retaining 75% of the business rates, the pool will receive half of the share of growth in rates that would have been paid over to central government. The mechanism for allocating this growth between the pool members is currently being finalised and will be approved by the Leaders of the three councils as part of the governance framework.



83.	It is estimated that SCC's share of this growth will initially be in the region of £2.0M. The amount will be finalised during 2019/20.		
84.	The overall level of income for business rates for 2019/20 for SCC is expected to be £78.06M to support the revenue position.		
	<b>PUBLIC HEALTH GRANT</b>		
85.	The Public Health Grant, which was introduced in April 2013, will continue to be a ring-fenced grant to local authorities into 2019/20. The final allocation of Public Health Grant for 2019/20 is £16.45M. The Public Health Grant has already seen year on year reductions from 2015/16 and will continue to reduce as outlined in Table 11 below.		
86.	<u>Table 11 Public Health Grant Reductions</u>		
		<b>2018/19</b>	<b>2019/20</b>
	Public Health Grant	£16.90M	£16.45M
	Percentage reduction in total grant from 2015/16 baseline	2.57%	2.64%
87.	The council is committed to identifying savings from within the total Public Health Programme, comprising the delivery of internal and external services, in order to achieve the level of savings required.		
88.	The grant reduction in 2019/20 is £0.45M, as well as inflation and pay awards needing to be contained within expenditure. There is an expectation that this funding may be removed completely as part of the Business Rates Retention scheme.		
	<u>National Health Service (NHS) Long Term Plan – Impact on Public Health Funding</u>		
89.	In 2018, the government announced £20.5bn of additional funding for the NHS in England by 2023/24. The NHS long term plan sets out priorities for how this money will be spent over the next ten years.		
90.	The plan indicates that the NHS and central government will look at funding key public health services from the NHS budget.		
91.	It will consider whether there is a stronger role for the NHS in commissioning sexual health services, health visitors, and school nurses, and as a result how best to commission those services in the future. These services are currently funded from the local authority public health budget. The new budget for 2020/21 onwards is due to be announced in the spring spending review. Any changes in the Public Health Grant funding assumptions will be included in future updates of the MTFS.		
	<b><u>RESERVES AND BALANCES</u></b>		
92.	To ensure proposals are considered in a full financial picture, it is important to set out the expected position on earmarked reserves and the General Fund Balance.		
	<u>Earmarked Reserves</u>		
93.	The council has a number of earmarked reserves that have been set aside for specific reasons. These reserves can be split into two categories: <ul style="list-style-type: none"> <li>a. Those required to be kept by statute or accounting guidance e.g. revenue grants reserve, School Balances. These reserves can only be utilised for the purpose for which they have been set aside.</li> </ul>		

	b. Those set aside for a future event that has a high probability of occurring, e.g. Transformation Reserve.																		
94.	The financial risks facing the council in the medium term are assessed within the MTFs. This includes assessing the risk of continuing reductions in Central Government Funding and the subsequent budget shortfalls that the council would then face and the overall local and national economic factors which can affect the financial stability of the council.																		
95.	In light of the increasing level of risk and uncertainty identified within the MTFs and the increased probability of resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. In closing the accounts for 2017/18 a view has been taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk resulting in the rationalisation of reserves and provisions where possible and in some cases additional funding being set aside.																		
	<u>General Fund Balance</u>																		
96.	The General Fund Balance is forecast to be £10.0M at the end of 2018/19. The required level of balance is determined by assessing the level of risk the council faces. This is still currently assessed at £10.0M.																		
97.	Obviously when the council is facing significant cuts in funding, increasing demand alongside a major transformation programme the level of risk is heightened. The assessed minimum balance has been reviewed again for the MTFs update, taking into consideration both risk and affordability.																		
98.	It should be noted that the average general fund balance for a Unitary is £9M, with Portsmouth City Council, a comparator authority, holding a general fund balance of £24.1M (including £3.5M Schools Balances) as at 31 <sup>st</sup> March 2018.																		
	<b>SCHOOLS UPDATE</b>																		
99.	At 31 <sup>st</sup> December 2018 there were 15 schools reporting a deficit balance as shown in table 12 below. <u>Table 12 Schools in Deficit</u>																		
	<table border="1"> <thead> <tr> <th></th> <th>Deficit £M</th> <th>No. of Schools</th> </tr> </thead> <tbody> <tr> <td>Nursery</td> <td>0.24</td> <td>1</td> </tr> <tr> <td>Primary</td> <td>1.41</td> <td>7</td> </tr> <tr> <td>Secondary</td> <td>1.97</td> <td>5</td> </tr> <tr> <td>Special</td> <td>0.68</td> <td>2</td> </tr> <tr> <td><b>Total</b></td> <td><b>4.30</b></td> <td><b>15</b></td> </tr> </tbody> </table>		Deficit £M	No. of Schools	Nursery	0.24	1	Primary	1.41	7	Secondary	1.97	5	Special	0.68	2	<b>Total</b>	<b>4.30</b>	<b>15</b>
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	These schools are working with Children's & Families to agree Deficit Recovery Plans (DRP). Provision for additional resources has been identified within earmarked reserves to fund a school improvement officer and additional finance support to work closely with these schools and to monitor achievement of actions during 2019/20.																		
100.	As previously reported there is a significant pressure within the High Needs Budget, and a number of options have been previously approved, including a one off contribution from General Fund Reserves, to facilitate a workable solution.																		
101.	The pressure in 2018/19 (and assumed for 2019/20) is £2.41M. However, in recognition that there is a national high needs funding issue, the Government have allocated additional DSG																		

	<p>monies in 2018/19. SCC will receive an additional £1.1M, which is the maximum available and will continue to receive the maximum increases in future years (expected to be £0.9M in 2019/20).</p> <p>At the Schools Forum in January 2018, agreement was reached to 'top slice' 0.5% of the Schools Block DSG to help meet the high needs pressure funding a further £0.7M.</p> <p>In December 2018 a further allocation of High Needs Funding was announced with SCC receiving ££0.53M. Table 13 below shows the overall forecast pressure for 2018/19 and 2019/20.</p>																		
102.	<p><u>Table 13 – High Needs Funding Pressure</u></p> <table border="1"> <thead> <tr> <th><b>High Needs Pressures</b></th> <th><b>2018/19 £M</b></th> <th><b>2019/20 £M</b></th> </tr> </thead> <tbody> <tr> <td>Total Estimated Pressure 2018/19</td> <td>2.41</td> <td>2.41</td> </tr> <tr> <td>Increase in High Needs Allocation</td> <td>(1.09)</td> <td>(0.90)</td> </tr> <tr> <td>0.5% transfer of DSG from Schools Block</td> <td>(0.70)</td> <td>(0.70)</td> </tr> <tr> <td><b>Additional SEN funding Announcement</b></td> <td>(0.53)</td> <td>(0.53)</td> </tr> <tr> <td><b>Adjusted Pressure</b></td> <td><b>0.09</b></td> <td><b>0.28</b></td> </tr> </tbody> </table>	<b>High Needs Pressures</b>	<b>2018/19 £M</b>	<b>2019/20 £M</b>	Total Estimated Pressure 2018/19	2.41	2.41	Increase in High Needs Allocation	(1.09)	(0.90)	0.5% transfer of DSG from Schools Block	(0.70)	(0.70)	<b>Additional SEN funding Announcement</b>	(0.53)	(0.53)	<b>Adjusted Pressure</b>	<b>0.09</b>	<b>0.28</b>
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103.	At this stage this results in a deficit position in 2018/19 of £0.09M increasing to £0.28M in 2019/20. A review is to be undertaken of the entire Education Service provided by the Council to identify options to the meet the remaining funding gap.																		
104.	It has been assumed that the above noted pressures will need to be accommodated within the Dedicated Schools Grant (DSG).																		
	<b>HOUSING REVENUE ACCOUNT (HRA)</b>																		
105.	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 approximately 16,000 homes for Southampton tenants and their families and to over 1,900 homes for leaseholders. This includes housing management, repairs and improvements, welfare advice, supported housing services, neighbourhood wardens, and capital spending on council properties.																		
106.	<b><u>2018/19 Forecast Position</u></b>																		
107.	The income and expenditure budgets for the HRA were approved by council in February 2018 as shown in Table 14 below.																		
108.	The year-end forecast position for 2018/19 shows an adverse forecast variance of £0.97M compared to this budget.																		

Table 14 – HRA Forecast Outturn Position 2018/19

	2018/19 Budget	Quarter 3 Forecast	Variance
	£M	£M	£M
Net rent income	(69.63)	(68.73)	0.90 A
Service charges & other income	(2.82)	(2.87)	0.05 F
Misc. Adjustments	0.00	0.00	0.00
RTB admin	(0.13)	(0.13)	0.00
<b>Total income</b>	<b>(72.58)</b>	<b>(71.73)</b>	<b>0.85 A</b>
Management	21.57	21.88	0.31 A
Depreciation	19.53	19.53	0.00
Responsive & Cyclical repairs	14.79	16.25	1.47 A
Other revenue spend	0.10	0.10	0.00
HRA cost of rent rebates	0.00	0.00	0.00
<b>Total service expenses</b>	<b>55.98</b>	<b>57.76</b>	<b>1.78 A</b>
Capital charges	6.17	6.17	0.00
Repayment of loans	5.96	5.50	0.46 F
Revenue contribution to capital	4.47	3.27	1.20 F
<b>Total expenditure</b>	<b>72.58</b>	<b>72.70</b>	<b>0.12 A</b>
<b>(Surplus) / Deficit for the year</b>	<b>0.00</b>	<b>0.97</b>	<b>0.97 A</b>

109. The variance of £0.97M is due to:
- a delay in the implementation of the new materials contract, initially due to systems and stock replenishment issues but has been mitigated in part, by savings from vacant posts; retendering on Housing Investment expenditure; and increased income from leasehold properties due to major works.
  - An increase in the provision for bad debts to reflect the increasing rent and service charge arrears as a result of the introduction of Universal Credit.
- Work is ongoing to identify further in-year savings to mitigate the variance, but the current assumption is that an expected underspend on the capital programme will enable £0.97M of reduced revenue contribution to capital in 2018/19.

### **Medium Term Financial Position**

110. This report sets out the HRA revenue budgets for 2019/20 and the 30 year HRA business plan covering the period 2019/20 to 2048/49. The proposed changes to rents and other charges are an integral part of the revenue estimates for 2019/20.
111. Following the Chancellor's announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing have been lifted. This means that the previous Southampton City Council HRA debt cap of £199.60M has been removed, and there is now the emphasis for councils to plan their new build strategy and financing at a local level. The process for identifying priorities and sites for new build developments is now taking place and is expected to form the basis of a new delivery strategy in 2019.
112. The HRA Business Plan supports a number of council strategies, including the Medium Term Financial Strategy, to ensure plans are affordable and budgets are aligned to the

	<p>assumptions detailed in those strategies. The specific HRA Business Plan priorities are summarised below:</p> <ul style="list-style-type: none"> <li>• All HRA debt is sustainable and can be serviced over the life of the Business Plan.</li> <li>• Investment in existing HRA stock can be achieved within the Government's previously set borrowing limit of £199.6M. Borrowing in excess of this limit has been included in the HRA Business Plan for additional stock investment and regeneration.</li> <li>• The capital spending plans include provision to maintain and improve all existing dwellings and based on a Housing stock capital strategy that is in the process of being developed and enhanced.</li> <li>• A provision of £131.0M is set aside for stock replacement over the next 30 years. This provision has been phased between year 4 and year 30 of the Plan. This amount allows for the provision of 15 new dwellings each year.</li> <li>• Currently, large scale new stock provision is not provided for in the Business Plan, any new build development will be subject to a business case and financial appraisal to assess the financial viability of the scheme.</li> </ul> <p>The revenue budget meets the minimum balances of £2.0M per year over the life of the Plan.</p>
113.	<p>The HRA Business Plan has, at points, shown revenue balances that increase above minimum levels within the 30 year period. This has been mitigated to an extent by repayment of loans outstanding across the life of the Business Plan. The surpluses are subject to change annually, and will reflect the annual review of stock investment needs, estimated unit income and expenditure, as well as the prevailing external economic factors of the time.</p>
114.	<p>The impact of the additional remedial works required in the aftermath of the Grenfell Tower disaster has highlighted the requirement for a more detailed longer term capital strategy to be in place, detailing specific works that are due over the forthcoming 5 to 10 years. This will enable decisions to be made that effect residents to be more transparent and for resource planning to be better informed and more efficient.</p> <p>The capital strategy initial plan was taken to Capital Board in November 2018, but a further update will be undertaken in 2019/20, which will then be regularly revised and reported thereafter.</p>
115.	<p>A 30 year HRA Business Plan has been prepared and the summary for the revenue and capital budgets is set out in Appendices 7 and 8. To ensure all council plans are aligned these reflect the key planning assumptions set out in the Medium Term Financial Strategy.</p>
	<p><b>Rent &amp; Service Charge Increases</b></p>
116.	<p>The current charging mechanism for service charges for the HRA does not currently recover all costs that are applicable for a service charge. This means that tenant rent is currently covering some of the costs associated with these areas. Due to this, an element of funding is diverted away from management, maintenance and replacement of stock which has a longer term effect on the delivery of an effective HRA that meets residents and organisation objectives and expectations.</p> <p>Increases in service charges are proposed for 2019/20 for areas that existing service charges have been underfunding. It is proposed that from early 2019 a working group will be set up to analyse all service charge related areas in the HRA and from there a service charge strategy be delivered for later discussion and/or approval. Supported Accommodation and Garages and Parking sites should be included within this process.</p>

117.	In line with the Welfare Reform and Work Act 2016, HRA rents will be reduced by 1%. This is the final year of a four year programme of rent reductions, and the latest advice from MHCLG is that rents will be allowed to increase by up to CPI+1% for the years 2020/21 to 2024/25, and after that by up to CPI.
118.	<p>Approval is sought to increase service charges by the below rates from 1<sup>st</sup> April 2019. The increases are based on moving towards full cost recovery for the various service charge areas. This gives revised service charges as follows:</p> <p><u>General Service Charges</u></p> <ul style="list-style-type: none"> <li>• Digital TV £0.43 (£0.00 increase from 2018/19)</li> <li>• Concierge monitoring £2.18 (£0.94 increase from 2018/19)</li> <li>• Door Entry System £0.22 (New Charge)</li> <li>• Tower Block Warden £5.12 (£0.00 increase from 2018/19)</li> <li>• Walk-Up Block Wardens £0.54 (New Charge)</li> <li>• Emergency Lighting Testing/Repairs £0.27 (New Charge)</li> <li>• Cleaning service in walk-up blocks £0.72 (£0.07 increase from 2018/19)</li> <li>• Garden/Ground Maintenance – Tower &amp; Walk Up Blocks £0.22 (New Charge)</li> </ul> <p><u>Supported Accommodation</u></p> <ul style="list-style-type: none"> <li>• Call Monitoring Charge - £1.29 (£0.00 increase from 2018/19)</li> <li>• Careline Silver - £3.09 (£0.00 increase from 2018/19)</li> <li>• Careline Gold - £4.38 (£0.00 increase from 2018/19)</li> <li>• The above changes have been subject to consultation, details relating to this is contained in a specific Equality and Safety Impact Assessment :  <a href="http://www.southampton.gov.uk/images/esia-shil-4-revising-service-charges-for-tenants_tcm63-403401.pdf">http://www.southampton.gov.uk/images/esia-shil-4-revising-service-charges-for-tenants_tcm63-403401.pdf</a></li> </ul>
	<b>Other Key Assumptions</b>
119.	Rent arrears have continued to rise in the current financial year, 2018/19, linked to the impact of Welfare Reform. Although there is a short term impact on the Business Plan, with bad debt provision temporarily rising by 0.5% over the next 5 years, it is expected that in the longer term, the debt position will stabilise in line with national policies and internal debt collection processes.
	<b>Savings Proposals</b>
120.	As part of the budget setting process, the HRA business plan has reflected the statutory requirement for a 1% reduction in dwelling rent for the financial years 2016/17 to 2019/20. This has resulted in a loss of income of £33M compared to the projected income in the 2015/16 business plan. The Business Plan approved by council in February 2018 included a 2019/20 savings target of £3.15M. Savings proposals meeting this target have been identified and were reported to Cabinet in October 2018. Table 15 below provides an update on the current HRA budget position:

**Table 15 – HRA Budget Position**

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
<b>Budget Gap – February 2018</b>	<b>0.00</b>	<b>3.15</b>	<b>3.42</b>	<b>3.68</b>	<b>3.68</b>
2018/19 Pressures	0.97	0.00	0.00	0.00	0.00
Efficiency Savings	0.00	(0.62)	(0.98)	(0.98)	(0.98)
Reduction in Contribution to Capital Funding	(0.97)	(2.53)	(2.44)	0.00	0.00
<b>Amended Budget Gap – October 2018</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>2.70</b>	<b>2.70</b>

121. Efficiency savings, income generation and service reductions savings have been explored, including reduction and cessation of various corporate subscriptions, as well as potential further service redesign.

122. There has been an increased requirement for capital expenditure in 2019/20 to fund the additional costs of the identified remedial works following the Grenfell Tower disaster. There has also been an additional cost pressure for the capital programme in relation to further regeneration works required for the Townhill Park scheme. These pressures, alongside the additional savings requirement for a Reduction in Contribution to Capital Funding from revenue financing has meant that additional borrowing has been required in 2019/20, as well as a deferral in repayment of loans which have instead been refinanced over a longer period of time. The HRA 30 year Business Plan is still sustainable, and the cost pressures are all expected to be short term occurrences.

123. The above savings proposals have now been finalised and do not require the need for public consultation, although the changes to service charges were part of the budget consultation process.

**HRA Balances**

124. The HRA Business Plan revenue balances enable a longer term repayment of debt to take place. Following recent cost pressures, and the removal of the debt cap leading to ongoing regeneration/new build borrowing of £3.0M per year, debt repayments are still taking place during the life of the Business Plan, but there remains an outstanding debt of £139.7M at the end of the 30 year plan.

A significant risk to the long term plan is that, if property works related inflation was to exceed general inflation over a prolonged period, this could have a significant adverse impact on HRA balances as property costs would begin to exceed rental income. Therefore the forecast financial position is subject to annual review based on the prevailing economic factors and will also reflect the annual review of stock investment needs and estimated unit rates.

The other significant risk is changes in Central Government rental policy in the future. The current programme of rent reductions ceases after the 2019/20 financial year, and it is then followed by a period of 5 years of CPI + 1% inflation, as per current Government policy. Policy thereafter is uncertain, the current assumption is CPI per annum.

125. It will be necessary to regularly undertake sensitivity analysis to assess the impact of external influences such as building inflation and changes to CPI on the business plan so

	that the overall budget position can be maintained to support investment in services and properties to meet the expectations of tenants and our regulatory requirements.
126.	The HRA minimum balance will remain at £2.0M.
	<b><u>STATEMENT OF THE SECTION 151 OFFICER IN ACCORDANCE WITH THE LOCAL GOVERNMENT ACT 2003 – ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES</u></b>
127.	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 Chief Finance Officer (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.
128.	<p>Section 25 of the Local Government Act 2003 (LGA 2003) imposes a duty on the Chief Financial Officer (CFO) to report formally to full council on the following matters:-</p> <ul style="list-style-type: none"> <li>• The robustness of the estimates made for the purpose of the calculations (to set the council tax).</li> <li>• The adequacy of the proposed financial reserves.</li> </ul> <p>The council is required to set a balanced budget each year and a minimum level of revenue balances and reserves must be specified within the budget, and be taken account of when setting the budget requirement.</p>
129.	In setting the budget the council should have regard to the strategic and operational risks it is facing. Some of these risks reflect the current economic climate, the national issues surrounding local authorities and increasing demand for services.
130.	<p>In considering the robustness of estimates the S151 Officer has examined the major assumptions and has carried out some sensitivity analysis to ascertain the potential risk and reasonableness of underlying budget assumptions such as:-</p> <ul style="list-style-type: none"> <li>▪ The reasonableness of provisions for inflationary pressures;</li> <li>▪ The likelihood of interest rate rises;</li> <li>▪ The extent to which known trends and pressures have been provided for;</li> <li>▪ The achievability of change built into the budget;</li> <li>▪ The realism of income targets;</li> <li>▪ Third party provider risks;</li> <li>▪ A review of major risks associated with the budget;</li> <li>▪ The availability of the General Fund Balance to meet cost pressures from unforeseen events; and</li> </ul> <p>The strength of the financial management and reporting arrangements.</p>
131.	In coming to a view the S151 Officer has taken into account the risks, issues and mitigations set out in Appendix 6 – Key Financial Risks.
132.	All these risks have been rated using the council’s risk assessment criteria. Key points from this assessment are detailed in paragraphs 182 to 194.
133.	There has been a sensitivity analysis carried out on the underlying assumptions contained with the MTFs Model, around inflation, interest rates and income estimates.
134.	There has been an assessment of the required General Fund Balance to meet cost pressures of unforeseen events and third party risk.
135.	Detailed estimates have been prepared by each service area based on levels of service required to achieve the outcome plans. In completing this exercise service areas have



	reviewed the risk associated with the individual business plans. Where these risks are seen as significant they have been added to Appendix 6.
136.	As the 2018/19 year has progressed savings proposals have been implemented and further planning and verification of the proposals for 2019/20 has taken place. In some instances this has resulted in a reduced saving all of which have been taken into account in setting the budget and reviewing pressures. However due to the level of savings required and, in some areas, the complexity, there is still a risk to the business, as the budget assumes these will be implemented with sufficient pace. As can be seen by the additional pressures being added back in to the MTFS as the result of non-achieved savings, it is imperative that savings plans are closely monitored and updated as needed to ensure that savings are achieved. These plans will be continuously monitored and reported throughout the coming year, but as a consequence the MTFS Reserve is still seen as key reserve to be maintained.
137.	Significant financial pressures experienced in 2018/19 have, where appropriate, been recognised in preparing the estimates included in this report, as can be seen from table 3 in paragraph 36. It is also proposed that a new earmarked reserve, specifically to address peaks in Social Care Demand, is created to help manage this pressure in future years as detailed in paragraph 65.
138.	The financial management and reporting arrangements have continued to be strengthened in the past twelve months with the continued integration of finance business partnering. Monthly monitoring reports will be made to the Council Management Team (CMT) in a timely fashion. If a forecast overspend has been identified, the Service Director is expected to develop an action plan, detailing the measures to be taken to manage the pressure. It is expected that the requirement for action plans will continue into 2019/20, with an overarching expectation that pressures arising must be accommodated within the overall service budgets.
139.	The most significant pressures impact from Social Care demand. Therefore, demand strategies for both Adult Social Care and Children's Social Care have been developed and are detailed in annexes 3 and 4 of the MTFS in Appendix 2. These demand strategies need to be regularly reviewed as part of the ongoing monitoring process and updated as necessary. These are a key factor in achieving ongoing savings in these service areas.
140.	The setting of a balanced budget is not reliant on the utilisation of the General Fund balance. This gives us the opportunity, given the level of economic uncertainty to maintain the level of the balance without any further contributions giving us the opportunity to review this balance in light of the economic uncertainty faced by the council.
141.	In addition to the budget risks the collection of Council Tax and the generation of business rates are two key risks which need to be closely monitored. An assessment of the anticipated business rates income has been carried out based on the information available and a provision made for appeals. The anticipated growth in business rates and council tax fed into the estimates has broadly been achieved, with relatively minor slippage in business rates. However 2019/20 not only relies on further growth but also introduces a further 75% business rates retention pilot, which makes us more reliant on business rate income increasing the potential risk associated with these estimates, but in the S151 Officer's opinion these have been identified and provided for within the Taxation Reserve, which if resources are available will be strengthened at the end of the financial year.
142.	There are several significant savings proposals in future years that need to be further developed alongside a considerable budget gap to be closed by the end of the MTFS period. It is imperative that early action is taken to identify proposals to close the budget gap and to 'firm up' future years proposals identified in particular £0.90M of efficiencies to be

	achieved through implementation of major projects such as the introduction of an Enterprise Resource Platform.
143.	The MTFS also assumes that significant Better Care Funding will be replaced by alternative central government funding. Clearly this will have a major impact on the MTFS in future years if this funding is removed. This should be clarified in the Comprehensive Spending Review due in 2019.
144.	Overall the risk associated with the General Fund and the Housing Revenue Account budget is still at a high status given the quantum and complexity of savings, however these risks have been identified and mitigations put in place.
145.	Looking forward there are a number of potential risks on the horizon; <ul style="list-style-type: none"> <li>• the end of the Comprehensive Spending Review in 2019/20;</li> <li>• the proposal to implement a revised funding formula;</li> <li>• increase in the frequency of business rates valuations;</li> <li>• the move to 75% Business Rates Retention; and</li> <li>• the implications for Britain leaving the European Union.</li> </ul>
146.	As a result of these potential future risks it is the S151 Officer's opinion that the General Fund Balance should be maintained at £10.0M, and when possible the taxation reserve increased. However following the analysis it is the S151 officer's opinion that the overall level of reserves and balances are adequate if the proposals in this report are approved.
	<b>CIPFA RESILIENCE INDEX</b>
147.	In July 2018 CIPFA developed a proposal to publish an index of resilience of English councils designed to support the local government sector as it faces continued financial challenge.
148.	A first draft of the index was released to finance directors in December 2018. Following the consultation process, and planned development workshops with finance directors during 2019, a final version will be published alongside a new Financial Management Code in the Autumn of 2019.
149.	The resilience index considers: <ul style="list-style-type: none"> <li>• Reserves Depletion Time – i.e. at current usage levels the number of years before reserves have been depleted;</li> <li>• Level of Reserves as a proportion of net revenue expenditure – this is seen to be an indication of how well an authority might be able to deal with a financial shock;</li> <li>• Changes in Reserves – this measures the change in reserves over the previous 3 years;</li> <li>• Council Budget Flexibility – this is linked to interest payments (that tend to be fixed) and social care (demand driven) both of which are difficult to control or reduce and looks at these costs as a proportion of net revenue expenditure. A high ratio may indicate a difficulty in meeting future budget constraints; and</li> <li>• Council Tax to Net Revenue Expenditure Ratio – this looks at the security of income to fund net revenue expenditure.</li> </ul>
150.	The above will in due course link to the Financial Management Code and will be expected to support the section 25 Statement set out in the above paragraphs 127 to 146.
	<b><u>BUDGET CONSULTATION</u></b>
151.	The Council's Cabinet published their draft budget proposals for 2019/20 for public consultation on 16 <sup>th</sup> October 2018. The consultation was designed to run from 17 <sup>th</sup> October

2018 to 2<sup>nd</sup> January 2019 and included proposals relating to the General Revenue Account budget. In addition to a budget consultation which set out all of our proposals, we undertook additional consultations relating to three specific budget proposals. These included:

- Revising the Adult Social Care Charging policy
- Future of two council-owned residential care homes
- Revising service charges for tenants (Housing Revenue Account)

The agreed approach for the public consultation was to use a combination of paper and online questionnaires, along with a range of stakeholder meetings for the specific consultations. The approach taken with the budget questionnaire enables an appropriate amount of explanatory and supporting information to be included in a structured way, helping to ensure that residents are aware of the background and context to each of the proposals. It is therefore considered to be the most suitable methodology for consulting on a complex issue such as the whole draft council budget, where there are a wide range of proposals. The council also wrote to key partners across the city, to make them aware and seek their views.

152. In total 1,287 responses were received by 16<sup>th</sup> January 2019 on the budget proposals for the 2019/21 financial years. The breakdown of this by consultation is shown below:

- Overall budget = 559
- Revising the Adult Social Care Charging policy = 156
- Future of two council-owned residential care homes = 380
- Revising service charges for tenants = 200

The demographic make-up of the respondents is outlined in each of the consultation reports.

There was one petition on the proposals for the future of the care homes, this petition had over 1,500 signatures so triggered a discussion at full council. This discussion took place on 21<sup>st</sup> November 2018. The petition was coordinated by UNISON and had a total of 2,565 signatures to the following: ‘We the undersigned petition the council to abandon its proposals to close the last two council owned residential care homes: Glen Lee and Holcroft House, and place up to 85 loyal care staff at risk of redundancy.’ These documents can be viewed in full in the Members’ Rooms.

153. For the overall budget consultation proposals were grouped into themes and described in separate information sheets, which had a question asking consultees the extent to which they agreed with the group of proposals. The themes were constructed around the council’s priority outcomes. The following table shows the response for each area.

	Count of respondents
<b>Children and Young People get a good start in life: Education and Early Years</b> (Compass School Pupil Referral Unit Funding, Early Intervention Fund, Sugar Tax - Healthy Pupils Fund)	301
<b>Children and Young People get a good start in life: Social Care and Early Help</b> (Review and redesign locality based early help and prevention model, Council run Play Offer, Looked After Children Contact Service)	253
<b>People in Southampton Lead Safe, Healthy, Independent Lives: Adult Social Care and Public Health</b> (Increasing capacity of Shared Lives scheme, Increasing capacity of Urgent Response Service)	200

	<b>People in Southampton Lead Safe, Healthy, Independent Lives: Housing (Reclassify Accommodation from 60+ to 50+ or 55+)</b>	<b>194</b>				
	<b>Strong and Sustainable Economic Growth (Charges for blue badge holders in off street car parks, Itchen Bridge fees for non-residents, Transport Review, Investment Properties)</b>	<b>283</b>				
	<b>Attractive and modern city where people are proud to live and work (Waste collection service efficiencies, Introduction of smart compactor bins)</b>	<b>258</b>				
	<b>Modern Sustainable Council (Major projects, Other service delivery and redesign proposals)</b>	<b>237</b>				
	<b>None of them, I just want to comment on the budget consultation generally</b>	<b>36</b>				
	<p>The group of proposals with the highest level of engagement was “Children and Young People get a good start in life: Education and Early Years”, closely followed by “Strong and Sustainable Economic Growth” the group with the least engagement was “People in Southampton Lead Safe, Healthy, Independent Lives: Housing”.</p>					
	<b>Issues raised in the consultation feedback</b>					
154.	Each of the consultations asked respondents for feedback about any impacts the proposals may have, these impacts are summarised in each of the consultation reports.					
	<b>Summary of consultation feedback</b>					
155.	In total 1,287 stakeholders have engaged with the consultation process and given their views on the budget proposals. The consultation has engaged with a range of individuals through a variety of methods to allow residents and other stakeholders in Southampton to give their views on the budget proposals for 2019/20. The feedback from the consultation with residents and stakeholders has led to Cabinet making the changes outlined in the final budget position.					
	<b><u>STAFFING IMPLICATIONS</u></b>					
156.	The council has on-going financial challenges. As a significant proportion of the council’s expenditure is on employee costs in the context of all outcomes being delivered within reducing envelopes, it is inevitable that the draft proposals will have an impact on staff cost and staff numbers.					
157.	Early indications are that the proposals set out in this report may result in a reduction of up to 87.31 full time equivalent (FTE) posts for the period 2019 – 2023 of which 18.33 FTE posts are currently vacant.					
158.	<b>Outcome</b>	<b>FTE Post Reductions</b>			<b>Current Vacancies</b>	
		<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	
	Children & Young People get a good start in life	47.00 (Children & Families)	To be quantified			8.24
	People in Southampton Lead safe, healthy independent lives	3.00 (Housing)	33.26 (Adults Service)			5.58 (Adults Service)  3.00 (Housing)
	A modern sustainable	1.51	0.80 (Business			1.51

	council	(Business Support) 2 (ICT)	Support)			(Business Support)
	<b>TOTAL</b>	<b>53.51</b>	<b>33.80</b>			<b>18.33</b>
159.	<p>An additional reduction in posts is anticipated in Children and Families for the period 2021 - 2023 with the specific impact to be quantified at that time.</p> <p>The possible post reductions in Adults Services all relate to the proposed closure of Glen Lee care home. Options for the redeployment of the staff affected will be actively pursued within the Adults Service and, in particular, there are likely to be opportunities for care staff to be redeployed to Holcroft House, the Kentish Road respite service and the Urgent Response Service to support service users in their own homes.</p> <p>Opportunities will also be explored with University Hospital Southampton NHS Foundation Trust for affected staff to be considered for NHS vacancies.</p> <p>Wherever possible the reduction in posts will be managed through natural wastage, deleting vacancies and through voluntary options including voluntary redundancy, early and flexible retirement, and voluntary reductions in hours.</p>					
160.	<p><u>Managing the Impact</u></p> <p>The Council has a well-established framework for managing organisational change which has been agreed with the trade unions. The Council will consult with affected staff and trade unions in accordance with our statutory obligations and will carefully consider all options put forward to minimise the impact on staff, and lessen the potential for compulsory redundancies.</p>					
	<b><u>EQUALITY AND SAFETY IMPACT ASSESSMENTS</u></b>					
161.	<p>The Equality Duty is a duty on public bodies which came into force on 5<sup>th</sup> April 2011. The council will have due 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.</p>					
162.	<p>While the Public Sector 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. 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. In addition, the assessments take into account the impact on poverty and health and wellbeing.</p>					
163.	<p>Amended individual Equality and Safety Impact Assessments (ESIAs) have been completed for those proposals contained within this report and as detailed in the report that they identified require such an assessment, as they could have an impact on a particular group or individuals. The final individual ESIAs are available in Members' Rooms.</p>					
164.	<p>The individual ESIAs have been analysed to consider the cumulative impacts the budget proposals may have on particular groups and the mitigating actions that could be considered. In order to give the right perspective to the budget proposals, the Cumulative Impact Assessment has to be considered in light of the available information on the City's profile, service user and non-user information and staffing profiles as well as the proportion of the Council's budget that is currently spent on targeted groups or communities. The cumulative ESIA is available to view in the Members Rooms.</p>					

<b><u>RESOURCE IMPLICATIONS</u></b>	
<b><u>Capital/Revenue</u></b>	
165.	The capital and revenue implications are fully detailed within the report.
<b><u>Property/Other</u></b>	
166.	None
<b><u>LEGAL IMPLICATIONS</u></b>	
167.	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.
168.	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 business-like 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.
169.	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. 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.
170.	The legal significance of the Annual Budget derives from the council's duty under the Local Government Finance Act 1992 (the 1992 Act) to set a balanced budget. Failure to make a lawful Council Tax on or before 11 <sup>th</sup> March 2019 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. 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.
171.	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.
172.	Under Section 114 (2) and 114 (3) of the Local Government Finance Act 1988, 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.
173.	Section 25 of the Local Government Act 2003 imposes a specific duty on the CFO (Section 151 officer) to formally report to council at the time the budget is considered and the council tax is set on the robustness of the budget estimates and the adequacy of financial reserves. This report will be brought forward alongside the Budget and Council Tax Setting Report to full council in February.

174.	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 (FPR's) 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.
175.	Further detailed legal considerations relating to the setting of a lawful budget are set out appendix 5, which Members are directed to have regard to in reaching their decision.
176.	Unless otherwise stated the proposals within this report are authorised by virtue of S.1 Localism Act 2011 or the relevant statutory power relating to the function referred to within the budget proposal. The proposals within this report relating to the Care Homes closures, Adult Social Care Charging Policy and Housing Service Charges are subject to additional legal considerations set out below and in the attached Members Room Document 5.
177.	The Care Homes proposals are set out in detail in Document in Members Room 4 and Members are directed to the legal implications set out in paragraphs 142 – 149 of that document. The proposals are brought forward in accordance with the provisions of the Care Act 2014 and having had regard to the Equality Act 2010 and the Public Sector Equality Duty under s. 149 of that Act.
178.	In relation to the Housing Revenue Account Service charges, the Council can make a charge for services it provides to council tenants in addition to a charge for rent pursuant to the Housing Act 1985 and also in compliance with paragraph 2 of the Council's standard tenancy agreement. The Council is permitted to introduce new charges and vary existing charges so long as it follows the procedure set out in the Housing Act 1985 and complies with the Rent Standard and Guidance produced by Homes England. In particular any service charges must reasonable transparent and are limited to covering the actual cost for providing the services.
179.	<p>The proposals within this report include a change in charging policy for Adult Social Care Charges. The Care Act 2014 imposes various statutory duties on Local Authorities when exercising Adult Social Care functions. S.14 of the Act permits Local Authorities to make a charge, unless specifically exempted, for meeting eligible and non-eligible needs for social care and support and for making a charge for putting in place arrangements for meeting the needs of self-funders.</p> <p>The statutory guidance issued under the Act and The Care and Support (Charging and Assessment of Resources) Regulations 2014 sets out how Local Authorities can make individual charges following financial assessments. Any charges made must be reasonable practicable and affordable for any individual to pay. All charges must be clear and transparent and should apply equally so that those will similar needs or services are treated the same and minimise anomalies between different care settings. Any charges made must be sustainable for Local Authorities in the long-term.</p> <p>The Document in Members' Rooms sets out further commentary on how these duties will be met and need assessed when setting charges going forward in accordance with the Act.</p>
<b><u>Other Legal Implications</u></b>	

180.	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, the proposals contained in this report have been checked from a legal viewpoint.
181.	<p>Local Authorities have a duty under the Human Rights Act 1998, when carrying out any function, not to act incompatibly with rights under the European Convention for the Protection of Fundamental Rights and Freedoms. In particular Article 2 The right to life shall be protected in law, Article 8, the right to respect for private and family life and Article 25 the rights of elderly to lead a life of dignity and independence and to participate in social and cultural life.</p> <p>In reaching a decision on the proposals contained in this report the Council must have regard to the provisions of the Equality Act 2010, in particular s.149, the Public sector equality duty.</p> <p>The duty provides that:</p> <p>(1) A public authority must, in the exercise of its functions, have due regard to the need to—</p> <p>(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;</p> <p>(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;</p> <p>(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.</p> <p>Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to—</p> <p>(a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;</p> <p>(b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;</p> <p>(c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.</p> <p>Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to—</p> <p>(a) tackle prejudice, and</p> <p>(b) promote understanding.</p> <p>The relevant protected characteristics are—</p> <p>age;</p> <p>disability;</p> <p>gender reassignment;</p> <p>pregnancy and maternity;</p> <p>race;</p> <p>religion or belief;</p> <p>sex;</p>



	sexual orientation.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
182.	The council maintains a financial risk register which details the key financial risks that face the council at a given point in time. This is updated on a quarterly basis and forms part of the Corporate Revenue Monitoring Report included elsewhere on this agenda.
183.	<p>Alongside the risks identified when setting the budget for 2019/20 a number of items have arisen since this time that may need to be addressed outside of those assumptions. Currently those main issues are:</p> <ul style="list-style-type: none"> <li>• Southampton's joint bid with Portsmouth and the Isle of Wight to become a pool pilot in 2019/20 for 75% retention of business rates has been accepted by the MHCLG. As a result Southampton will benefit more from business rates growth in the pool area, although there is an increased risk of an overall reduction in funding if business rates fall. Arrangements have been put in place as part of the pool agreement to mitigate this risk;</li> <li>• Potential risk of savings proposals not being achieved and insufficient mitigations found to deal with in year – this is covered by the MTFS reserve; and</li> <li>• High Needs Funding – due to increasing pupil numbers within special schools and the associated cost of Home to School transport, there is likely to be an ongoing financial pressure. In this financial year this pressure will be mitigated using additional DSG and SEN funding that has been announced and additional allocations agreed with the Schools Forum. A review is to be undertaken of the entire Education Service provided by the Council to identify options to meet the remaining funding gap.</li> <li>• Business Rate Growth Rebaselining – will be undertaken as part of Business Rate Retention changes that will result in business rates baselines being realigned. This could impact on future year's levels of business rate income for the council. The council has achieved significant growth in business rates since the last baselining and will potentially result in some of this growth being removed from the baseline. Provision has been made within the Taxation Reserve for loss of business rate income but it is recommended that when closing the accounts for 2018/19 that priority be given to increasing this reserve to provide additional funding to meet this risk.</li> <li>• Funding implications following the new Comprehensive Spending Review. A spending review is due in 2019. Additionally, it is also not known whether this will just be for one year, or for the next 3 to 5 years. The timing and content will depend on Britain's Exit from the European Union. The shorter the spending review period, the more uncertainty there is around funding assumptions.</li> </ul>
184.	The Financial Risk Register is attached as appendix 6.
<b>Potential Impact of Britain's Exit from the EU</b>	
185.	The vote on the deal for Britain's exit from the EU was held on the 15 <sup>th</sup> January 2019 with a further vote on the 29 <sup>th</sup> following an initial rejection of the deal. Further uncertainty surrounds what will happen next.
186.	The MHCLG have been working with Local Authorities to establish protocols for a No Deal Exit should this occur. MHCLG have created a virtual team of 9 LA Chief executives representing the regions to consider issues facing Councils and how to deal with them.

187.	Workshops have been held around the country, with more planned, to develop and understanding of the likely impact on Local Government.
188.	Various reference papers have been released on the Gov.uk website and will be pulled together in one “landing page”.
189.	The council is undertaking its own resilience planning and part of which is the development of a No Deal Risk Log for all services. This will be reviewed and updated as necessary with actions identified to mitigate the impact on the council.
190.	The longer-term risks of Brexit in any form are not yet fully understood, and full analysis cannot be undertaken until Parliament has finalised the national policy position.
191.	<p>A number of short term risks (within 90 days) have been identified that may impact the Council should a ‘no deal’ scenario happen. A separate report will be submitted to Cabinet on the issues and risks of Britain’s withdrawal from the European Union and the mitigations that can be put in place. The risks include:</p> <ul style="list-style-type: none"> <li>• Traffic disruption arising from delays at the Port of Portsmouth and extending along the strategic road network;</li> <li>• Prolonged (rather than severe) congestion in and around Southampton, affecting staff travel and service delivery;</li> <li>• Additional traffic impact of current major highways schemes in Millbrook and Redbridge;</li> <li>• Shortage of vaccines and medicines, and associated health impacts;</li> <li>• New Port Health IT system not being operational;</li> <li>• Impact on HWRCs and recycling banks if there are delays to exporting materials, with increased risk of fly tipping;</li> <li>• Fuel supplies at City Depot;</li> <li>• Rumours of shortages of food, fuel and medicines resulting in panic buying; and</li> <li>• Simultaneous severe weather events.</li> </ul> <p>It is expected that most of these risks for the Southampton area can be mitigated through known methods used during contingencies such as severe weather events.</p>
192.	<p>Longer-term risks of a no deal exit from the European Union in any form for Southampton include the following:</p> <ul style="list-style-type: none"> <li>• The general effects of economic shock, disruption or downturn on Southampton;</li> <li>• Failure of care providers due to economic shock;</li> <li>• Fall in the value of the pound increasing the cost of supplies;</li> <li>• Impact of reduced consumer activity on major businesses such as Port of Southampton and Hammerson;</li> <li>• Impact on Council finances of lower business rates yield;</li> <li>• EU nationals electing not to stay in the UK (NB approximately 60 within the Council and unknown impact on service providers to SCC);</li> <li>• Specific risk of shortage of workers in certain sectors e.g. social care workers and LGV drivers;</li> <li>• Community tensions and political instability/uncertainty; and</li> <li>• Distraction of Government from normal business.</li> </ul> <p>After the initial no-deal period – or following confirmation that no-deal is not happening – a full project will be put in place to manage these longer-term impacts.</p>

193.	<p>It was announced on the 28<sup>th</sup> January 2019 that local authorities across England will receive a share of £56.5M to help support their preparations for leaving the European Union (EU). Councils will receive a share of £20M this financial year (2018/19) and £20M in 2019/20 to spend on planning and strengthening their resources.</p> <p>A further £10M will be available in the 2019/20. This funding is intended to help local authorities with specific costs which may arise following leaving the EU.</p> <p>£1.5M will be allocated in 2018/19 only to local authorities facing immediate impacts from local ports, with the decision on the allocation and distribution of that funding to be announced shortly.</p> <p>A further £5M will be split by teams in the Ministry of Housing, Communities and Local Government, local authorities, and Local Resilience Forums for specific purposes such as strengthening preparations and supporting communities.</p> <p>The funding will help councils to adapt to the changes caused by leaving the EU, ensuring their local authority is prepared ahead of 29<sup>th</sup> March, whilst also protecting vital local services.</p> <p>Councils will decide how to allocate their funding. It is expected that money will be spent on resources like recruiting extra staff to ensure councils have the capacity to provide timely and accurate information to residents.</p>
194.	No funding has been identified as yet to help Council's should a no deal scenario occur.
<b><u>POLICY FRAMEWORK IMPLICATIONS</u></b>	
195.	The Medium Term Financial Strategy and the Budget are key parts of the Policy Framework of the council and a budget and council tax for 2019/20 must be proposed by the Cabinet for consideration by the full council under the Constitution.

<b>KEY DECISION?</b>	<b>No save for Cabinet Recommendation (v)</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	<b>All</b>
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	Outcome Financial Appendices
2.	Medium Term Financial Strategy 2019/20 to 2022/23
3.	2019/20 Council Tax Calculation
4.	2019/20 Council Tax Precept Estimates
5.	Statutory Powers To Undertake Proposals In The Report
6.	Key Financial Risks
7.	HRA 30 Year Business Plan Operating Account
8.	HRA Major Repairs & Improvements Plan

**Documents In Members' Rooms**

1.	Updated ESIA's
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2.	Cumulative Impact Assessment
3.	Overall Budget – Consultation Response
4.	Future of Residential Care Homes – Consultation Response & Further Details
5.	Adults Social Care – Charging Policy – Consultation Response & Further Details
6.	HRA – Service Charges – Consultation Response & Further Details
7.	Revised Adult Social Care Charging Policy
<b>Equality Impact Assessment</b>	
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	
<b>Yes</b>	
<b>Privacy Impact Assessment</b>	
<b>Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.</b>	
<b>No</b>	
<b>Other Background Documents</b>	
<b>Other Background documents available for inspection at:</b>	
<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>
1.	
2.	

# Agenda Item 4

Appendix 1

SOUTHAMPTON IS A CITY WITH STRONG, SUSTAINABLE ECONOMIC GROWTH

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	ESIA Number
<b>Budget As at Feb 2018 budget report</b>	<b>8,996</b>	<b>8,787</b>	<b>8,787</b>	<b>8,787</b>	
<b>Cross Outcome Budget Movements</b>	<b>1,106</b>	<b>322</b>	<b>1,743</b>	<b>1,743</b>	
<b>Allocated Inflationary Pressures</b>					
Contract Inflation 2019/20	258	258	258	258	
<b>2018/19 Pressures and Mitigations</b>					
<b>Property Services</b>					
Property Rationalisation & Disposal Saving	1,518	1,518	1,518	1,518	
<b>Total 2018/19 Pressures and Mitigations</b>	<b>1,518</b>	<b>1,518</b>	<b>1,518</b>	<b>1,518</b>	
<b>2019/20 SAVINGS</b>					
<b>Business As Usual Proposals</b>	<b>(267)</b>	<b>(318)</b>	<b>(368)</b>	<b>(368)</b>	
<b>Income Generation Proposals</b>	<b>(262)</b>	<b>(362)</b>	<b>(412)</b>	<b>(412)</b>	
<b>Service Delivery and Redesign Proposals</b>					
<b>Car Parking</b> Introduce charges for blue badge holders in council owned off street car parks	(75)	(75)	(75)	(75)	SSEG1
Increase Itchen Bridge fees for non-residents and non-smart card users	(510)	(510)	(510)	(510)	SSEG2
<b>Transportation:</b> Increase bus shelter advertising income	(165)	(165)	(165)	(165)	
<b>Transportation:</b> Undertaking a strategic review of the transport the council provides and subsidises across the city.	0	(250)	(250)	(250)	
<b>Investment Properties</b> Increase rental income by disposing of low yielding properties and investing proceeds in properties that generate a higher return	0	(100)	(200)	(200)	
<b>Total Service Delivery &amp; Redesign Proposals</b>	<b>(750)</b>	<b>(1,100)</b>	<b>(1,200)</b>	<b>(1,200)</b>	
<b>Total 2019/20 Savings Proposals</b>	<b>(1,279)</b>	<b>(1,780)</b>	<b>(1,980)</b>	<b>(1,980)</b>	
<b>2019/20 New Pressures</b>					
Cultural Trust	150	150	150	150	
<b>2019/20 Pressures Subtotal</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>150</b>	
<b>Budget Required as at Feb 2019</b>	<b>10,749</b>	<b>9,255</b>	<b>10,475</b>	<b>10,475</b>	
<b>Implementation Costs*</b>					
Cost of implementing change to Itchen Bridge charges	3	0	0	0	
Project Management Resouce for the Review of Property	50	0	0	0	
<b>Total implementation Costs</b>	<b>53</b>	<b>0</b>	<b>0</b>	<b>0</b>	

\*Implementation Costs will be met from within existing resources or from a contribution from the MTFs Reserve.

**CHILDREN AND YOUNG PEOPLE GET A GOOD START IN LIFE**

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	ESIA Number
<b>Budget As at Feb 2018 budget report</b>	<b>37,246</b>	<b>37,246</b>	<b>37,246</b>	<b>37,246</b>	
<b>Cross Outcome Budget Movements</b>	<b>(452.1)</b>	<b>(1,131.6)</b>	<b>(748.0)</b>	<b>(748.0)</b>	
<b>Allocated Inflationary Pressures</b>					
Contract Inflation 2019/20	0.0	0.0	0.0	0.0	
<b><u>2018/19 In year Pressures and Mitigations</u></b>					
<b>Home to School Transport (HTST)</b>	<b>2,057</b>	<b>2,057</b>	<b>2,057</b>	<b>2,057</b>	
Mitigated by:					
Changes to Policy	(300)	(300)	(300)	(300)	
Extension of Autism Resource Base at Bitterne Park Secondary School, increasing capacity to provide specialist places	(252)	(432)	(432)	(432)	
Efficiency Savings from a line by line review of the budget	(810)	(810)	(810)	(810)	
<b>Looked After Children</b>	<b>3,670</b>	<b>3,670</b>	<b>3,670</b>	<b>3,670</b>	
Mitigated by:					
Step Down from Residential Care	(740)	(740)	(740)	(740)	
Step Down from Residential Care	(880)	(880)	(880)	(880)	
Review of the demand profile of looked after children and additional Independent Foster Carer cases stepping down to SCC in house fostering	(1,425)	(1,667)	(1,909)	(2,151)	
Looked After Children reduction due to new focussed locality based model aimed at early intervention with cohesive and targeted multi service to prevent children becoming looked after	(236)	(595)	(953)	(953)	
<b>High Needs - increased forecast care costs</b>	<b>350</b>	<b>350</b>	<b>350</b>	<b>350</b>	
<b>Other Minor pressures and mitigations</b>	<b>70</b>	<b>70</b>	<b>70</b>	<b>70</b>	
<b>2018/19 Pressures less mitigations</b>	<b>1,504</b>	<b>723</b>	<b>123</b>	<b>(119)</b>	
<b><u>2019/20 SAVINGS</u></b>					
<b>Business As Usual Proposals</b>	<b>(317)</b>	<b>(322)</b>	<b>(322)</b>	<b>(322)</b>	
<b><u>Service Delivery and Redesign Proposals</u></b>					
<b>Locality Model:</b> Review and redesign early help and outreach preventative services, to deliver a new focussed locality based model which prevents children becoming looked after by the council.	(193)	(385)	(385)	(385)	CYP1
<b>Sure Start Play Offer:</b> review the council run play offer and seek community and voluntary sector partners to take over the direct running of this service	(223)	(445)	(445)	(445)	CYP2
<b>Looked after children contact service:</b> review the Contact Service which facilitates contact for looked after children with their birth families, with a view to this being delivered by a partner organisation	(150)	(150)	(150)	(150)	CYP3
<b>SEN</b> Reduce the funding provided to Compass School Pupil Referral Unit in line with actual demand.	(580)	(1,000)	(1,000)	(1,000)	CYP4
<b>Early Years</b> Reduce Early Intervention Fund which supports early years and childcare providers to expand or set up new provision	(100)	(100)	(100)	(100)	CYP5
<b>Education</b> Income from Sugar Tax through Healthy Pupils Fund Bid	(170)	(170)	(170)	(170)	
<b>Total Service Delivery &amp; Redesign Savings</b>	<b>(1,416)</b>	<b>(2,250)</b>	<b>(2,250)</b>	<b>(2,250)</b>	

**CHILDREN AND YOUNG PEOPLE GET A GOOD START IN LIFE**

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	ESIA Number
<b>Total 2019/20 Savings Proposals</b>	<b>(1,733)</b>	<b>(2,572)</b>	<b>(2,572)</b>	<b>(2,572)</b>	
<b>2019/20 Pressures</b>					
Pressure due to number of Looked After Children	3,034	3,034	3,034	3,034	
Redesign an integrated Early Help service	196	196	196	196	
Other Minor Pressures	88	88	88	88	
<b>Total 2019/20 New Pressures</b>	<b>3,318</b>	<b>3,318</b>	<b>3,318</b>	<b>3,318</b>	
<b>Budget Required as at Feb 2019</b>	<b>39,883</b>	<b>37,583</b>	<b>37,367</b>	<b>37,125</b>	
<b>Implementation Costs*</b>					
Project Management and Subject Matter Expert required for implementation of savings.	150	150	0	0	
<b>Total Implementation Costs</b>	<b>150</b>	<b>150</b>	<b>0</b>	<b>0</b>	

\*Implementation Costs will be met from within existing resources or from a contribution from the MTFs Reserve.

**PEOPLE IN SOUTHAMPTON LEAD SAFE, HEALTHY, INDEPENDENT LIVES**

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	ESIA Number
<b>Budget As at Feb 2018</b>	<b>46,748</b>	<b>47,528</b>	<b>47,528</b>	<b>47,528</b>	
<b>Cross Outcome Budget Movements</b>	3,063	2,556	2,476	2,476	
<b>Allocated Inflationary Pressures</b>					
Contract Inflation 2019/20	130	130	130	130	
<b><u>2018/19 In year Pressures &amp; Mitigations</u></b>					
<b>Long Term Care High Cost Clients</b>	2,294	2,294	2,294	2,294	
<b>Adult Mental Health Clients</b>	500	500	500	500	
<b>Provider Services Temp Staff at Glenlee and Holcroft</b>	100	0	0	0	
<b>Total 2018/19 Pressures and Mitigations</b>	<b>2,894</b>	<b>2,794</b>	<b>2,794</b>	<b>2,794</b>	
<b>2019/20 SAVINGS</b>					
<b>Business As Usual Proposals</b>	<b>(773)</b>	<b>(823)</b>	<b>(823)</b>	<b>(823)</b>	
<b>Service Delivery and Redesign Proposals</b>					
Increase capacity of Shared Lives scheme, which matches adults who need care with carers in the community	(146)	(246)	(246)	(246)	
Work with partners to increase the amount of people who can be supported by the Urgent Response Service, which provides rehabilitation and reablement for adults in the city, helping to keep them out of hospital	(158)	(158)	(158)	(158)	
Revise the Adult Social Care Charging Policy for non-residential care and support	(250)	(500)	(500)	(500)	SHIL1
Closure of one council owned residential care homes for older people.	0	(917)	(917)	(917)	SHIL2
<b>Total Service Delivery &amp; Redesign Proposals</b>	<b>(554)</b>	<b>(1,821)</b>	<b>(1,821)</b>	<b>(1,821)</b>	
<b>Total 2019/20 Savings Proposals</b>	<b>(1,327)</b>	<b>(2,644)</b>	<b>(2,644)</b>	<b>(2,644)</b>	
<b>2019/20 Pressures</b>					
Kentish Road respite centre remaining open	600	600	600	600	
Demographic Pressures			2,000	3,000	
Unachieved Savings	6,398	6,498	6,498	6,498	
Benefits Advice & Support	80	80	80	80	
Domestic Violence Service	123	123	123	123	
<b>Total 2019/20 New Pressures</b>	<b>7,201</b>	<b>7,301</b>	<b>9,301</b>	<b>10,301</b>	
<b>Budget Required as at Feb 2019</b>	<b>58,709</b>	<b>57,665</b>	<b>59,586</b>	<b>60,586</b>	
<b>Implementation Costs*</b>					
Project Management and Subject Matter Expert required for implementation of savings.	150	150	0	0	
<b>Total Implementation Costs</b>	<b>150</b>	<b>150</b>	<b>0</b>	<b>0</b>	

\*Implementation Costs will be met from within existing resources or from a contribution from the MTFs Reserve.



**PEOPLE IN SOUTHAMPTON LEAD SAFE, HEALTHY, INDEPENDENT LIVES**

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	ESIA Number
<b>Budget As at Feb 2018</b>	<b>46,748</b>	<b>47,528</b>	<b>47,528</b>	<b>47,528</b>	
<b>Cross Outcome Budget Movements</b>	3,063	2,556	2,476	2,476	
<b>Allocated Inflationary Pressures</b>					
Contract Inflation 2019/20	130	130	130	130	
<b>2018/19 In year Pressures &amp; Mitigations</b>					
<b>Long Term Care High Cost Clients</b>	2,294	2,294	2,294	2,294	
<b>Adult Mental Health Clients</b>	500	500	500	500	
<b>Provider Services Temp Staff at Glenlee and Holcroft</b>	100	0	0	0	
<b>Total 2018/19 Pressures and Mitigations</b>	<b>2,894</b>	<b>2,794</b>	<b>2,794</b>	<b>2,794</b>	
<b>2019/20 SAVINGS</b>					
<b>Business As Usual Proposals</b>	<b>(773)</b>	<b>(823)</b>	<b>(823)</b>	<b>(823)</b>	
<b>Service Delivery and Redesign Proposals</b>					
Increase capacity of Shared Lives scheme, which matches adults who need care with carers in the community	(146)	(246)	(246)	(246)	
Work with partners to increase the amount of people who can be supported by the Urgent Response Service, which provides rehabilitation and reablement for adults in the city, helping to keep them out of hospital	(158)	(158)	(158)	(158)	
Revise the Adult Social Care Charging Policy for non-residential care and support	(250)	(500)	(500)	(500)	SHIL1
Closure of one council owned residential care homes for older people.	0	(917)	(917)	(917)	SHIL2
<b>Total Service Delivery &amp; Redesign Proposals</b>	<b>(554)</b>	<b>(1,821)</b>	<b>(1,821)</b>	<b>(1,821)</b>	
<b>Total 2019/20 Savings Proposals</b>	<b>(1,327)</b>	<b>(2,644)</b>	<b>(2,644)</b>	<b>(2,644)</b>	
<b>2019/20 Pressures</b>					
Kentish Road respite centre remaining open	600	600	600	600	
Demographic Pressures			2,000	3,000	
Unachieved Savings	6,398	6,498	6,498	6,498	
Benefits Advice & Support	80	80	80	80	
Domestic Violence Service	123	123	123	123	
<b>Total 2019/20 New Pressures</b>	<b>7,201</b>	<b>7,301</b>	<b>9,301</b>	<b>10,301</b>	
<b>Budget Required as at Feb 2019</b>	<b>58,709</b>	<b>57,665</b>	<b>59,586</b>	<b>60,586</b>	
<b>Implementation Costs*</b>					
Project Management and Subject Matter Expert required for implementation of savings.	150	150	0	0	
<b>Total Implementation Costs</b>	<b>150</b>	<b>150</b>	<b>0</b>	<b>0</b>	

\*Implementation Costs will be met from within existing resources or from a contribution from the MTFs Reserve.

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	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	ESIA Number
<b>Budget As at Feb 2018 budget report</b>	<b>28,444</b>	<b>28,444</b>	<b>28,444</b>	<b>28,444</b>	
<b>Cross Outcome Budget Movements</b>	<b>(2,029)</b>	<b>(3,286)</b>	<b>(914)</b>	<b>(914)</b>	
<b>Allocated Inflationary Pressures</b>					
Contract Inflation 2019/20	410	410	410	410	
<b><u>2018/19 In year Pressures</u></b>					
<b><u>Parks And Open Spaces</u></b>					
Tree Team reduced income	160	0	0	0	
<b><u>Waste Collection</u></b>					
Unachieved CCTV saving that relates to the depot security	80	80	80	80	
Income Shortfall	120	120	120	120	
Damage and repair costs of vehicles	105	0	0	0	
Increase garden waste charges	(30)	(30)	(30)	(30)	
Bin storage - identify & utilise suitable site	(40)	(40)	(40)	(40)	
Implementation of Alternate Weekly Collection	(600)	(600)	(600)	(600)	
<b><u>Local Authority Trading Company</u></b>					
LATCO Saving	33	(110)	(210)	(210)	
<b><u>Regulatory Services</u></b>					
Crematorium Loss of income due to competition	400	400	400	400	
Loss of Nationality checking	80	80	80	80	
Increase in cremation and burial fees in line with competitors	(64)	(64)	(64)	(64)	
<b>Total 2018/19 Pressures and Mitigations</b>	<b>244</b>	<b>(164)</b>	<b>(264)</b>	<b>(264)</b>	
<b><u>2019/20 SAVINGS</u></b>					
<b>Business As Usual Proposals</b>	<b>(86)</b>	<b>(86)</b>	<b>(86)</b>	<b>(86)</b>	
<b>Income Generation Proposals</b>	<b>(30)</b>	<b>(30)</b>	<b>(30)</b>	<b>(30)</b>	
<b>Service Delivery and Redesign Proposals</b>					
<b>Refuse &amp; recycling:</b> review collection schedules and routes, and introduce efficiencies in the waste collection service	(146)	(146)	(146)	(146)	
<b>Street Cleaning:</b> review the provision of litter bins, introducing smart compactor bins where appropriate, which will reduce collection costs.	0	(50)	(100)	(100)	
<b>Total Service Delivery &amp; Redesign Proposals</b>	<b>(146)</b>	<b>(196)</b>	<b>(246)</b>	<b>(246)</b>	
<b>Total 2019/20 Savings Proposals</b>	<b>(262)</b>	<b>(312)</b>	<b>(362)</b>	<b>(362)</b>	
<b>2019/20 New Pressures</b>					
Invest in Flood Risk Management service to provide resources to enable the priority flood prevention schemes to be delivered.	70	70	70	70	
LATCo Savings	550	550	550	550	
Investment Green City Charter	30	0	0	0	
<b>Total 2019/20 New Pressures</b>	<b>650</b>	<b>620</b>	<b>620</b>	<b>620</b>	
<b>Budget Required as at Feb 2019</b>	<b>27,457</b>	<b>25,712</b>	<b>27,933</b>	<b>27,933</b>	

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	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	ESIA Number
<b>Implementation Costs*</b>					
None Expected outside of capital spend and existing resources	0	0	0	0	0

\*Implementation Costs will be met from within existing resources or from a contribution from the MTFS Reserve.

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# Southampton City Council **MEDIUM TERM FINANCIAL STRATEGY**

2019/20 – 2022/23



# MEDIUM TERM FINANCIAL STRATEGY 2019/20 – 2022/23

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# SECTION 1. Introduction

## 1.1 Background

The Medium Term Financial Strategy published in 2017/18 was a step change in the Council's transformation journey being the first time a two year budget was set. This enabled the Council to set a budget in 2018/19 without the need to consult on further savings proposals. For 2019/20 a single year budget is being set to allow any implications from a new Comprehensive Spending Review for 2020/21 onwards to be factored in.

The city vision is 'Southampton – City of opportunity where everyone thrives', with the goal of achieving prosperity for all.

Building on this the Council Strategy priorities are to deliver the following outcomes for residents:

- Southampton is a city with strong and sustainable economic growth;
- Children and young people in Southampton get a good start in life;
- People in Southampton live safe, healthy and independent lives; and
- Southampton is a modern attractive city where people are proud to work and live.

In order to achieve this, we have to be a modern, sustainable organisation, which is the fifth outcome.

## 1.2 Aims and Purpose of the Medium Term Financial Strategy

The purpose of the Medium Term Financial Strategy (MTFS) is to provide the strategic framework and a forward looking approach to achieve long term sustainability. It is central to the delivery of priority outcomes in the Council Strategy in an affordable and sustainable way over a 5 year period. It aids robust and methodical planning as it forecasts the Council's financial position, taking into account known pressures, major issues affecting the Council's finances, including international, national, sub regional and the city's economic influences as well as local priorities and factors.

It helps the Council to respond, in a considered manner, to pressures and changes as a result of many internal and external influences. This is particularly important during a period when the Council will face unprecedented changes and challenges. The MTFS recognises the key role that financial resources play in the future delivery of outcomes and in enabling the effective planning, management and delivery of services that contribute to the outcomes in the Council Strategy 2016-2020. 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 aim 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 outcomes, priorities and sustainable services.***

The 6 key objectives of the MTFS are to:

- Provide financial 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. Ensuring services are defined on the basis of clear alignment between priority and affordability;

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- Ensure that the Council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;
- Plan the level of fees, charges and 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 whilst gradually reducing the Council's reliance on Central Government funding; and
- Ensure that the Council's long term financial health and viability remain sound.

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The MTFS enables the Council to move away from the historical position of setting annual budgets in isolation to future years, to integrated service and financial planning over the medium term, using an outcomes based planning and budgeting approach. This approach focuses the planning process on the medium term facilitating a balanced budget by 2020/21 and future years, ready for the expected start of the new funding regime for local government, and the move towards further business rate retention in 2020.

The resulting Medium Term Financial Model 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 kept under review over the period and the Council will need to set the level of Council Tax on an annual basis.

### 1.3 Strategic context

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 following diagram puts the MTFS in this strategic context.





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## 1.4 Setting the context: key strategies and plans

### 1.4.1 SOUTHAMPTON CITY STRATEGY 2015-2025

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 Strategy identifies three key priorities:

- Economic Growth with social responsibility;
- Skills and Employment; and
- Healthier and safer communities.

It also includes four cross cutting themes:

- Fostering City Pride and Community capacity;
- Delivering whole place thinking and innovation;
- Improving mental health; and
- Tackling poverty and inequality.

Southampton Connect works closely with the key city partnerships to deliver against the vision, priorities and themes. Partnerships include the Health and Wellbeing Board and the Safe City Partnership.

### 1.4.2 SOUTHAMPTON CITY COUNCIL STRATEGY 2016-2020

In September 2016, the Council approved the Southampton City Council Strategy 2016-20. The Strategy sets out the council's strategic vision until 2020 and has four key outcomes, along with an internal outcome, which are:



Children and young people get a good start in life



Strong and sustainable economic growth



People in Southampton live safe, healthy, independent lives



Southampton is an attractive, modern city where people are proud to live and work



A modern, sustainable council

These objectives reflect the on-going commitment to ensure the Council works to put residents and the customers at the heart of everything 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.

We expect the shape of the Council, including the types of services we deliver and how we will deliver them, will be very different over the coming years. The Council Strategy sets out that this will be achieved through:

- Taking personal responsibility;
- Working through and with others;
- Embracing change;
- Balancing commercial demands; and
- Being customer orientated.

To manage our resources effectively to deliver these priority outcomes, we have allocated resources against each of them, considered what is being achieved from the services provided and focused on what makes the most difference to residents, customers and businesses. Under each outcome, we then identified proposals to reduce costs in the following areas:

- Business as usual - being more efficient in how we manage and deliver our services on a day-to-day basis;
- Income generation - as part of the commercial agenda, looking to identify income generating opportunities In order to protect frontline services; and
- Service delivery and redesign - reducing or changing services

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### 1.4.3 WORKFORCE STRATEGY

The Council's Workforce Strategy sets out a high level vision, priorities and outcomes to develop and nurture a motivated and effective workforce who will deliver the Council's priorities. The priority outcomes delivered by the Workforce Strategy will be:

- Recognised as an employer of choice;
- A high performing workforce;
- Good management across the Council;
- Evidenced based decision making, planning and delivery;
- A highly motivated and engage workforce;
- Staff empowered to make decisions;
- An effective Member Development programme for councillors; and
- Demonstrable valuing of diversity and equality.

### 1.4.4 CUSTOMER STRATEGY 2018-2022

The Council's vision is:

***We want to put all of our customers at the heart of everything we do, reflecting their feedback in the design and delivery of services, and to provide appropriate support to those who need it ensuring that customer experiences are easy, effective and convenient.***

The Customer Strategy sets out three outcomes that the Council aims to deliver for customers, and the high level actions to achieve these outcomes:

- Better customer experiences;
- Digital is the first choice for most customers; and
- Engagement with customers influences design and delivery of services.

### 1.4.5 DIGITAL STRATEGY 2018-2022

The Council's digital vision is of better customer experiences, greater independence and improved working through making the best use of information and technology. In particular we want to:

- Make contacting the council, finding information and doing business with us easier for our customers;
- Help the council run efficiently and work well with partners; and
- Grow Southampton's economy.

The Digital Strategy sets out four outcomes that the Council aims to deliver for customers, and the high level actions to achieve these outcomes:

- Digital is the first choice for most customers;
- Southampton has a growing digital economy;
- Digital data is secure, accurate and well-managed; and
- Public services in Southampton are digitally 'joined up'.

### 1.4.6 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:

### 1.4.7 CAPITAL STRATEGY

The Capital Strategy sets out the capital plans for the next five years, taking account of any capital investment required to deliver outcomes, transformational change and executive priorities. The strategy covers the same timeframe as the MTFS to ensure all plans are co-ordinated and the focus is on the medium term. The programme is reviewed annually to ensure projects are still in line with outcomes, and that the programme is affordable.

The strategy details the priorities of the Council in terms of capital expenditure and provides a framework for the Council's capital plans to be agreed and delivered within.

The Capital Strategy and Capital Programme are approved each year in February by Council.

Key issues and developments that are now incorporated in the strategy include:

- £84M for Schools Review and Expansion;
- Plans to purchase electric vehicles for the SCC fleet and new refuse collection vehicles to replace

## SECTION 1. Introduction

those which fall below Euro 6 emissions ratings, to improve air quality within the City;

- Investment in solar compactor bins, with a view to generate potential efficiencies through reduced collections and smarter ways of working;
- Further expansion of the Roads Programme; and
- Removal of the Hampshire Community Bank from the capital programme as a banking license has not been granted.

### 1.4.8 TREASURY MANAGEMENT STRATEGY 2019/20 TO 2022/23

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Service Director for Finance and Commercialisation 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 2019/20 Treasury Management strategy are:

- To continue to make use of short term variable rate debt in 2019/20 to take advantage of the market conditions of low interest rates;

- To constantly review longer term forecasts and to lock into 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; and
  - To approve borrowing limits that provide for debt restructuring opportunities and pursue debt restructuring where appropriate and within the Council's risk boundaries.

### 1.4.9 INVESTMENT STRATEGY

The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of

inflation, in order to maintain the spending power of the sum invested, however it should be noted that a lower rate is an acceptable offset for higher credit and less risk, for example a covered bond.

Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to continue to diversify into more secure and/or higher yielding asset classes during 2019/20. This is especially the case for the estimated £40M that is available for longer-term investment. The majority of cash used for cash flow purposes is invested in money market funds.

Investment limits are set as part of the strategy to help mitigate and spread risk across a number of financial institutions. The Service Director for Finance and Commercialisation has the delegated authority to review these in year and they will be updated quarterly as relevant in line with advice received from the Council's treasury management advisors, Arlingclose.

The investment rates assumed in the MTFs are included in section 1.5 Key Assumptions.

The Council is also able to make non-treasury investments such as service investments (loans/shares) and commercial property investments. Further details of non-treasury investments can be found in the Prudential Limits and Treasury Management Strategy 2019/20 to 2022/23.

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### 1.4.10 BORROWING STRATEGY

The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Given the significant cuts to public expenditure and in particular to local government funding, the Council'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 Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Details of borrowing options are included in full within the Prudential Limits and Treasury Management Strategy 2019/20 to 2022/23.

The Council currently holds £235M of loans a decrease of £16M since 31st March 2018 as part of its strategy for funding previous years' capital programmes. The balance sheet forecast shows that the Council expects the underlying need to borrow to increase by £33M in 2018/19 and a further £21M in 2019/20 bringing the estimated loans Capital Financing Requirement (CFR) to £460M.

The committed borrowing at the end of 2020 is £170M, a reduction of £103M from the forecast position at 31st March 2019. This is due to maturing debt, £36M long Term and £66M short term, which would be unsustainable without further borrowing and there is a borrowing requirement of £70M by 31st March 2020.

The borrowing rates assumed in the MTFS are included in section 1.5 Key Assumptions.

If it was cost effective the Council could also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

### 1.4.11 OTHER STRATEGIES AND PLANS THAT HAVE AN IMPACT ON THE MTFS

Below is a sample of further strategies that have been considered in drawing up the MTFS:

- Solent Economic Plan 2014-20;
- Health and Wellbeing Strategy 2017-2025;
- Southampton Better Care Plan 2017-2019;
- Safe City Strategy 2017-2020;
- Local Plan;
- Local Transport Plan and Transport Asset Management Plan; and
- Housing Revenue Account Business Plan 2018/19 to 2047/48.

### 1.4.12 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.

### SOLENT REGION - BUSINESS RATE RETENTION PILOT

Whilst primary legislation for the implementation of 100% business rate retention has halted, the Ministry of Housing, Communities & Local Government (MHCLG) have confirmed that the Government are still committed to progressing towards this aim. In light of this work is continuing to establish the mechanism for how the system will operate including a review of a fairer funding system for need; appeals; growth incentives mechanisms; and potential reset periods.

As part of this process, applications were sought from local authorities to apply to be a 'pilot' for 100% business rate retention in 2018/19. Southampton City Council were part of a successful bid application with Portsmouth City Council and the Isle of Wight Council, known as the Solent Pilot.

The Government again requested pilot bids for 2019/20 but to now run on a 75% retention basis as it is expected that due to the legislative changes required, the most that will be achieved until that point is 75%. A bid was submitted, again for the Solent Region, on the 25th September 2018.

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The MHCLG confirmed on the 13th December 2018 that the bid had been successful.

The new pilot covers the financial year 2019/20. It allows the pool to retain half the element of growth that would have been paid over to the Government under the original 50% retention model, in addition to the locally retained growth.

The arrangement assumes that the original 50% local share of growth in business rates is retained by the individual authority (including Fire & Rescue 1%), as it was before pooling. Half of what would have been the 50% Government share will be retained by the pool for future allocation.

The council's base funding position, before the pool utilises the governments share of growth, will be broadly unaffected by this change and therefore will not receive Revenue Support Grant (RSG) and will in the case of Southampton & Portsmouth be tariff authorities (the IOW council remains a top up authority).

It should be noted that it is possible for the pool to be in a loss as well as the fully expected growth position. A number of possible outcomes have been considered with Governance Arrangements in place for each outcome.

Based on the information that has been provided for each local authority for forecast 2019/20 Business Rates Income, the pool is expected to be in a growth position, with each individual authority having growth.

In an overall growth model, the growth pool of the Government Share element will be distributed using the following:

- 60% Based on Need - Provides funding to sustain public services in the greatest areas of relative need / demand as per the governments calculation of relative need;
- 30% Growth & Productivity Pot - Re-invests a meaningful proportion of growth into the local economies to stimulate further growth and productivity as well as re-balancing growth across the 3 Local Authority areas; and
- 10% Financial Stability Pot - Provides a degree of financial stability and resilience to each Member of the Pool via an Internal Levy on the Pool.

The Pool arrangements will be determined by a Governance Board comprising the Leaders of the 3 Member Authorities.

### SOUTHAMPTON BUSINESS IMPROVEMENT DISTRICT

In November 2016, City Centre businesses voted in favour of the establishment of a Business Improvement District (BID). Over £1M will be generated for each year from 2017/18 - 2021/22, through a levy of 1.5% of business' rateable value in the specified BID area (with some concessions).

The funds are overseen by the businesses via a Board, and allocated for activities to improve the marketing and experience of the City Centre. Delivery must add value to Council services, for which a baseline agreement will be in place. The BID has the potential to match fund and augment existing services, to consider

alternative delivery models in the future, and to lever additional resources to the City, This will support the Council's outcomes and priorities, particularly in relation to economic growth.

### 1.4.13 AUTUMN BUDGET 2018

The Chancellor of the Exchequer presented the 2018 Budget to Parliament on 29th October 2018. The key themes relevant to Southampton City Council were as follows:

#### Social Care

- The budget provides an additional £650M social care funding in 2019/20 - £240M for adult social care winter pressures and a further £410M for adults and children's social care. Local councils are to use this funding to ensure that adult social care pressures do not create additional demand on the NHS. Local councils can also use it to improve their social care offer for older people, people with disabilities and children.
- There is an additional £45M in 2018/19 for the Disabled Facilities Grant for English councils to provide home aids and adaptations for disable children and adults on low incomes.
- The Budget provides for £84M of funding over 5 years for up to 20 local authorities, to help more children to stay at home safely with their families.

#### Housing and Planning

- The Housing Revenue Account borrowing cap has

## SECTION 1. Introduction

been abolished from 29th October 2018, enabling councils to increase house building in England to around 10,000 homes per year.

- The Housing Infrastructure Fund will increase by £500M to a total £5.5BN, unlocking up to 650,000 new homes.
- The government will make £10M of capacity funding available to support ambitious housing deals with authorities in areas of high housing demand to deliver above their Local Housing Need.
- A simpler system for developer contributions will be introduced enabling local areas to capture a greater share of uplift in land values for infrastructure and affordable housing.
- The government has launched a consultation on new permitted development rights to allow upwards extensions above commercial premises and residential properties, including blocks of flats, and to allow commercial buildings to be demolished and replaced with homes.

### Roads and Transport

- The government will allocate £420M to local authorities in 2018/19 to tackle potholes, repair damaged roads, and invest in keeping bridges open and safe.
- To ease congestion on local routes, the government will also make £150M of the National

Productivity Investment Fund available to local authorities for small improvement projects such as roundabouts and road junctions.

- Southampton has been shortlisted for a share of £440M of competitive funding of the Transforming Cities Fund.
- £90M will be allocated to the Transforming Cities Fund to create Future Mobility Zones. This will trial new transport modes, services and digital payments and ticketing.

### Waste and Recycling

- £20M is being provided to support measures to tackle plastics and boost recycling. Of this £10M will pioneer innovative approaches to boosting recycling and reducing litter, such as smart bins.
- Should wider policies not deliver the government's ambition to maximise the amount of waste sent to recycling instead of incineration and landfill, in the future it will consider the introduction of a tax on the incineration of waste, in conjunction with landfill tax, taking account of the possible impacts on local authorities.

### Business Rates

- The government is cutting bills by one-third for retail properties with a rateable value below £51,000, benefitting up to 90% of retail properties, for 2 years from April 2019, subject to state aid limits.

- 100% business rates relief will be provided for all public lavatories.
- The £1,500 business rate discount for office space occupied by local newspapers will continue in 2019/20.
- Local authorities will be fully compensated for the loss of income as a result of these business rates measures.

### Schools, Children and Young People

- £400M will be provided to schools in 2018/19 to spend on equipment and facilities. This equates to on average £10k per primary school and £50k per secondary school.
- The Budget provides £200M for a Youth Endowment Fund to help young people avoid a life of violence.

### Other Measures

- In addition to the business rates measures for small retailers, the government will launch a £675M new Future High Streets Fund to support local areas to develop and fund plans to make their high streets and town centres fit for the future.
- £20M additional funding will be allocated to support more local authorities to meet their air quality obligations.
- The government is implementing a package of additional measures worth £1BN over 5 years

## SECTION 1. Introduction

as part of the transition to Universal Credit. The amount that households with children, and people with disabilities can earn before their UC award begins to be withdrawn - the Work Allowance - will be increased by £1,000 from April 2019, benefitting households by £630 per year.

- The National Living Wage will be increased by 4.9% from £7.83 to £8.21 from April 2019.
- The government will introduce a package of reforms to strengthen the role of employers in the apprenticeship programme, including making up to £240M available to halve the co-investment rate for apprenticeship training to 5 per cent.

### 1.4.14 PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2019/20

The Provisional Local Government Finance Settlement (PLGFS) for 2019/20 was published on the 13th December 2018, which has led to an update of the Council's financial position. This settlement marks the final year of the 4 year settlement that was accepted by Southampton City Council (SCC) along with 97% of local authorities. The main points were:

- Consultation documents have been published on the next stage of the implementation of further business rates retention and the Fair Funding review, for implementation In April 2020. This takes into account the outcome of the consultation on relative needs which took place in early 2018. The

deadline for consultation responses is the 21st February 2019;

- Southampton has been accepted as a 75% business rate retention pilot in a pooling arrangement with Portsmouth and the Isle of Wight (The Solent Region Pool), alongside 14 other new pilots. It has also been agreed that London authorities will pilot 75% business rates retention in 2019/20. Authorities that piloted 100% business rates retention in 2017/18 and 2018/19 will continue doing so in 2019/20;
- £180M of business rates levies surplus will be distributed to authorities on a needs basis - payment will be made in 2018/19 (£0.84M for SCC);
- Social Care funding announced in the Autumn Budget 2018 was confirmed;
- Rural Services Delivery Grant has increased by £16M to £81M (no impact on SCC);
- There has been no change in the New Homes Bonus baseline growth position of 0.4% in the 2019/20 settlement;
- Following a consultation in Spring 2018, a grant will be paid to authorities to eliminate negative revenue support grant allocations (no impact for SCC);
- LGFS 2018 announced that a Green Paper on future challenges in Adult Social Care would be

published in the Summer of 2018. The paper is still awaited and is expected to be published before the end of 2018/19;

- The Council Tax referendum limit has been set at 3% for 2019/20 (the same as the limit for 2018/19); and
- A £24 Council Tax flexibility has been afforded to the Police and Crime Commissioner.

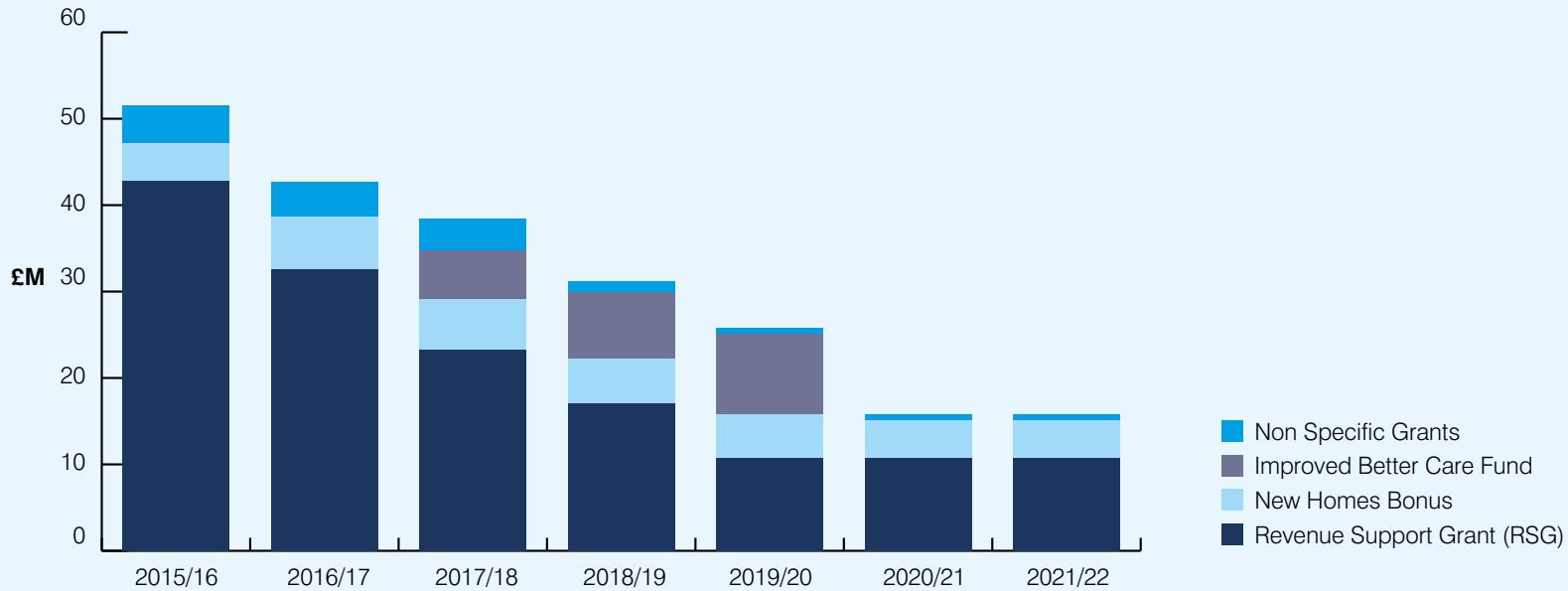
It should be noted that due to the roll out of Universal Credit the previous MTFS assumed the Council would not be receiving Housing Benefit Subsidy Admin Grant going forward. However it has now been confirmed that the grant will continue into 2019/20.

For Southampton the impact of the settlement in terms of grant funding can be seen in the graph below. The Central Government funding position compared to 2015/16 shows a considerable reduction in resources. For comparison purposes 2018/19, 2091/20 and future years still contains the RSG the council would have received without the Business Rates Retention Pilot. It should also be noted that the MTFS makes the assumption that Better Care Fund monies will be replaced by alternative central government funding.

The financial impact of the Local Government Finance Settlement has been included in the Medium Term Financial Model attached in Annex 1.

## SECTION 1. Introduction

### Current Central Government Funding Position compared to 2015/16





## SECTION 1. Introduction

**TABLE 1 SUMMARY OF KEY ASSUMPTIONS**

Item	2019/20	2020/21	2021/22	2022/23
<b>Business Rates Multiplier</b>	2.40%	2.10%	2.00%	2.00%
<b>Council Tax</b>	2.99%	1.99%	1.99%	1.99%
<b>Social Care Precept</b>	0.00%	0.00%	0.00%	0.00%
<b>Council Tax Base (No of Band D Equivalents)</b>	64,959	65,234	65,273	65,273
<b>Revenue Support Grant *</b>	(36.70%)	-	-	-
<b>New Homes Bonus</b>	(9.44%)	(19.14%)	(25.94%)	(2.45%)
<b>Other Grants</b>	(43.78%)	(36.56%)	0.0%	0.0%
<b>Consumer Price Index (CPI)</b>	2.1%	2.0%	2.0%	2.1%
<b>Retail Price Index (RPI)</b>	3.2%	3.1%	3.3%	3.3%
<b>Pay Award</b>	2.0%	2.0%	2.0%	2.0%
<b>Superannuation</b>	16.1%	16.1%	16.1%	16.1%
<b>Past Service Costs and Compulsory Added Years</b>	8.8%	8.8%	8.8%	8.8%
<b>Investment Rates (ave)</b>	3.36%	3.64%	3.52%	3.50%
<b>Borrowing Rates (Long Term - GF) (ave)</b>	3.42%	3.84%	3.60%	3.59%
<b>Borrowing Rates (Long Term HRA) (ave)</b>	3.47%	3.63%	3.54%	3.54%
<b>Borrowing Rates (Long Term - consolidated) (ave)</b>	3.45%	3.70%	3.57%	3.56%
<b>Housing Revenue Account Housing Rent Increases</b>	(1.00%)	3.00%	3.00%	3.00%

\* Under any increases in Business Rates Retention, RSG will not be received.

### 1.5 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.

#### 1.5.1 Summary of Key Assumptions

Table 1 summarises the key assumptions contained within the Medium Term Financial Strategy. These assumptions will be the standard assumptions used to drive all financial planning within the Council, where applicable. Figures in brackets represent a reduction.

#### 1.5.2 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 able to retain a proportion of their growth in Business Rates and will also be taking the risk of reductions in Business Rates, although there are 'safety net' arrangements in place to protect against very large reductions.

The Government's original intention was to introduce a 100% BRR scheme in 2019/20, alongside introducing additional responsibilities for local government to ensure fiscal neutrality for Central Government. However, there has been significant slippage in the timetable, with the Local Government Finance Bill, which contained provision for 100% BRR, falling when Parliament was dissolved for the General Election in June 2017. In the absence of short-term opportunities to bring forward primary legislation, the Government has been considering options for reform within the existing legislative framework, with the aim of introducing 75% business rate retention in 2020/21.

A consultation was launched at PLGFS 2019 on reform of the business rates retention system. The consultation covers two broad areas:

- The balance of risk and reward in the business rates retention system; and
- Mitigating volatility in income and the impact of appeal losses and valuation changes on local authorities.

A consultation is also being undertaken on the approach to measuring the relative needs and resources of local authorities. The main points to note are:

- The methodology for the needs assessment has not been updated since 2013/14 and has not kept up with demographic changes and other spending pressures;

## SECTION 1. Introduction

- The Government launched a Fair Funding Review in 2017 with three strands: relative needs, relative resources and transitional arrangements;
- A consultation on relative needs, looking at ways to reduce the number of formulas involved and identifying the most important factors which drive costs of services was completed in early 2018;
- This latest consultation marks the next step in developing a new distribution methodology and seeks views on the approach to measuring the relative needs and resources of local authorities, with the aim of determining new baseline funding allocations for 2020/21;
- The consultation proposes to simplify the assessment of local authorities' relative needs by introducing a simple Foundation Formula, alongside several service-specific formulas;
- It looks at what adjustment might be made to formulas to reflect differences in costs between different geographic areas and the impact of accessibility and remoteness on costs;
- It considers how other sources of income available to local authorities, such as council tax and sales, fees and charges, will be taken into account in determining funding baselines; and
- The consultation proposes a set of principles to be used to design transitional arrangements.

The deadline for responses to both consultations is the 21st February 2019.

There has been an assumption built into the MTFS for Business Rates growth, this is based on an assessment of new property developments undertaken in conjunction with the Growth team. This estimate is based on projects which are already in the pipeline.

The graph below shows the steady increase in business rates since 2015 and the projected future growth.

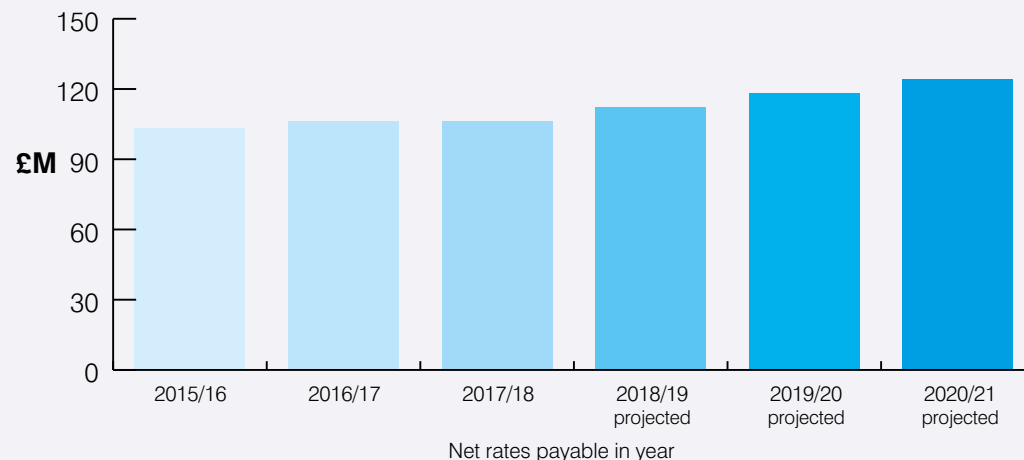
### 1.5.3 Council Tax

As set out in Table 1 above, the assumption is that Council Tax rises will be set at the referendum limit of 2.99% in 2019/20 and 1.99 % in future years (see also section 1.5.4 Adult Social Care Precept).

The tax base that has been assumed for each financial year is detailed in Table 1. This reflects the required adjustments as a result of the localisation of Council Tax Benefits and changes to associated funding which was implemented from 2013/14. It also incorporates growth in the tax base arising from new developments.

A new Local Council Tax Scheme (LCTS) 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 forecast position includes a grant for LCTS administration grant.

### Net rates payable in year



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### 1.5.4 Adult Social Care Precept

Local authorities with Adult Social Care responsibilities were given the ability to increase Council Tax by a total of 8% over the period 2016/17 to 2019/20 through an Adult Social Care Precept with options on how this could be profiled. 2% was applied in 2016/17 with a further 3% applied in 2017/18 and again in 2018/19. The PLGFS 2019 did not provide for any further increase beyond the 8%, therefore the MTFs assumes no increase in 2019/20 or future years.

### 1.5.5 Revenue Support Grant

Historically a major source of funding for the Council has been the Revenue Support Grant (RSG), however since the austerity measures were introduced this grant has been reduced drastically with the Council suffering an 85% reduction between 2013/14 (when the Business Rates Retention scheme came in) and 2019/20. The MTFs reflects the allocation given in the PLGFS. It should be noted however, that RSG will not be received whilst in a Business Rates Pilot Pool or in the event of 75% Business Rate Retention being implemented in 2020/21.

### 1.5.6 Housing Benefit Administration Subsidy

Following the abolition of Council Tax Benefit (CTB) and the introduction of Local Council Tax Support (LCTS) in April 2013, the funding baseline for HB/CTB has remained disaggregated. The DWP is responsible for allocating the HB element to local authorities with the responsibility for distributing the remaining

LCTS element being with the Ministry of Housing, Communities and Local Government (MHCLG).

Each year the HB administration subsidy has been reduced and this will continue into 2019/20 as the DWP applies a percentage reduction as an efficiency saving based on the previous year's allocation and also takes into account Universal Credit. The DWP has also applied a new methodology for allocating the subsidy in 2019/20 which has resulted in a further reduction for the Council, mitigated by transitional protection. Under the new methodology the subsidy is more closely aligned with the latest HB caseload figures. A further year's grant has been confirmed for 2019/20.

### 1.5.7 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 2019/20. The final allocation of Public Health Grant for 2019/20 is £16.45M. The Public Health Grant has reduced each year, as outlined in Table 2 below.

**TABLE 2 PUBLIC HEALTH GRANT REDUCTIONS**

Item	2016/17	2017/18	2018/19	2019/20
Percentage reduction in total grant from 2015/16 baseline	(2.20%)	(2.50%)	(2.57%)	(2.64%)

The Council is committed to identifying savings from within the total Public Health Programme, comprising the delivery of internal and external services, in order to achieve the level of savings required.

The grant reduction in 2019/20 is £0.45M, as well as inflation and pay awards needing to be contained within expenditure. The Public Health Grant may be one of the grants foregone under further Business Rate Retention.

### 1.5.8 Care Act

The Care Act 2014 deals with the reform of adult social care and support legislation. The introduction of the Act was to be phased over two years. Changes including the rights of Carers, a national eligibility criteria and universal Deferred Payments came into force on 1 April 2015. However the changes programmed to come into force from 1 April 2016, including the funding reforms, have now been postponed until at least 2020. This decision was taken nationally in recognition of the overwhelming pressure, across the country, within Adult Social Care services.

### 1.5.9 New Homes Bonus

To encourage an increase in the number of homes available in the UK, in 2011 the Government brought in a grant payable to local authorities referred to as the New Homes Bonus (NHB). 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

## SECTION 1. Introduction

payment for affordable homes. This grant (in the form of “legacy payments”) was payable for 6 years.

Although the NHB was deemed successful in encouraging local authorities to promote housing growth in the early years, the Government consulted on a number of possible reforms to the Bonus in 2015/16. The overall objective of the reforms was to “sharpen the incentive” for housebuilding and provide additional funding for Adult Social Care. The outcome of the consultation was announced alongside the provisional local government settlement 2017/18. The Government decided to:

- Reduce the number of years for which legacy payments are made from 6 years to 5 years in 2017/18 and then to 4 years from 2018/19; and
- Set a national baseline for housing growth to sharpen the incentive for councils to deliver more homes.

The Government chose to set the initial baseline in 2017/18 at 0.4%, below which the bonus will not be paid. This level is significantly below the average rate of growth in the 10 years before the introduction of the NHB scheme. The government also retained the option of making adjustments to the baseline in 2018/19 and

**TABLE 3 NEW HOMES BONUS ALLOCATIONS**

	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
<b>New Homes Bonus Assumption</b>	4.77	3.86	2.89	2.82

future years in the event of significant and unexpected housing growth. The PLGFS 2019 confirmed that there will be no changes to the current assumptions.

Table 3 below shows the assumed NHB allocations within this MTFS.

### 1.5.10 National Fairer Funding Schools

The Dedicated Support Grant (DSG) is allocated to the Local Authority (LA) through four separate funding blocks to support expenditure on early years, mainstream schools, pupils with high needs and central school services. The financial year 2019/20 is particularly important because it represents a major step towards a national funding formula for mainstream schools. Schools’ funding for 2019/20 aligns the Southampton Local Formula with the National Funding Formula, (NFF) as agreed by Schools Forum.

A national formula to replace LA historic funding levels for early years was introduced for 2017/18 with funding levels announced for the three years up to 2019/20. The local arrangements were determined in 2017 for the same period with factors and unit values in the Early Years Single Funding Formula (EYSFF) set to reflect the new funding level and national policy changes.

It remains the Government’s aspiration to fund all

mainstream schools in the same manner and the factors and methods within the National Funding Formula (NFF) introduced for 2018/19 and 2019/20 are expected to prevail now for some years. Unit values of the factors within the NFF will change over time and there is likely to be some evolution and refinement to reflect changing government policy.

Southampton City Council consulted the Schools Forum on local arrangements. The Schools Forum were presented with various funding options for discussion and agreement was reached on the preferred model.

### 1.5.11 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 £0.6M.

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.

### 1.5.12 Pay Inflation

Assumptions have been made in the forecast about the likely level of pay inflation that will apply from April 2019. 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.

A two year pay deal was agreed for the period 2018 to 2020, with a headline flat-rate increase of 2.0%

## SECTION 1. Introduction

in 2018/19 and 2019/20. A 2% pay award has been assumed from 2020/21 and future years.

### 1.5.13 National Living Wage

The Government's July 2015 budget announcement introduced a new premium for those aged 25 and over leading to a new National Living Wage (NLW) of £7.20 in April 2016. The Government's ambition is for the NLW to increase to 60% of the median earnings by 2020, and it will ask the Low Pay Commission to recommend the premium rate in light of this ambition going forward. Based on Office for Budget Responsibility forecasts, this means the NLW is expected to reach over £9.00 by 2020.

The Council has adopted the National Living Wage Foundation's recommended living wage, which is currently £9.00 (set in November 2018 but implemented by the Council from 1st April 2019), for payment of SCC employees, and this rate is presently higher than the initial NLW (£8.21 from April 2019).

### 1.5.14 General Inflation

Assumptions have been made in the forecast about the likely level of general inflation that will apply from April 2019. 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 contracts are uplifted by indexation linked to inflation on an annual basis.

Current indications are that - in the short term at least

- an increase is unlikely (in fact inflation is currently forecast to be more or less static over the medium-term). However, the risk has been mitigated by the inclusion of amounts in contingencies 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 services would be expected to absorb the difference.

### 1.5.15 Pension Fund – Employer Costs

Employer contributions to the Hampshire Local Government Pension Scheme (LGPS) were reviewed as part of the 2017 triennial revaluation process. The changes in rates were applied from April 2017. This is likely to give rise to an additional cost of £1.8M by 2019/20. This has been built into the MTFs. It has been confirmed that the position for past service costs and compulsory added years has not changed and has been included within the forecast for 2019/20. Using the current valuation from Hampshire County Council an 8.8% per annum increase for the six year period 2014/15 to 2019/20 is assumed within the MTFs Model. This has then been assumed to continue at this level to 2022/23.

Cost management for the Local Government Pension Scheme is taking place in the context of a public service pension scheme wide cost cap review under HM Treasury directions. The Local Government Pension Scheme Advisory Board has proposed a

number of reforms to the Scheme in respect of the cost management process. The implications for Southampton City Council once known will be taken into account in future updates of the MTFs.

### 1.5.16 Public Sector Employment – Restrictions on Exit Payments

The Enterprise Act 2016 gave powers to the Government to restrict public sector exit payments through the introduction of a £95,000 cap on such payments. The Government was expected to bring forward a consultation on implementing these changes in 2018. A private member's bill to force the government into bringing forward regulations to implement the cap is currently going through Parliament. Although the original timetable has slipped, the Government has reiterated its commitment to ending six figure pay outs in the public sector.

Within the overall cap / package to limit exit payments the Government is considering proposals appropriate to each workforce to include:

- A maximum tariff and base salary on which redundancy payments are calculated;
- A cap on the value of employer funded pension 'top-ups';
- An increase in the minimum age at which an employee is able to receive an employer funded top-up;

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- Other general limits on most employer-funded payments made in relation to leaving employment; and
- Consideration of any case for protection during the transition period for those with exit agreements formally agreed on terms that pre-date the new exit compensation arrangements coming into effect.

In addition to the above, new regulations came into force from April 2016 on the requirement to repay exit payments for up to 12 months after payment if further employment is undertaken within the public sector during that time for employees earning over £100,000 per annum.

### 1.6 Key Risks

There is a significant degree of 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 are complex and highly sensitive to a range of variables and it is therefore important that 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 the importance of having adequate mechanisms in place to identify and manage risks in order to support the achievement of financial stability.

These risks are reflected in a 'Key Financial Risks' document which identifies the key financial risks to the council's financial position over the short to medium term together with a summary of the mitigating actions in place and planned. These financial risks are reflected in the assessment of the adequacy of estimates and reserves.

Factors that can have a material effect on the financial position of the Council include:

- The lack of certainty in Government funding for future years including grants and the new fair funding formula;
- Changes in function;
- Changes in how services are funded;
- Changes in the economy;
- Changes in Members' priorities;
- Unmanaged service pressures and increases in demand;
- Council tax policy;
- Changes in legislation and government policy;
- Level of future pay awards and general inflation assumptions;
- Adequacy of contingencies in any one period;
- Business rate volatility, more frequent business

rates revaluations and Business Rates Retention;

- Treasury Management and interest rate changes;
- Projected income levels from fees & charges;
- Non achievement of savings;
- Impact of National Living Wage;
- Level of provision for insurances;
- New burdens;
- Welfare reforms;
- Provider failure;
- Demographic changes; and
- Impact of the exit from the European Union, both nationally and locally.

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 that these assumptions are inaccurate.
2. **Political Risk** – The current Comprehensive

## SECTION 1. Introduction

Spending Review (CSR) period and 4-year settlement comes to an end in 2019/20. A new CSR will take place in 2019 providing the resource envelope for local government over the medium term. Although the Government has signalled its intention to implement 75% Business Rates Retention from April 2020, there are still some uncertainties on how the scheme will operate. The impact of any new burdens that will be imposed on the local authority as a result of that or changes to grant entitlement will need to be considered in due course.

position becomes more reliant on this source of funding.

4. **Transformational Change** – It is essential that the Council continues to further its major change programmes to ensure the organisation is fit for the future and 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.

3. **Treasury Risk** – The MTFS is based on a reasonably stable global financial position going forward, taking into consideration that there are unknowns with regards to the impact that exiting the European Union may have on the Council's finances. If the assumptions change it may have a major impact on the financial position of the Council particularly around business rate income, and interest payments. The Treasury Management Strategy sets the parameters in which borrowing is undertaken and along with longer term forecasts for low interest rates the potential risk of having to undertake a major restructuring of debt seems less likely and is currently viewed as less significant than other risks faced by the Council. A taxation reserve of £5.7M is held to meet one off shortfall in business rate income as the Council's funding

## SECTION 2. Horizon scanning

Key issues affecting council services and finances are detailed below as they can have a major impact on the Council's budget in the short and medium term. There are demographic and system-wide social-economic factors which undoubtedly impact the residents of Southampton and have an impact on the services which the council and its partners deliver across the city. The financial implications of these factors are included in the Medium Term Financial Forecast where it has been possible to make a financial assessment at this time.

### 2.1 Demographics

Population forecasts for Southampton and nationally show that more people are living longer and as a consequence average life expectancy is increasing. The fastest growing sector of the population is that aged 75 to 79 years and over. Forecasts made using known residential development plans predict the over 75 to 79 years and over group will rise by 35.5% between 2017 and 2024, whilst the number of people over 75 years is forecast to grow by 3,790, an increase of 23.1%. Longer term projections, based on past trends, predict a 43.4% increase in over 65s in Southampton between 2016 and 2041.

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 mean that

people who previously might have died at a young age are living longer, often into adulthood, but do so 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 working age population (aged 16-64 years) is only due to increase by just over 3% between 2017 and 2024, and this may affect availability of informal and community care.

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 2017/18, there were 1,592 Southampton residents recorded on GP registers as having dementia; this has increased from 1,573 in 2016/17. 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

#### 2.2.1 EXITING THE EUROPEAN UNION

The decision by the UK to leave the European Union in a referendum on 23 June 2016 is likely to have a significant impact not only on local government but on both UK and EU citizens who live and work in the UK.

The UK started the process of leaving the EU by triggering Article 50 in March 2017, and will leave the European Union on the 29 March 2019.

The UK government has negotiated and published a Withdrawal Agreement and Political Declaration setting out the future framework for the future relationship between the UK and EU. It sets out the following:

- Britain's financial settlement of £39 billion with the EU to meet agreed commitments
- The post-Brexit rights of EU citizens in the UK and British citizens living in the EU
- A mechanism to prevent a 'hard border' on the island of Ireland (referred to as a 'backstop').
- Agreement of a transition period that will last until December 2020, allowing businesses time to adapt to a new relationship with the EU

The agreement also includes the non-binding Political Declaration outlining the UK and EU's ambitions for their desired future trading relationship, on which negotiations will begin after the UK leaves the EU.

The UK needs to adjust domestic legislation to ensure that it reflects the withdrawal agreement's rights and obligations. Therefore, the following Acts were passed in Parliament:

- The European Union (Withdrawal) Act



## SECTION 2. Horizon scanning

- o repeal the European Communities Act 1972 which currently provides legal authority for EU law to have effect as national law in the UK;
- o convert existing EU law into domestic law;
- o give ministers powers to make secondary legislation; and
- o enshrines March 29, 2019, as the day the UK leaves the European Union
- Taxation (Cross Border Trade) Act
  - o legislate for the UK's departure of the EU and the EU Customs Union; and
  - o allow the government to create a standalone customs regime and amend the VAT and excise regimes.

As well as passing the above Acts, the Trade Bill 2017-19 is currently in the House of Lords Committee stage, due to be completed later in 2019.

- The Trade Bill will:
  - o create powers to assist in transition of existing trade agreements;
  - o establish the Trade Remedies Authority to defend UK businesses; and
  - o enable UK to become a member of the Agreement on Government Procurement.

### 2.2.2 WELFARE REFORMS AND INTRODUCTION OF UNIVERSAL CREDIT (UC)

In May 2016, Universal Credit (UC) full service began to roll out nationally and was introduced in Southampton in February 2017. The national roll-out was due to be completed in December 2018. Once completed, the Government plans to migrate claimants still on legacy benefits, like Jobseekers Allowance and Tax Credits, onto Universal Credit full service by 2023.

The Government has introduced some changes to the design and process of UC to address concerns relating to claimant hardship. These included:

- Removing the 7 waiting days for new UC Claimants.
- UC Advances for new UC Claimants increased and the period of repayment extended from 6 to 12 months.
- Housing Benefit 'Run-on' for new UC Claimants. Those previously in receipt of HB will continue to receive it for a further 2 weeks.
- New claims for UC from claimants in temporary accommodation will have their housing costs met through Housing Benefit. Existing temporary accommodation claimants on UC will also move to Housing Benefit.

Further changes are planned for 2019. These include, increasing UC work allowances (the amount claimants are able to earn before it affects the amount they receive in benefit) for people with children or people with limited capability for work, and reducing the maximum rate at which deductions from UC to repay an advance payment, from 40% to 30% of the standard allowance.

From April 2019, the Government will provide funding to Citizens Advice to provide advice and support to help people to make and maintain their UC claim.

These changes build a wide programme of national welfare reforms affecting both in-work and out-of-work claimants. It is difficult to predict the direct and indirect impacts locally at this time.

### 2.2.3 BETTER CARE FUND

The Better Care Fund commenced 1st April 2015 and is framed within a formal contract with Southampton City Clinical Commissioning Group (SCCCG) for a pooled budget under Section 75 of the National Health Service Act 2006. The purpose of the Fund is to ensure closer integration between health and social care services.

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.

In 2019/20 the combined Better Care Fund budget is £108.1M and is broken down in Table 4.

## SECTION 2. Horizon scanning

**TABLE 4 BETTER CARE FUND (not including Improved Better Care Fund)**

	NHS Southampton City CCG	Southampton City Council	Total
	£M	£M	£M
Carers	1.24	0.18	1.42
Clusters	48.50	1.17	49.67
Rehab & Reablement	11.91	4.26	16.17
Learning Disability Packages	10.47	16.11	26.59
Prevention & Early Intervention	0	7.95	7.95
Long-Term Care	0.43	0.00	0.43
BRS	0.66	0.47	1.13
SEND team (Jigsaw)	0.52	0.64	1.16
Capital DFG	0	2.05	2.05
<b>TOTAL</b>	<b>73.75</b>	<b>32.84</b>	<b>106.58</b>
JES (Joint Equipment Store)	0.76	0.76	1.51
<b>OVERALL TOTAL</b>	<b>74.50</b>	<b>33.59</b>	<b>108.09</b>

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.

In addition to the flexibility given to local authorities to raise Council Tax above the referendum threshold by a total of 8% by 2019/20, the Government has also provided £1.5 billion nationally for local authorities to spend on Adult Social Care by 2019-20. This is being given to local authorities in the form of a grant - Improved Better Care Fund. Taken together, these two measures are estimated to provide £3.5bn nationally by 2019/20 to address the demographic pressures facing the Social Care system. In the Spring Budget 2017 the Government announced an additional £2bn of funding over the three years 2017/18 to 2019/20. Table 5 sets out the position for Southampton and the proposed use of this funding.

## SECTION 2. Horizon scanning

**TABLE 5 ADDITIONAL BETTER CARE FUNDING TO BE RECEIVED BY SOUTHAMPTON UP TO 2019/20**

	2017/18 £M	2018/19 £M	2019/20 £M
Spring budget 2017 announced	4.98	3.16	1.57
Autumn 2015 announced	0.60	4.39	7.71
<b>Southampton Total</b>	<b>5.58</b>	<b>7.55</b>	<b>9.28</b>

Scheme	2017/18 £M	2018/19 £M	2019/20 £M
Direct Payments team	0.27	0.26	0.22
Carers	0.00	0.04	0.01
Client Reviews	0.00	0.03	0.02
Care Technology	0.05	0.05	0.05
Short stay replacement care	0.25	0.23	0.22
Expanded 7 day social care operation in the hospital discharge team	0.13	0.12	0.08
Speeding up hospital discharges for people with complex needs	0.50	0.73	0.53
Enhanced social care out of hours service	0.10	0.00	0.00
Additional social work capacity in new community-based social wellbeing service	0.00	0.19	0.11
Additional social work capacity in new integrated learning disability service	0.00	0.17	0.20
Meeting increased demand and complexity	1.00	0.80	0.00
Stabilising the provider market	1.33	0.23	0.07
Additional social work capacity to review care needs in accordance with the Care Act 2014	0.00	0.15	0.00
Accelerating the extra care housing programme	0.08	0.08	0.00
Extra nursing home capacity for complex needs	1.27	0.08	0.05
	<b>4.98</b>	<b>3.16</b>	<b>1.57</b>

### 2.2.4 FORTHCOMING PARLIAMENTARY BILLS

There are a number of parliamentary bills in the pipeline which are likely to have an impact on local government finances. Whilst the full impact at this point is unclear, it is worth highlighting that the following bills are currently progressing through Parliament:

- Local Authorities (Removal of Council Tax Restrictions) Bill;
- Local Authorities (Borrowing and Investment) Bill;
- Local Housing Authority Debt Bill;
- Local Roads (Investment) Bill;
- Clean Air Bill;
- Gypsy and Traveller Communities (Housing, Planning and Education) Bill;
- Home Education (Duty of Local Authorities) Bill;
- Mobile Homes and Park Homes Bill;
- Youth (Services and Provisions) Bill; and
- Various bills related to withdrawing from the European Union.

There are also a number of policy commitments made by the Government that could impact local government, these include:

- A green paper on the future of Social Care will be published 'soon'.

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It is expected to cover care and support for older people and a parallel programme of work for working age recipients of social care packages;

- Local Digital Declaration - an initiative to help change the way councils invest in technology, share expertise and ensure members of the public are receiving the best quality digital services;
- Industrial Strategy - aimed at boosting productivity;
- Housing - in the Autumn Budget 2017 the Government announced a package of measures to increase the number of new homes built annually to 300,000 a year. In the 2018 Budget the Housing Revenue Account borrowing cap was removed, to enable councils to increase house building to around 10,000 per year.

### 2.3 Socio- Economic Factors

Southampton is ranked 67th on the overall Index of Multiple Deprivation (IMD) 2015 out of the 326 Local Authorities in England (1 equals the most deprived). Previously for IMD 2010 Southampton ranked 81st so has become relatively more deprived. 9 out of 15 wards have Lower Super Output areas which are within the 10% most deprived areas in the country.

However, in addition in terms of economic growth in the recently published 2018 Good Growth for Cities index, Southampton was ranked the 3rd highest city. The index takes into account jobs, income, health, work-life balance, new businesses, housing, transport, skills, environment and income distribution.

### CHILDREN LOOKED AFTER

From 2010 to 2015, the rates of referrals of children and young people to Children's Social Services continued to increase year on year. However, as can be seen from the table below, from 2015 to 2018, there has been a significant decrease in the rate per 10,000 (0-17) children from 1,318.8 in 2015 to 519.4 in 2018. The latest rate of referrals is now lower than the England average (552.5).

#### Rates of Referrals per 10,000 (0-17) Children

Year	Southampton CC	National Averages
2015	1322.2	548.3
2016	839.1	532.2
2017	610.9	548.2
2018	519.4	552.5

Over the period from 2010 to 2015, the rate of Children Looked After (per 10,000 children aged under 18) increased by 42.9% in Southampton compared to a 5.3% increase nationally (England average). However, from 2016 to 2018, there has now been a decrease of 13% in Southampton's rate of children looked after per 10,000 aged under 18 at 104. Although Southampton's rate is still higher than the national average, it has in the last three years shown an ongoing reducing trend, whereas England average rate has increased by 4%, from 60 in 2015 to 64 in 2018.

In the year ending March 2018, the council carried out 336.3 Section 47 Child Protection investigations for every 10,000 children compared with 166.9 per 10,000

nationally and the city had 102.2 children subject to an initial child protection conference, compared with an average of 67 per 10,000 in England.

These high rates of referrals, children looked after and child protection investigations in Southampton reflect the level of need in the city. To ensure that children's needs are met at the earliest stage, a children's services transformation programme is underway.

With regard to Looked After Children (LAC) numbers, from April to November 2018, the average monthly number of children in care in the city was 512, when over 2017/18, the figure was 523 on average. In 2016/17, the monthly average was 593 and has, in 2018/19 continued to decrease month on month from June (534 children) to November (485 children).

The number has, from December 2016 onwards, remained under 600, and whilst this is good news plans to meet the LAC reduction trajectory are in place to ensure the associated savings targets are met. The average percentage of fostering placements made with independent fostering agencies, (IFA) from April to November 2018 is approx. 26.3% (an average of 135 placements over the period of April-November 2018). The cost of an IFA is, on average two to three times more expensive than an internal placement. This has created and continues to create a significant pressure on the Children Services budget.

We are continuing to review our contracts with IFAs to negotiate cost reductions as well as also increasing the numbers of 'in-house' foster carers through targeted

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recruitment, providing more options for in-house placements where appropriate. As at the end of November 2018, Southampton CC had 167 in-house foster carers, many of which can provide placements for more than one child.

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 the period 2017/18 to 2019/20 the planned trajectory of fostering placement numbers is shown in the Table 6 below.

**TABLE 6 LAC TRAJECTORY 2016/17 TO 2019/20**

Placement/ Allowance Type	April 2018	April 2019	April 2020
In-house Fostering	244	247	243
IFA	141	146	145
Residential	34	21	11
New Independent Living Provision	6	4	3
Inter-Agency (adoption)	24	27	25
Unaccompanied Asylum Seeking Children	13	12	12
Living with Parents	57	38	36
<b>Total</b>	<b>519</b>	<b>495</b>	<b>475</b>

### 2.4 Physical-environmental factors

#### HOUSING

In Southampton 25% of residents live in privately rented accommodation, which is higher than the average for comparator cities at 18% and the England average of 17%. There are around 7,000 Houses of Multiple Occupation (HMOs) in the city. Nearly a quarter of all homes are in the social rented sector with 16,000 managed by the Council with 8,000 households on its housing waiting list. The Council has a responsibility to ensure that its own properties meet minimum decency standards. In April 2017, the Council reported that just under 8% of stock was non-decent as a result of the aging profile and the deteriorating condition of components.

The housing targets for Southampton are set out in the Southampton City Council Housing Strategy 2016-2025 and the Southampton Core Strategy 2006-2026. This currently states that there is a requirement for an additional 16,300 housing units for the city by 2026.

The Council recognises that the number of new affordable homes available needs to be increased, and the Executive has made a commitment to build 365 new homes per year. Following the removal of the Housing Revenue Account borrowing cap in October 2018, the Council is exploring the opportunity to build new council owned homes.

### 2.5 Wider Partnership Working

#### 2.5.1 COMMUNITY BUDGETING

Southampton has trialled a Community Budgeting approach across skills, employment and criminal justice agencies to meet defined collective outcomes on a 'Performance by Results' (PBR) basis, and the mechanism is still in place to respond to opportunities. City Deal funded employment programmes to support long term unemployed people and young people Not in Education, Employment or Training (NEET) came to an end in December 2018. Some of this funding was delivered under contract using Payments by Results, and some new contracts using the previous City Council grant provision have been commissioned using this methodology. These programmes will be subject to evaluation to determine the effectiveness of the approach.

#### 2.5.2 SOCIAL IMPACT BONDS

As part of The Big Lottery, funding can be secured for projects to improve service provision. One of these approaches is provision of services via a Social Impact Bond (SIB). A SIB involves an investor giving funding to a provider for a services with payment by the local authority being made when successful, normally though a preferred option of payments by results.

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The benefit of this is that revenue savings can be achieved for the local authority and the investor looks to receive a 6%-8% return on their investment. If a successful bid is made to the Big Lottery they can provide up to 15% of the total cost of a SIB scheme.

The council does not currently have any SIB schemes in place, however it will continue to explore areas where they may prove beneficial.

### 2.5.3 ONE PUBLIC ESTATE

Southampton continues to be involved in the national One Public Estate Programme which is delivered in partnership by the Local Government Association and the Office of Government Property (OGP) within the Cabinet Office. This programme seeks to bring about change through joint working with other public sector partners focusing on the delivery of jobs, homes, reducing running costs and income from property sales. The Southampton One Public Estate Board which includes regeneration from across the public sector in the city has been successful in securing funding from this programme for investigating a range of projects which have joint working opportunities.

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### 3.1 Forecast Financial Position 2019/20 – 2022/23

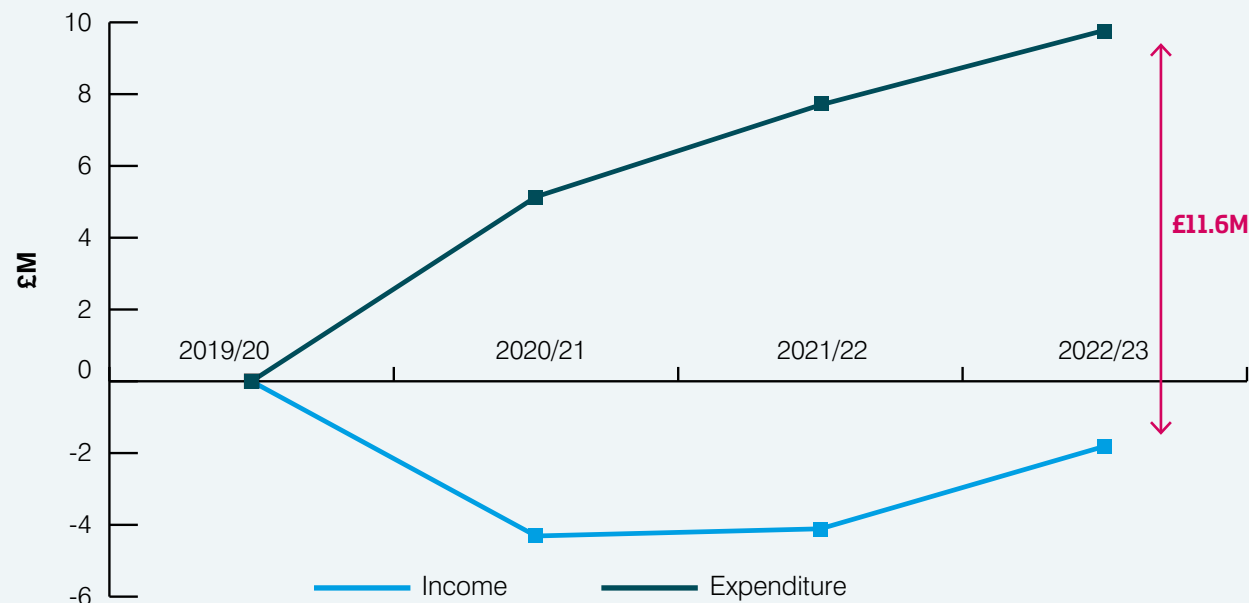
The Council's current forecast financial position is detailed below and includes the implications of the PLGFS, implementation of the transformation agenda, and will be reviewed each year of budget setting to reflect any new pressures and any revision to the Council Strategy.

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 2022/23 as reported to Council in February 2019.

Table 7 below shows the current summary position, with the detail being included in Annex 1.

This shows the Council is required to make £11.6M savings over the period to 2022/23. There is an expected increase in expenditure of £9.8M and a reduction in income of £1.8M.

#### Revenue position



**TABLE 7 SUMMARY OF SAVINGS REQUIREMENTS**

	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Net Expenditure	190.60	195.74	198.30	200.38
Baseline Funding	(190.60)	(186.28)	(186.47)	(188.77)
<b>SAVINGS REQUIREMENT</b>	<b>0.00</b>	<b>9.46</b>	<b>11.83</b>	<b>11.60</b>

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### 3.2 Pressures

Table 8 summarises the pressures that have been included in the medium term financial forecast in annex 1. These have arisen 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 8 SUMMARY OF PRESSURES**

Outcome	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Southampton is a city with Strong Sustainable Growth	1.77	1.77	1.77	1.77
Children & Young People get a Good Start in Life	4.88	4.10	3.50	3.26
People in Southampton live safe, healthy, independent lives	10.09	10.09	12.09	13.09
A sustainable modern council	0.10	0.10	0.10	0.10
Southampton is an attractive and modern city, where people are proud to live and work	0.86	0.46	0.36	0.36
<b>TOTAL PRESSURES</b>	<b>17.71</b>	<b>16.52</b>	<b>17.82</b>	<b>18.58</b>

### 3.3 New investments

Capital investments linked to Council Priorities have been included in the updated Capital Programme 2018/19 to 2022/23. In addition, a further investment is to be made in developing the Council's Green Strategy Charter. A sum of £0.03M has been allocated to help facilitate the creation of this charter, alongside partners. Further investment is expected once the plan has been developed. Any revenue implications will be built into the MTFS in due course as relevant.

### 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 Council's Commercialisation Strategy. Income generation targets form part of the overall savings programme to reduce the Council's budget gap. Once proposals are more certain the income generation assumptions contained within the Medium Term Financial Model 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 commitments. Whilst these contracts can be monitored and performance managed to ensure they deliver value for money, it can be lengthy and more difficult to renegotiate these contracts to reduce expenditure. The financial health of these major contractors is kept under review as part of the monitoring arrangements.

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 December 2031. The annual fee (Unitary Charge) is £6.69M supported by an income stream (PFI credits from Government) of £3.86M.

The Department for Education (DfES) have supported the Council in reviewing the PFI contracts with the aim of driving out savings. The Council is working with the three schools, Pyramid and their sub-contractor, Interserve, to identify opportunities to reduce the variable costs of the PFI.



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Based on current projections there is an expected shortfall in funding estimated at £3.5M by the end of the Agreement in 2031 mainly due to revised inflation factors as measured by the Retail Price Index (RPI) and reduced payback from a sinking fund set up in 2010 to generate funds to pay for Unitary Charges of the project. A review is in progress to determine how the shortfall can be addressed and it is anticipated that this review will be completed in 2019/20. An action plan is being developed. Additionally, negotiations with the three PFI schools are underway in order to agree a new Deed of Variation in order to mitigate this pressure.

Savings have already been made by 'mothballing' unused classroom facilities and further proposals are being investigated to find savings from other areas within the contract. The further options currently being reviewed include:

- Relaxing hand-back conditions;
- Removing Soft Services;
- Lifecycle;
- Refinancing;
- Change in Law; and
- Insurance.

### **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 Environmental 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 original contract was for a 25 year period until 2025 and has been extended to 2030. The Council is delivering savings in the contract, which is due to the agreed contract extension. The annual cost to the council is approximately £7.7M per annum.

### **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 outsourced Customer Services, Local Taxation and Benefits, Procurement, Information Technology, Printing, Health and Safety and Human Resources operations to Capita via the SSP in October 2007. In July 2018 the Council made the decision to terminate the contract and bring these services back in house by July 2019.

### **E) Highways Service Partnership (HSP)**

The HSP with Balfour Beatty Living Places commenced on 4 October 2010 and has been extended to run until 3 October 2025 following agreement of a package of savings and changes to the contract. The services covered include highway maintenance, scheme delivery, network management, winter gritting and asset management.

The annual Lump Sum is £2.9M. Current capital and miscellaneous variable spend through the contract is around £10M p.a.

### **F) City Watch**

The City Watch contract commenced on 1 October 2012 and has been extended to run until 3 October 2025. The services provided include public safety CCTV cameras and their monitoring, Intelligent Traffic Systems, asset management, Housing Concierge and asset investment and routine repairs.

The annual Lump sum payment for the services is £1.2M.

### **G) Street Lighting PFI**

The Street Lighting PFI was 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 lanterns to create new energy efficient lighting,

## SECTION 3. The financial challenge

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. The annual 'Unitary Charge' is currently £4.0M. Energy costs associated with the contract are variable but are around £0.7M p.a.

### 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 £1.2M.

### I) Southampton Guildhall

The Council entered into a contract on 10 February

2003 with Live Nation (formerly known as Clear Channel) to manage Southampton Guildhall. The contract expires in 2023 and is extendable by a further five years. The net cost of the contract is £0.5M p.a. which consists of a management fee or subsidy. Live Nation pay the Council £0.3M for service and energy charges.

### 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.

The forecast position for Southampton City Council's share of the Collection Fund, utilising the Key Assumptions is shown in Table 10 below.

**TABLE 10 COLLECTION FUND ASSUMPTIONS**

### 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:

- Following the Chancellor's announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing have been lifted. This means that the previous Southampton City Council HRA 'debt cap' of £199.6M has been removed, and there is now the emphasis for councils to plan their new build strategy and financing at a local level. The process for identifying priorities and sites for new build developments is now taking place and is expected to form the basis of a new delivery strategy in 2019.
- 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.
- Investment in existing properties can be achieved within the previous borrowing limit of £199.6M, also known as the 'debt cap'. Additional borrowing provision above this amount has only been made for regeneration/stock replacement.

	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
<b>Council Tax - General Precept</b>	92.71	95.12	97.22	99.06
<b>Council Tax - Adult Social Care Precept</b>	7.04	7.04	7.04	7.04
<b>Business Rates</b>	78.06	55.90	58.27	59.36

\*It should be noted that 2019/20 is a 75% business rate retention pool pilot year and that the one off benefit from the pool will be utilised in 2020/21.

## SECTION 3. The financial challenge

- A provision of £131M (including inflation adjustment) 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 4 and year 30 of the Plan.
- The revenue budget meets the minimum balances of £2M over the life of the Plan.

There has been an increased requirement for capital expenditure in 2019/20 to fund the additional costs of the identified remedial works following the Grenfell Tower disaster. There has also been an additional cost pressure for the capital programme in relation to further regeneration works required for the Townhill Park scheme. These pressures, alongside the additional savings requirement for a Reduction in Contribution to Capital Funding from revenue financing has meant that additional borrowing has been required in 2019/20, as well as a deferral in repayment of loans which have instead been refinanced over a longer period of time. The HRA 30 year Business Plan is still sustainable, and the cost pressures are all expected to be short term occurrences.

The Welfare Reform & Work Bill 2015 - 16 imposed a 1% per annum reduction in rents charged to tenants for a 4 year period from 2016 to 2020. Savings proposals for the years 2016/17 to 2018/19 have been agreed at previous February Full Council budget setting meetings. For 2019/20, there is a budget gap

of £3.15M and increasing to £6.57M (a further £3.42M) in 2019/20. A budget savings proposal was put to Cabinet for approval in February 2019 to take effect for the 2019/20 financial year.

The 2019/20 financial year contains a 53 week rent year, which takes place every 6 to 7 years, taking into account the 'spare' days that make up a regular 365 day, 52 week year. The Universal Credit arrangements for a 53 week rent year are currently still under review by Central Government, so an appropriate adjustment to the provision for bad debt has been taken into account for the residents in receipt of Universal Credit.

### 3.8 Capital

Planned Capital Expenditure and the associated financing is detailed within the Capital Programme report for approval by Council in February 2019. The impact of revenue saving proposals for 2019/20 and future years along with any Executive Commitments on the Capital Programme have been considered by the Council's Capital Board and have been integrated into the proposed Capital Programme for 2018/19 to 2022/23. The proposed Programme totals £406M and includes £184.1M for the General Fund and £221.6M for the HRA. The General Fund Capital Programme includes the following major commitments:

- £80.4M for the secondary schools review and expansion programme;
- £18.4M for integrated transport schemes; and

- £4.7M for electric vehicles and replacement refuse collection vehicles.

Consideration has also been given to the most appropriate use of Capital Resources in supporting the programme and meeting the Executive Commitments and the desired Outcomes for the City. All the revenue implications of the capital projects are built into both the General Fund Estimates and Housing Revenue Account Business Plan.

### 3.9 General Fund Balance

In accordance with the best practice guidance issued by CIPFA, the minimum level of General Fund balances is reviewed and risk assessed on an annual basis.

The Service Director Finance & Commercialisation recommends that the minimum level of the General Fund Balances should be £10.0M. This is derived by taking a risk-based approach to assessing the overall General Fund Revenue Account, including reviewing income volatility and realism of income targets, interest rate exposure, third party provider risks, 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.

## SECTION 3. The financial challenge

Annex 1 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 £10.0M at the end of 2018/19.

### 3.10 Earmarked Reserves

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.

The financial risks facing the Council in the medium term are assessed within the MTFS. This includes assessing the risk of continuing reductions in Central Government funding; the subsequent budget shortfalls that the Council then faces and overall local and national economic factors which can affect the financial stability of the Council.

In light of the increasing level of risk and uncertainty identified within the MTFS and the increased probability of resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. Each year as part of closing the accounts a view is taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk resulting in the rationalisation of reserves and provisions where possible and in some cases additional funding being set aside. The most significant risk reserves are listed below:

#### Medium Term Financial Risk Reserve

Following on from the compilation of the Council's MTFS, and the identification of the risks that are 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, monies have been set aside to mitigate these risks on a non-recurrent basis.

#### Taxation Reserve

Due to the volatile nature of business rates, the possible recession in 2019/20, the intended move to 75% Business Rate Retention in 2020/21, and the unknown consequences of exiting the European Union, monies have been set aside to mitigate against any loss of income from both this and council tax, to enable a smoothing of the impact should the anticipated level of income not be achieved.

#### Capital Funding Risk Reserve

The Council now has a number of options available for the use of capital receipts to meet the cost of both revenue and capital projects. Monies have been put aside to meet the potential shortfall in or timing of receipt of capital funding to mitigate the impact on the general fund revenue account.

#### Digital Strategy Reserve (Formerly Transformation Reserve)

To ensure the Council can continue to transform and innovate in order to reduce costs whilst improving

outcomes, a reserve is set aside to pump prime this activity.

#### Organisational Design Reserve

The reserve holds monies to meet the financial cost of redundancies as a result of organisation design changes for the period of the MTFS.

Bearing in mind the current pressures detailed in the report it is recommended that should any underspends or additional monies become available during each financial year they are applied to the key risk reserves with a recommendation that at the end of 2018/19 the Taxation Reserve is given priority.

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 uncertainty and risk.

### 3.11 Efficiency Plan

As part of the Local Government Finance Settlement announced in December 2015 the Government gave local authorities the offer of a 4 year settlement and additional flexibility regarding the use of capital receipts, providing the Council publish an Efficiency Plan.

Full Council gave approval to the Efficiency Plan and to accept the 4 year funding settlement at its meeting in September 2016. The MHCLG was informed of the acceptance of this offer on the 14th October 2016. It should be noted that this is a minimum funding guarantee.

## SECTION 3. The financial challenge

The full efficiency plan is contained in Annex 2 of this strategy. However the Efficiency Strategy is included within the next section.

### 3.11.1 EFFICIENCY STRATEGY

Considering the continued financial challenge facing the Council there has been an increased need for fundamental, transformational change across the organisation, in both the services it delivers and how it delivers them. This programme has in part been achieved with elements, such as digitalisation and commercialisation, currently in the early stages of progress. These are the main drivers to ensuring the council has a balanced and sustainable set of services.

The Efficiency Strategy can be seen as a number of streams:

#### Operating Model

A new operating model has been introduced and included the implementation of a new organisation structure to support outcome based budgeting and reduce budget envelopes. This was achieved by reducing the top layers of the Council so the Council's structure reflects a smaller number of management layers with broader spans of control. The Council is, in the main, a people driven organisation, with a large proportion of our expenditure is linked to staff costs. As such, the restructuring in support of the new operating model extended beyond the management

tiers mentioned above. Further phases of staff consultation and restructures have been and are being undertaken and implemented linked to the Outcome Based Planning & Budgeting process to identify level and needs for services and support.

#### Digital

A fundamental review of the Council's use of technology, with the objective of positioning this not merely as an essential tool for the delivery of services, but rather an intrinsic part of the Council's future 'DNA'. The Council aims for its customers to have an increased and better ability to self-serve, online, at a time that suits them, while ensuring that the requisite support is available for customers who do not have the skills or means to interact with us digitally. The 'Digital' programme comprises two elements. The first focused on 'digitising' high volume, high cost services in order to drive efficiencies through the automation of process and enhanced levels of integrated workflow solutions. The second element will build on this fundamental step to position the Council as a 'digital' organisation by facilitating better integration of services across departments, ensuring better and more seamless customer journeys. These initiatives will enable the Council to operate a leaner structure, whilst also delivering savings in third party spend (with contractors and suppliers) and assets (such as property and office accommodation). These will be through enabled reductions in facility requirements, customer contact

structures, consolidation of back office and corporate service functions and retirement of old IT legacy. This is currently being progressed through the implementation of an Enterprise Resource Planning System.

#### Service Excellence & Prioritisation

A Service Excellence review has enabled an 'organisational development' programme that looks to address the need for efficiencies through the deployment of performance management and improvement processes aimed at freeing up staffing capacity as well as addressing service standards, through a planned and better focus on service objective setting, KPI management and measurement, workflow, and agile team based working.

#### HR policies and procedures

Various efficiency improvement initiatives relating to staffing considerations, including vacancy management, the management of temporary and agency staff, sickness and absence management, and exit process.

#### Procurement & Contract Management

A review of the Council's expenditure on third party service provision, including the re-procurement of services to secure better market rates, as well as a more fundamental look and consideration of the actual need for future services and the introduction of measures that can help suppress demand in the first place.

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### Commercialisation

A Commercialisation Strategy has been developed. The principles of the strategy have been implemented to ensure that there is a co-ordinated, focused approach to maximise commercial opportunities where available, providing a positive contribution to the Council's overall financial sustainability whilst enhancing the reputation of the Council in the provision of its services.

The Commercialisation strategy is intended to be an overarching strategy that aims to support the provision of high to medium quality services at a competitive price, but in most instances the price needs to cover the total cost of providing the service. The Council will provide the right services, to the right markets, at the right time and at the right price. It is also recognised that in some areas a valid commercialisation strategy will be to retreat from provision.

The strategy is to ensure where possible that the Council is maximising profit either through increasing use of profitable services delivered and/or minimising costs at the same time as utilising the council's brand and enhancing its reputation leading to sustainable growth.

One option being considered is the use of a Local Authority Trading Company.

### Council Companies & Partnership Arrangements

In July 2018 the Council made the decision to

terminate its long term contract with its Strategic Partner and bring these services back in house by July 2019.

Additionally, Southampton City Council on the 15th of September 2014 entered into a limited liability partnership with PSP Facilitating Limited and PSP Southampton LLP for a minimum period of 10 years. The aims and aspirations of the Partnership are as follows:

- Overall to be a facilitating organisation and development partner for the Council enabling it to better realise the efficient management of its assets by unlocking value and reducing liabilities in relation to the Council's operation properties and investment properties;
- To undertake specific regeneration opportunities by entering into land transactions that achieve the success Criteria in a way that maximises the commercial benefits of the Sites;
- To act as a facilitating organisation giving the Council choice as to how it pursues its asset management plans; and
- To assist in achieving broader social, economic and environmental outcomes.

A partnership sharing agreement is drawn up for each specific opportunity that developed through the LLP and will be dependent on the nature of the activity to be undertaken.

Further, the Council is currently reviewing options to set up further companies as required to support large scale development opportunities working in collaboration with funding partners. In particular to support the affordable housing programme and extra care housing.

### Prevention and Early Intervention Approach

The Council has also embarked on a programme of reshaping its resources to invest in prevention and early intervention to achieve better outcomes for residents and reduce costs in the longer term. The first areas of focus are social care services for children and adults.

### 3.12 Outcomes Based Planning and Budgeting

The Council introduced a focused approach on Outcomes Based Planning and Budgeting in 2017/18 which looks at utilising decreasing resources towards agreed priorities and outcomes. Work will continue to further implement this process.

The Council has reviewed its current expenditure on an outcomes basis and from this baseline point has determined what the appropriate level of spend needs to be to deliver on its agreed priorities, within the financial envelope available.

## SECTION 3. The financial challenge

The outcome based budgeting process, along with the introduction of business academies, has been continued in setting the 2019/20 and future years budgets and will continue to be refined to ensure resources are directed towards the agreed priorities.

### 3.13 Addressing the Budget Gap

The Council has a current budget gap of £11.59M up to the end of 2022/23. The approach to addressing this gap can be seen within a number of work programmes;

- Business as usual monitoring and budget reviews throughout the year;
- The implementation of outcome based budgeting to clearly link business planning and budgeting and focus on service outcomes;
- A review of major contracts;
- The progression of the Council's digitalisation agenda, with the introduction of an Enterprise Resource Programme; and
- The continued implementation of the commercialisation agenda.

### 3.14 Managing Budgets and Forecasting

In setting the annual budget and the MTFs the Council will ensure potential risks are assessed and managed so that their impact is minimised or accounted for either via Contingencies, Balances or Earmarked Reserves as is necessary.

In year, the Council will monitor its revenue and capital budgets (including the HRA) on a monthly basis and report to Cabinet on a quarterly basis.

#### Accountability and Responsibility

Whilst the responsibility lies with the Service Director for Finance & Commercialisation for reporting to Cabinet the financial position, the responsibility and accountability for the financial position of the services lies with the budget holder.

All budget holders are responsible for ensuring external income is maximised for their service and for seeking out new opportunities to generate income.

If the budget holder cannot resolve issues within their own service area budgets these should be dealt with by Service Directors and Chief Officers.

Where pressures are identified action plans are required to be agreed and implemented in year which look to address in year pressures and identify ongoing pressures that may need to be addressed as part of setting the budgets over the medium term.

Intensive Care meetings have recommenced. It is expected that these meetings and the requirement for action plans will continue into 2019/20, with an overarching expectation that pressures arising must be accommodated within the overall service budgets.

#### Finance Business Partnering

A Finance Business Partnering service was created in the Finance Service restructure in 2017 in order to support Service Directors and Managers in the financial management of their services.

The main focus of the Finance Business partner in supporting services is to:

- Look at a specific business problem and propose solutions based on research and insight;
- Perform and analyse benchmarking against other areas and services to drive business decision making;
- Work with business intelligence to understand activity and cost drivers;
- Support services to look at the totality of investment against objectives;
- Support services to focus on being sustainable;
- Support services in developing business cases;

## SECTION 3. The financial challenge

- Work to better understand, manipulate and extract better outcomes from contracts – improving deliverables and forward planning procurement exercises;
- Perform sensitivity analysis across whole systems to understand links between variables and support to make optimal interventions; and
- Support with project managing change through greater involvement in strategic decision making.

### 3.15 Governance Framework for Updating and Monitoring the Medium Term Financial Model

The Medium Term Financial model is a dynamic model and as such will be changing constantly. It is anticipated that this model will be updated on a quarterly basis via the Quarterly Financial Monitoring Reports. A major review will 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.



## Conclusion

This MTFS provides a robust framework for setting the budget for 2019/20 and ensuring the Council remains in a sustainable financial position over the medium term. The current forecast position is still very challenging. The Council will have seen a significant reduction in its grant funding alongside increasing demand for services and funding reducing at an unprecedented rate. This has, however, given the opportunity for the Council to reshape how it currently operates and interact with its customers and to develop the Outcomes and Priorities for the Council in the provision of services to the City.

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The 2019 Spending Review, implementation of the Fair Funding Review and changes to the Business Rate Retention Scheme are likely to present further challenges. However, participation in the 100% Business Rates Retention (BRR) pilot in 2018/19 and the opportunity to be part of the 75% BRR pilot in 2019/20 has afforded the council some insight into the funding opportunities in the medium term and the potential for additional growth funding to support the wider Solent Region.

# ANNEX 1. GENERAL FUND REVENUE ACCOUNT

Approved budget as at Feb 2018	Approved 2018/19 budget £M	Forecast changes £M	Revised 2018/19 budget £M	Approved 2019/20 budget £M	Forecast changes £M	Revised 2019/20 budget £M	Approved 2020/21 budget £M	Forecast changes £M	Revised 2020/21 budget £M	Approved 2021/22 budget £M	Forecast changes £M	Revised 2021/22 budget £M	Approved 2022/23 budget £M	Forecast changes £M	Revised 2022/23 budget £M
Southampton is a city with Strong Sustainable Growth	9.56	3.35	12.92	9.00	1.75	10.75	8.79	0.47	9.25	8.79	1.69	10.48	8.79	1.69	10.48
Children and Young People In Southampton Get a Good Start In Life	40.96	1.03	41.99	37.25	2.64	39.88	37.25	0.34	37.58	37.25	0.12	37.37	37.25	(0.12)	37.12
People in Southampton live safe, healthy, independent lives	53.24	7.46	60.70	46.75	11.96	58.71	47.53	10.14	57.67	47.53	12.06	59.59	47.53	13.06	60.59
Southampton is an attractive, modern city where people are proud to live and work	29.55	(6.29)	23.26	28.44	(0.99)	27.46	28.44	(2.73)	25.71	28.44	(0.51)	27.93	28.44	(0.51)	27.93
A Modern Sustainable Council	23.33	4.90	28.23	20.47	(0.18)	20.29	19.03	(1.89)	17.14	19.03	(2.28)	16.75	19.03	(2.28)	16.76
Other Inflationary Pressures	5.25	(0.91)	4.34	13.16	(2.96)	10.20	19.41	0.96	20.37	19.51	(2.96)	16.55	19.51	(2.97)	16.54
<b>Outcome Expenditure</b>	<b>161.90</b>	<b>9.54</b>	<b>171.44</b>	<b>155.06</b>	<b>12.23</b>	<b>167.29</b>	<b>160.44</b>	<b>7.28</b>	<b>167.73</b>	<b>160.54</b>	<b>8.11</b>	<b>168.66</b>	<b>160.54</b>	<b>8.87</b>	<b>169.42</b>
Capital Asset Management	11.39	(0.44)	10.95	17.69	(1.36)	16.33	19.99	(2.63)	17.36	19.99	(1.32)	18.67	19.99	0.00	19.99
Levies & Contributions	0.63	0.00	0.63	0.63	0.00	0.63	0.63	0.00	0.63	0.63	0.00	0.63	0.63	0.00	0.63
Other Expenditure & Income & Centrally Held Allocations	6.94	(5.88)	1.07	11.88	(5.84)	6.03	15.12	(6.10)	9.02	15.12	(5.79)	9.33	15.12	(4.79)	10.33
Transfer to Reserves	(1.18)	1.18	0.00	0.00	0.31	0.31	0.00	1.00	1.00	0.00	1.00	1.00	0.00	0.00	0.00
<b>NET REVENUE EXPENDITURE</b>	<b>179.70</b>	<b>4.40</b>	<b>184.10</b>	<b>185.26</b>	<b>5.34</b>	<b>190.60</b>	<b>196.18</b>	<b>(0.45)</b>	<b>195.74</b>	<b>196.28</b>	<b>2.01</b>	<b>198.30</b>	<b>196.28</b>	<b>4.09</b>	<b>200.38</b>
<b>Funding</b>															
Other Government Grants	(1.51)	(4.40)	(5.91)	(0.70)	(4.07)	(4.77)	(0.70)	(0.60)	(1.30)	(0.70)	(0.55)	(1.25)	(0.70)	0.09	(0.61)
Revenue Support Grant	0.00	0.00	0.00	(10.79)	10.79	0.00	(10.79)	0.00	(10.79)	(10.79)	0.00	(10.79)	(10.79)	0.00	(10.79)
New Homes Bonus	(5.20)	0.00	(5.20)	(5.00)	0.23	(4.77)	(4.30)	0.44	(3.86)	(4.30)	1.41	(2.89)	(4.30)	1.49	(2.82)
New Homes Bonus Returned Funding	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Adult Social Care Grant	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Top Up Grant	28.29	0.00	28.29	(4.55)	14.67	10.12	(4.55)	0.00	(4.55)	(4.55)	0.00	(4.55)	(4.55)	0.00	(4.55)
S31 Business Rates Grants	(6.14)	0.00	(6.14)	(4.11)	(2.04)	(6.15)	(4.16)	(1.51)	(5.67)	(4.24)	(0.23)	(4.47)	(4.24)	(0.31)	(4.55)
<b>Collection Fund Account</b>															
Business Rates	(93.35)	0.00	(93.35)	(48.77)	(21.87)	(70.64)	(51.18)	2.80	(48.38)	(52.36)	1.65	(50.71)	(52.36)	0.56	(51.80)
Southampton is a city with Strong Sustainable Growth - Business Rates Growth	(5.86)	0.00	(5.86)	(5.91)	(1.50)	(7.42)	(5.97)	(1.55)	(7.52)	(5.97)	(1.58)	(7.56)	(5.97)	(1.58)	(7.56)
Business Rates Retention Pool Growth Funding					(3.23)	(3.23)		(2.05)	(2.05)						
Council Tax	(86.95)	0.00	(86.95)	(88.80)	(1.00)	(89.80)	(90.68)	(1.00)	(91.68)	(92.62)	(1.00)	(93.62)	(92.62)	(2.84)	(95.47)
Adult Social Care Council Tax Levy	(6.99)	0.00	(6.99)	(7.04)	0.00	(7.04)	(7.04)	0.00	(7.04)	(7.04)	0.00	(7.04)	(7.04)	0.00	(7.04)
Southampton is a city with Strong Sustainable Growth - Council Tax Growth	(2.00)	0.00	(2.00)	(2.63)	(0.28)	(2.91)	(2.71)	(0.73)	(3.44)	(2.76)	(0.83)	(3.59)	(2.76)	(0.83)	(3.59)
Collection Fund Surplus	0.00	0.00	0.00	0.00	(4.00)	(4.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL FUNDING</b>	<b>(179.70)</b>	<b>(4.40)</b>	<b>(184.10)</b>	<b>(178.31)</b>	<b>(12.30)</b>	<b>(190.60)</b>	<b>(182.08)</b>	<b>(4.20)</b>	<b>(186.28)</b>	<b>(185.35)</b>	<b>(1.13)</b>	<b>(186.47)</b>	<b>(185.35)</b>	<b>(3.43)</b>	<b>(188.77)</b>
<b>Savings Requirement</b>	<b>(0.00)</b>	<b>(0.00)</b>	<b>(0.00)</b>	<b>6.95</b>	<b>(6.96)</b>	<b>(0.00)</b>	<b>14.10</b>	<b>(4.65)</b>	<b>9.46</b>	<b>10.94</b>	<b>0.88</b>	<b>11.83</b>	<b>10.94</b>	<b>0.66</b>	<b>11.60</b>

## Housing Revenue Account

HOUSING REVENUE ACCOUNT	2018/19 budget £M	2019/20 budget £M	2020/21 budget £M	2021/22 budget £M	2022/23 budget £M
Net rent Income	(69.63)	(69.66)	(70.54)	(72.47)	(74.07)
Service charges & other income	(2.82)	(3.42)	(3.87)	(3.96)	(4.04)
RTB Admin	(0.13)	(0.10)	(0.10)	(0.10)	(0.10)
<b>TOTAL INCOME</b>	<b>(72.58)</b>	<b>(73.18)</b>	<b>(74.51)</b>	<b>(76.53)</b>	<b>(78.21)</b>
Management	21.57	21.12	21.89	22.58	23.07
Contribution to Depreciation Reserve	19.53	19.95	20.51	21.10	21.47
Responsive & Cyclical Repairs	14.79	15.03	15.33	15.52	15.63
Other Revenue spend	0.10	0.17	0.12	0.12	0.13
<b>Total service expenses</b>	<b>55.99</b>	<b>56.27</b>	<b>57.85</b>	<b>59.32</b>	<b>60.30</b>
Capital Charges	6.16	6.49	6.65	6.90	7.04
Repayment of loans	5.96	10.32	10.01	0.25	4.00
Revenue Contribution to capital spending	4.47	0.10	0.00	12.76	9.57
<b>TOTAL EXPENDITURE</b>	<b>72.58</b>	<b>73.18</b>	<b>74.51</b>	<b>79.23</b>	<b>80.91</b>
Savings Requirement	0.00	0.00	0.00	2.70	2.70
<b>(Surplus) /Deficit for the Year</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

## CAPITAL PROGRAMME - 2018/19 TO 2022/23

Programme	Forecast 2018/19 £M	Forecast 2019/20 £M	Forecast 2020/21 £M	Forecast 2021/22 £M	Forecast 2022/23 £M	Total £M
Adults	0.73	0.63	0.50	0.00	0.00	1.86
Aspiration, Schools and Lifelong Learning	12.92	23.92	28.27	11.96	18.63	95.70
Clean Growth & Development	10.56	1.81	0.00	0.00	0.00	12.37
Community Wellbeing	2.49	1.94	0.00	0.00	0.00	4.43
Finance and Customer Experience	5.74	1.98	0.00	0.00	0.00	7.72
Homes and Culture	0.60	1.82	0.00	0.00	0.00	2.42
Transport and Public Realm	38.37	18.22	3.01	0.00	0.00	59.61
<b>TOTAL GENERAL FUND PROGRAMME</b>	<b>71.41</b>	<b>50.32</b>	<b>31.78</b>	<b>11.96</b>	<b>18.63</b>	<b>184.11</b>
Housing Revenue Account	53.16	54.63	39.21	35.60	38.99	221.59
<b>TOTAL CAPITAL PROGRAMME</b>	<b>124.57</b>	<b>104.95</b>	<b>70.99</b>	<b>47.56</b>	<b>57.62</b>	<b>405.70</b>
<b>Capital Programme Financing</b>						
Council Resources - GF Borrowing	(24.47)	(16.50)	(11.63)	(11.96)	(18.59)	(83.15)
Council Resources - HRA Borrowing	(19.25)	(10.33)	(8.54)	(3.61)	(6.91)	(48.64)
Capital Receipts	(18.43)	(10.03)	(2.86)	(3.16)	(2.42)	(36.90)
Contributions	(12.95)	(11.16)	(7.23)	(7.79)	(8.13)	(47.26)
Capital Grants	(24.66)	(21.17)	(19.30)	0.00	(0.04)	(65.17)
Revenue Financing	(10.66)	(5.79)	(0.99)	0.00	0.00	(17.44)
HRA - MRA	(14.15)	(29.97)	(20.44)	(21.04)	(21.53)	(107.13)
<b>TOTAL PROGRAMME FINANCING</b>	<b>(124.57)</b>	<b>(104.95)</b>	<b>(70.99)</b>	<b>(47.56)</b>	<b>(57.62)</b>	<b>(405.70)</b>

## ANNEX 2. SOUTHAMPTON CITY COUNCIL Efficiency Plan 2018/19 to 2021/22

### Background

The Council's City Efficiency Plan for the period 2018/19 to 2021/22 incorporates the detail contained within the Medium Term Financial Strategy (MTFS) and its Capital Strategy. These are framed by the overarching City Vision and Council Strategy.

The four key outcomes for the Council are:

- Southampton is an attractive and modern city where people are proud to live and work;
- Children and Young People in Southampton get a good start in life;
- Southampton is a city with strong sustainable economic growth; and
- People in Southampton live safe, healthy independent lives.

The Council Strategy summaries these Outcomes and the priorities of the Council, how we expect to deliver the services that support those priorities, and who the Council will work in partnership with to deliver those services.

### Medium Term Financial Strategy

The MTFS focuses on determining the financial position for the period up to and including 2022/23 and takes into account major issues affecting the Council's finances, including international, national and regional economic influences as well as local factors and priorities. It identifies risks and looks to mitigate those risks through provisions within reserves and balances to ensure the council has adequate resources to cover the uncertainty and risk.

This MTFS forms part of the base assumptions for developing the overall budget, together with unavoidable service pressures agreed by the Cabinet and the Council's Management Team (CMT) that need to be taken into account in the overall budget deliberations.

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 of achieving better outcomes for residents.

### Addressing the Budget Gap

The Council has a current budget gap of £11.60M up to the end of 2022/23. The approach to addressing this gap can be broadly seen within three work programmes;

- Business as usual monitoring and budget reviews throughout the year;
- The implementation of outcome based budgeting to clearly link business planning and budgeting and focus on service outcomes;
- A review of major contracts;
- The progression of the Council's digitalisation agenda, with the introduction of an Enterprise Resource Programme; and
- The continued implementation of the Commercialisation Strategy.

## ANNEX 2. SOUTHAMPTON CITY COUNCIL Efficiency Plan 2018/19 to 2021/22

### Efficiency Strategy

Considering the continued financial challenge facing the Council there has been an increased need for fundamental, transformational change across the organisation, in both the services it delivers and how it delivers them. This programme has in part been achieved with elements, such as digitalisation and commercialisation, currently in the early stages of progress.

These are the main drivers to ensuring the council has a balanced and sustainable set of services.

The Efficiency Strategy can be seen as a number of streams:

#### Operating Model

A new operating model has been introduced and included the implementation of a new organisation structure to support outcome based budgeting and reduce budget envelopes. This was achieved by reducing the top layers of the Council so the Council's structure reflects a smaller number of management layers with broader spans of control. The Council is, in the main, a people driven organisation, with a large proportion of our expenditure is linked to staff costs. As such, the restructuring in support of the new operating model extended beyond the management tiers mentioned above. Further phases of staff consultation and restructures have been and are being undertaken

and implemented linked to the Outcome Based Planning & Budgeting process to identify level and needs for services and support.

#### Digital

A fundamental review of the Council's use of technology, with the objective of positioning this not merely as an essential tool for the delivery of services, but rather an intrinsic part of the Council's future 'DNA'. The Council aims for its customers to have an increased and better ability to self-serve, online, at a time that suits them, while ensuring that the requisite support is available for customers who do not have the skills or means to interact with us digitally. The 'Digital' programme comprises two elements. The first focused on 'digitising' high volume, high cost services in order to drive efficiencies through the automation of process and enhanced levels of integrated workflow solutions. The second element will build on this fundamental step to position the Council as a 'digital' organisation by facilitating better integration of services across departments, ensuring better and more seamless customer journeys. These initiatives will enable the Council to operate a leaner structure, whilst also delivering savings in third party spend (with contractors and suppliers) and assets (such as property and office accommodation). These will be through enabled reductions in facility requirements, customer contact structures, consolidation of back office and corporate service functions and retirement

of old IT legacy. This is currently being progressed through the implementation of an Enterprise Resource Planning System.

#### Service Excellence and Prioritisation

A Service Excellence review has enabled an 'organisational development' programme that looks to address the need for efficiencies through the deployment of performance management and improvement processes aimed at freeing up staffing capacity as well as addressing service standards, through a planned and better focus on service objective setting, KPI management and measurement, workflow, and agile team based working.

#### HR Policies and Procedures

Various efficiency improvement initiatives relating to staffing considerations, including vacancy management, the management of temporary and agency staff, sickness and absence management, and exit process.

#### Procurement & Contract Management

A review of the Council's expenditure on third party service provision, including the re-procurement of services to secure better market rates, as well as a more fundamental look and consideration of the actual need for future services and the introduction of measures that can help suppress demand in the first place.

## ANNEX 2. SOUTHAMPTON CITY COUNCIL Efficiency Plan 2018/19 to 2021/22

### Commercialisation

A Commercialisation Strategy has been developed. The principles of the strategy have been implemented to ensure that there is a co-ordinated, focused approach to maximise commercial opportunities where available, providing a positive contribution to the Council's overall financial sustainability whilst enhancing the reputation of the Council in the provision of its services. The Commercialisation strategy is intended to be an overarching strategy that aims to support the provision of high to medium quality services at a competitive price, but in most instances the price needs to cover the total cost of providing the service. The Council will provide the right services, to the right markets, at the right time and at the right price. It is also recognised that in some areas a valid commercialisation strategy will be to retreat from provision.

The strategy is to ensure where possible that the Council is maximising profit either through increasing use of profitable services delivered and/or minimising costs at the same time as utilising the council's brand and enhancing its reputation leading to sustainable growth. One option being considered is the use of a Local Authority Trading Company.

### Council Companies & Partnership Arrangements

In July 2018 the Council made the decision to terminate its long term contract with its Strategic Partner and bring these services back in house by July 2019.

Additionally, Southampton City Council on the 15th of September 2014 entered into a limited liability partnership with PSP Facilitating Limited and PSP Southampton LLP for a minimum period of 10 years.

The aims and aspirations of the Partnership are as follows:

- Overall to be a facilitating organisation and development partner for the Council enabling it to better realise the efficient management of its assets by unlocking value and reducing liabilities in relation to the Council's operation properties and investment properties;
- To undertake specific regeneration opportunities by entering into land transactions that achieve the success Criteria in a way that maximises the commercial benefits of the Sites;
- To act as a facilitating organisation giving the Council choice as to how it pursues its asset management plans; and
- To assist in achieving broader social, economic and environmental outcomes.

A partnership sharing agreement is drawn up for each specific opportunity that developed through the LLP and will be dependent on the nature of the activity to be undertaken.

Further, the Council is currently reviewing options to set up further companies as required to support large scale development opportunities working in collaboration with funding partners. In particular to support the affordable housing programme and extra care housing.

### Prevention and Early Intervention Approach

The Council has also embarked on a programme of reshaping its resources to invest in prevention and early intervention to achieve better outcomes for residents and reduce costs in the longer term. The first areas of focus are social care services for children and adults.

### Outcomes Based Budgeting

The Council introduced a focused approach on Outcomes Based Planning and Budgeting in 2017/18 which looks at utilising decreasing resources towards agreed priorities and outcomes. Work will continue to further implement this process. The Council has reviewed its current expenditure on an outcomes basis and from this baseline point has determined what the appropriate level of spend needs to be to deliver on its agreed priorities, within the financial envelope available.

## ANNEX 2. SOUTHAMPTON CITY COUNCIL Efficiency Plan 2018/19 to 2021/22

The outcome based budgeting process, along with the introduction of business academies, has been continued. In setting the 2019/20 and future years budgets and will continue to be refined to ensure resources are directed towards the agreed priorities.

### Earmarked Reserves

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. The financial risks facing the Council in the medium term are assessed within the MTFS. This includes assessing the risk of continuing reductions in Central Government funding; the subsequent budget shortfalls that the Council then faces and overall local and national economic factors which can affect the financial stability of the Council. In light of the increasing level of risk and uncertainty identified within the MTFS and the increased probability of resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. Each year as part of closing the accounts a view is taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk resulting in the rationalisation of reserves and provisions where possible and in some cases additional funding being set aside. The most significant risk reserves are listed below:

### Medium Term Financial Risk Reserve

Following on from the compilation of the Council's MTFS, and the identification of the risks that are 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, monies have been set aside to mitigate these risks on a non-recurrent basis.

### Organisational Design Reserve

The reserve holds monies to meet the financial cost of redundancies as a result of organisation design changes for the period of the MTFS.

### Taxation Reserve

Due to the volatile nature of business rates, the possible recession in 2019/20, the intended move to 75% Business Rate Retention in 2020/21, and the unknown consequences of exiting the European Union, monies have been set aside to mitigate against any loss of income from both this and council tax, to enable a smoothing of the impact should the anticipated level of income not be achieved.

### Capital Funding Risk Reserve

The Council now has a number of options available for the use of capital receipts to meet the cost of both revenue and capital projects. Monies have been put aside to meet the potential shortfall in or timing of receipt of capital funding to mitigate the impact on the general fund revenue account.

### Digital Strategy Reserve (Formerly Transformation Reserve)

To ensure the Council can continue to transform and innovate in order to reduce costs whilst improving outcomes, a reserve is set aside to pump prime this activity.

### Organisational Design Reserve

The reserve holds monies to meet the financial cost of redundancies as a result of organisation design changes for the period of the MTFS. Bearing in mind the current pressures detailed in the report it is recommended that should any underspends or additional monies become available during each financial year they are applied to the key risk reserves with a recommendation for the end of 2018/19 to add to the Taxation Reserve first.

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 uncertainty and risk.



## ANNEX 3. Adult Social Care – Demand Management Strategy

	Demand Management	What we are doing
1	Managing demand through the front door of the Council - How is the front-end of the service set up in relation to handling initial enquiries, and how many of these can be resolved by the staff who handle them?	<ul style="list-style-type: none"> <li>• 80% reduction in referrals</li> <li>• 3 conversations at front door</li> <li>• Re-Ablement as default</li> </ul>
2	Managing demand from acute hospitals - How is the response from the acute hospital managed and what are the outcomes for older people?	<ul style="list-style-type: none"> <li>• 30% reduction in Delayed Transfers of Care</li> <li>• Simplified discharge</li> <li>• Integration</li> <li>• Discharge to Assess</li> </ul>
3	Effective short-term interventions for people in the community - How are the initial offers of help to people designed, and can they respond with short term help that may reduce or eliminate the need for longer term solutions e.g. access to re-ablement?	<ul style="list-style-type: none"> <li>• Development of Rehab and reablement</li> <li>• Sensory clinics</li> <li>• Trusted professionals</li> <li>• URS – 41% not needing on going care</li> </ul>
4	Designing the care system for people with long term needs - How does the way in which we assist people help them to gain opportunities for greater independence in the longer term. How do we assist people to manage their long-term conditions?	<ul style="list-style-type: none"> <li>• Community clusters</li> <li>• Social Wellbeing hubs</li> <li>• Strength based model</li> <li>• Resilient communities</li> <li>• Getting people healthier</li> </ul>
5	Developing a workforce to manage demand - To what extent has the work force been commissioned/managed (trained) to deliver the best possible outcomes for citizens at all of these different levels?	<ul style="list-style-type: none"> <li>• System wide workforce development</li> <li>• Strength based adult social care certificate</li> <li>• Investing in trainee AMHPs</li> <li>• BIA training increased</li> </ul>
6	Governance and management arrangements to sustain improvements - How are managers in the authority and commissioned providers held to account for the delivery of the desired outcomes from the care system?	<ul style="list-style-type: none"> <li>• Quality Assurance framework for provider services</li> <li>• Quality and assurance improved in private providers due to Integrated Commissioning Unit/Clinical Commissioning Group</li> <li>• Quality Assurance Safeguarding role developed</li> <li>• Principal social worker</li> <li>• Development Plan</li> </ul>

## ANNEX 4. Children & Young People – Demand Strategy

Demand Management	What we are doing
<p>Managing demand through the front door of the Council - How is the front-end of the service set up in relation to handling initial enquiries.</p>	<p>The front end of the service operates a combined children’s advisory service and a multi-agency safeguarding hub (MASH) - to enhance information sharing and assessment activity in relation to safeguarding children. This part of the service experiences high levels of contacts. We are commencing an extension of our local support offer to families across City wide children’s centre and family hub resources. We will adjust current referral pathways for Early Help cases – moving from multiple entry points to a single one step front door, which is aligned to the current MASH. The benefit in creating a designated Early Help referral pathway is greater consistency for referrers, decision makers and also an improved level data across localities; so we can designate resources accordingly. A parallel benefit is a clearer message to communities about our offer, a quicker response time and the pathway being aligned to MASH will support any emerging safeguarding concerns. It is expected that this revised approach will impact on demand by local resources engaging families earlier in partnership with the local voluntary community sector, early years providers and schools.</p>
<p>Managing Looked After Children numbers within the service.</p>	<p>We operate a range of services for looked after children (LAC) where designated teams fulfil statutory functions, both in relation to assessment and provision. Connected to the above activity, we are developing jointly delivered, targeted services within localities and partnering with schools clusters and other agencies. This co-delivered activity will hold a primary objective of tackling root issues that cause family breakdown and will effectively respond to early safeguarding concerns; seeking to address difficulties that may impact a child coming into care. Our expected outcome is to promote family stability and safety and thereby reduce demand for specialist high cost services, including access to care. In addition to this, those children who are subject to formal safeguarding interventions by the LA, are being further supported by Social Workers and Edge of Care practitioners, so as to maximise potential for change and preventing the need for a care episode.</p>

## ANNEX 4. Children & Young People – Demand Strategy

Demand Management	What we are doing
	<p>We have also enhanced the family support offer so to as to create opportunity for children to return home after being in care for a period of time. It is expected that this will reduce the numbers of cases escalating toward care proceedings and ultimately becoming LAC.</p>
<p>Manage demand by keeping Children and Young People within the City to achieve reunification and permanency.</p>	<p>We are targeting activity to achieve permanence for Looked after Children as early as possible. This activity has close senior management oversight. We are exploring options, such as family reunification, special guardianship, long term fostering or adoption to return children who are placed outside of the City. This includes options such as small residential arrangements and/or specialist fostering services. We will also work with independent providers to tailor make service provision.</p>
<p>Developing a workforce to manage demand - To what extent has the work force been commissioned/managed (trained) to deliver the best possible outcomes for children at all of these different levels?</p>	<p>We have extended our Workforce Development offer across children’s services to reach a wider group of practitioners, this includes a boarder range of formal training opportunities, and work based developmental sessions and post graduate training opportunities. A whole service model of restorative practices is currently being rolled out and we are using university establishments as partners and evaluators. We have invested in programmes to recognise good practice, commitment and success and we have increased recruitment and retention in light of this.</p>
<p>Managing increasing children placements required in schools.</p>	<p>The demand strategy for the provision of sufficient places for pupils to attend school is a statutory requirement. Recent increases across the Primary phase in pupil numbers is now starting to have an effect on secondary schools. Analysis has been undertaken by the Service to project a strategic view of future placements required over the next 5 years including High Needs and a series of programmes including the construction of a new school.</p>

Demand Management	What we are doing
<p>Governance and management arrangements to sustain improvements</p>	<p>We have embedded a revised Quality Assurance framework and we now operate a monthly performance management and oversight routine. This creates an opportunity for service development, intelligence and learning to inform our integrated improvement journey. In this work we undertake regular audits and we engage with other LA's across the region as part of a peer review network and to help measure our service functions and its outcomes. The service is subject to a range of assurance and governance processes such as the local safeguarding children's board (LSCB), the children's improvement board, the multi-agency children's board and by formal political oversight at scrutiny and corporate parenting panels, led by elected members.</p>

# Agenda Item 4

## Appendix 3

### COUNCIL TAX CALCULATION 2019/20

	2018/19 £M	2019/20 £M	Change £M	%
<b>Budget Requirement (a)</b>	<b>184.1</b>	<b>191.6</b>	<b>7.5</b>	<b>4.07%</b>
Less NDR	(99.2)	(84.0)		
Plus Tariff	28.3	10.1		
S31 Grants	(6.1)	(4.1)		
Less RSG	0.0	0.0		
Other Central Grant Funding	(11.1)	(9.5)		
Aggregate External Finance	(88.2)	(87.5)	0.6	-0.71%
Deficit/(Surplus) on Council Tax Collection Fund	0.0	(4.3)		
Deficit/(Surplus) on Business Rates Collection Fund	0.0	0.0		
Net Grant Income (b)	(88.2)	(91.9)	(3.7)	4.19%
<b>Amount to be met from Council Tax (a - b)</b>	<b>95.93</b>	<b>99.75</b>	<b>3.81</b>	<b>3.97%</b>
Tax base	64,345.0	64,959.0	614.0	0.95%
<b>Basic amount of Council Tax (Band D)</b>	<b>1,490.94</b>	<b>1,535.52</b>	<b>44.58</b>	<b>2.99%</b>
Last years Council Tax		1,490.94		
Council Tax - General Increase	2.99%	44.58		
Council Tax - Social Care Precept	0.00%	0.00		
Total Annual Cash Increase		44.58		
Increase (Cash per Week)		0.86		
Total Increase (%)		2.99%		

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# Agenda Item 4

## Appendix 4

### COLLECTION FUND ESTIMATES 2019/20

	2018/19 £000	2019/20 £000	Change £000	Change %
Southampton City Council Precept	95,934.4	99,552.7	3,618.3	3.77%
Hampshire Police Precept	11,418.7	13,061.4	1,642.7	14.39%
Fire and Rescue Services Precept	4,230.2	4,389.7	159.5	3.77%
Income due from Council Tax Payers	111,583.3	117,003.8	5,420.5	4.86%
Tax Base for Area	64,345.0	64,833.3	488.3	0.76%
<b>Basic Amount of Tax for Band D Property</b>	<b>1,734.14</b>	<b>1,804.69</b>	<b>70.54</b>	<b>4.07%</b>

### Council Tax increase per Property Band 2019/20

Band	SCC Band Charge	Council Tax Increase	SCC Band Charge
	2018/19	2.99%	2019/20
A	£993.96	29.72	£1,023.68
B	£1,159.62	34.68	£1,194.30
C	£1,325.28	39.63	£1,364.90
D	£1,490.94	44.58	£1,535.52
E	£1,822.25	54.48	£1,876.73
F	£2,153.58	64.39	£2,217.97
G	£2,484.89	74.30	£2,559.19
H	£2,981.87	89.16	£3,071.03

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### **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 2011 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.
- 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 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.

## KEY FINANCIAL RISKS

The following table identifies the key financial risks to the council's financial position over the short to medium term together with a summary of the mitigating actions in place and planned. These financial risks are reflected in the assessment of the adequacy of estimates and reserves. The assessment of risk is based on the following risk scoring criteria:

LIKELIHOOD (Probability)	
<b>A - Almost Certain</b> > 95%	Highly likely to occur
<b>B - Likely</b> ↑	Will probably occur
<b>C - Possible</b> 50%	Might occur
<b>D - Unlikely</b> ↓	Could occur but unlikely
<b>E - Very Unlikely</b> < 5%	May only occur in exceptional circumstances

IMPACT (Consequence)	
<b>1 - Extreme</b>	Loss or loss of income > £20m
<b>2 - Major</b>	Loss or loss of income £10m < £20m
<b>3 - Significant</b>	Loss or loss of income £5m < £10m
<b>4 - Moderate</b>	Loss or loss of income £500k < £5m
<b>5 - Minor</b>	Loss or loss of income £10k < £500k

- **Robustness of estimates**

Key Financial Risk	INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
	Likelihood	Impact		Likelihood	Impact
FE1. <b>Pay Inflation</b> - underestimated in the original estimates.	Possible	Moderate	<ul style="list-style-type: none"> <li>• <i>The MTFS model approved in February 2018 is based on a pay award of 2% over the medium term.</i></li> <li>• <i>It should be noted that the agreed pay award is 2% per annum for 2018/19 and 2019/20.</i></li> </ul>	Unlikely	Minor
FE2. <b>Interest rates</b> are underestimated.	Possible	Moderate	<ul style="list-style-type: none"> <li>• <i>Reliance placed on market intelligence provided by Treasury Management advisors.</i></li> <li>• <i>Treasury Management Strategy is aligned with CIPFA Code and MHCLG Guidance re investing funds prudently and having regard to the security and liquidity of its investments before seeking the highest rate of return.</i></li> </ul>	Unlikely	Minor
FE3. <b>Existing fees and charges:</b> Projected levels of income within the period are not achieved and/or maintained.	Possible	Moderate	<ul style="list-style-type: none"> <li>• <i>Fees and charges have been reviewed as part of the business planning process. If there are 'in year' shortfalls these form part of the budget monitoring processes.</i></li> <li>• <i>Lower risk as existing income streams are known and are therefore more predictable</i></li> </ul>	Possible	Moderate
FE4. <b>New income streams:</b> Projected levels of income within the period are not achieved.	Possible	Moderate	<ul style="list-style-type: none"> <li>• <i>Income generating activity has been identified as part of current approved savings proposals. There is a risk that in light of the economic backdrop and exit from the European Union that these levels of income will not be achieved.</i></li> <li>• <i>Higher risk as it is based on new sources of income.</i></li> </ul>	Possible	Moderate
FE5. <b>Volatility of Business Rates funding</b> given the uncertainty around impact of successful appeals .	Likely	Significant	<ul style="list-style-type: none"> <li>• <i>The Valuations Office has undertaken a reset of rateable values from 2017/18. The provision has been reviewed in light of the revaluation and known current appeals and will be reviewed on a regular basis, at present this is deemed to be adequate.</i></li> <li>• <i>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.</i></li> <li>• <i>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.</i></li> </ul>	Unlikely	Minor

- **Robustness of estimates**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FE6.	<b>Increase in demand led spending pressures</b> (including impact of Welfare Reform, social care, safeguarding) over and above the current budget provision.	Possible	Significant	<ul style="list-style-type: none"> <li>• Annual budget setting process developed in consultation with service managers</li> <li>• Monitoring of capital (quarterly) and revenue (monthly) budgets, reported to CMT and Cabinet (Quarterly).</li> <li>• Action plans to address any significant in year budget variances are agreed with CMT with the status of the agreed actions reported to CMT on a monthly basis</li> <li>• Action plans in place that are intended to manage/reduce the number of Looked After Children</li> <li>• Additional funding for Adult Social Care has been announced by Government</li> </ul>	Possible	Moderate
FE7a.	Third party provider costs will increase as a result of the introduction of the <b>National Living Wage</b>	Almost certain	Moderate	<ul style="list-style-type: none"> <li>• As each contract is procured any impact of this will need to be assessed and addressed to ensure services are procured within budget.</li> </ul>	Possible	Moderate
FE7b.	<b>Third party provider costs increase</b> as result of SCC having to 'step in' in the event of potential provider failure (social care providers)	Possible	Moderate	<ul style="list-style-type: none"> <li>• ICU contract monitoring arrangements and general market oversight and intelligence</li> </ul>	Unlikely	Minor
FE8.	<b>Legal challenge to savings proposals</b> that could result in the proposal being either discontinued or revised.	Possible	Moderate	<ul style="list-style-type: none"> <li>• Robust budget consultation process in place.</li> </ul>	Unlikely	Minor
FE9.	<b>Pressure on returns from investment properties</b> in both the short and longer term.	Possible	Significant	<ul style="list-style-type: none"> <li>• There is a full and robust process around the financial and legal analysis of the individual investments.</li> <li>• Investments are not confined to the Southampton area.</li> <li>• No further property investment fund activity is planned.</li> </ul>	Possible	Moderate
FE10.	<b>Voluntary sector</b> is either unwilling or unable to support the delivery of certain services or activities	Possible	Significant	<ul style="list-style-type: none"> <li>• Review the overall expectation and co-ordination of the services required of the voluntary sector.</li> <li>• Consideration is given to this risk in deciding whether to design services around the voluntary sector</li> </ul>	Possible	Moderate
FE11.	The council's <b>service delivery partners</b> seek to exit an agreement or are no longer able to deliver the required service or the council seeks to reach an exit agreement.	Likely	Significant	<ul style="list-style-type: none"> <li>• Central Contracts Team monitors and work closely with the council significant service delivery partners.</li> <li>• Contractual obligations on both parties that set out the respective roles and responsibilities.</li> </ul>	Possible	Moderate



• Adequacy of proposed financial reserves

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Impact	Likelihood		Impact	Likelihood
FR1.	<b>Business Rate Retention &amp; Council Tax Growth</b> - the council fails to collect, retain and grow business rate income	Possible	Significant	<ul style="list-style-type: none"> <li>The assumption built into the MTFS is based on an annualised CPI Rate reflecting the uplift set by government.</li> <li>The current MTFS includes assumptions on growth which have been developed in conjunction with the Growth service area and recognise pipeline developments and their assumed operation dates. These will be monitored on a monthly basis as part of the standard monitoring.</li> </ul>	Possible	Moderate
FR2.	<b>Delivery of all of the agreed savings</b> is not achieved.	Possible	Major	<ul style="list-style-type: none"> <li>Progress and delivery of the overall Programme and individual projects is monitored at Service Director level, by CMT, with any non achievement forming part of the normal budget monitoring action plan process.</li> <li>CMT review the validity and achievability of projects and provide approval (or not) to projects</li> </ul>	Unlikely	Significant
FR3.	The Government could impose a lower <b>Council Tax referendum</b> threshold (currently 2.99%) and/or reduce or remove the <b>Adult Social Care Levy</b> (3%)	Possible	Moderate	<ul style="list-style-type: none"> <li>Assumption is that Council Tax rises were set at just below the 3% referendum limit in 2018/19 at 2.99% and future years at 1.99% (excluding the Adult Social Care Levy).</li> <li>The Adult Social Care Levy was only introduced as part of the Autumn 2015 Spending Review and allows local authorities with social care responsibilities to increase Council Tax by a further 3% (17-18 &amp; 18-19). No further assumptions have been made beyond 2019-20 for any increase in this income over and above the 6%.</li> <li>The MTFS assumes this levy will be taken in all years as the calculated increase in funding for adult social care far outweighs the income gained from this levy.</li> </ul>	Unlikely	Moderate
FR4.	<b>Slippage in capital receipts</b> (not accompanied by a slippage in spend).	Possible	Moderate	<ul style="list-style-type: none"> <li>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.</li> <li>Impact reflects the cost of borrowing in short term (the interest payments).</li> </ul>	Possible	Minor
FR5.	If <b>building inflation</b> was to exceed general inflation over a prolonged period, this would have a significant adverse impact on <b>HRA balances</b> and, in turn, the business model in respect of the redevelopment and refurbishment of the SCC Housing stock.	Possible	Significant	<ul style="list-style-type: none"> <li>Surpluses are liable to change annually, either favourably or not, and this will be reflected the annual review of stock investment needs and estimated unit rates.</li> <li>Monitoring and assessment of potential impact with business model sufficiently flexible to allow for reassessment of priority outcomes against available budget</li> </ul>	Possible	Moderate
FR6.	Further reduction in the Education Services Grant (ESG) through central government funding reviews as well as reductions resulting from Academy Transfers.	Almost certain	Moderate	<ul style="list-style-type: none"> <li>Costs need to be reduced in line with reductions in funding.</li> <li>Development of a strategy in terms of whether / what services SCC may choose to still offer to Academy Schools</li> </ul>	Possible	Minor
FR7.	The level of funds within the <b>internal insurance provisions</b> is inadequate to meet current or future demand	Possible	Moderate	<ul style="list-style-type: none"> <li>The adequacy of the provision is informed by the output from periodical (at least triennial) external actuarial reviews of the funds.</li> <li>The level of funding required is reviewed as part of annual budget setting process and the position, in respect of potential liabilities is reviewed on a monthly basis.</li> </ul>	Unlikely	Moderate

• Adequacy of proposed financial reserves

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Impact	Likelihood		Impact	Likelihood
FR8.	<b>Ad hoc or unforeseen events / emergencies.</b>	Possible	Significant	<ul style="list-style-type: none"> <li>The Council's Reserves may be utilised in respect of the financial impact of such an event.</li> <li>Subject to the nature of the event alternative sources of funding might be available e.g. Bellwin Scheme.</li> </ul>	Possible	Significant
FR9.	The cost of implementing the <b>Care Act 2014</b> is greater than anticipated.	Unlikely	Moderate	<ul style="list-style-type: none"> <li>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</li> <li>This funding has now been included within the Revenue Support Grant and the main implications of the Care Act have been deferred until 2019-20.</li> </ul>	Unlikely	Moderate
FR10.	<b>CCG</b> could seek to reduce its level of contribution to the 'pooled budgeting' arrangement with SCC	Possible	Significant	<ul style="list-style-type: none"> <li>Ongoing relationship and dialogue with CCG re shared objectives and outcomes.</li> </ul>	Unlikely	Moderate
FR11.	The council is unable to quantify the financial impact on both vulnerable individuals and key council services arising from implementation of <b>welfare reforms</b>	Possible	Moderate	<p>The impact of Welfare Reform on all service areas will be difficult to monitor or to mitigate against.</p>	Possible	Moderate
FR12.	<b>Inflation increases</b> at a higher rate than anticipated	Possible	Moderate	<ul style="list-style-type: none"> <li>Assumptions have been made in the forecast about the likely level of general inflation that will apply in 2018/19. CPI is currently running at 2.4% in 2018/19 reducing to 2.0% over the medium term. This has been assumed in the MTFS model.</li> <li>Market intelligence provided by Arlingclose - independent treasury advisors</li> <li>An amount is included in the MTFS to cover key elements of inflation, for example in relation to fuel and energy costs, which can be volatile.</li> <li>Beyond this provision, it would be managed as an 'in year' issue and services would be expected to absorb the difference.</li> </ul>	Unlikely	Minor
FR13.	Exiting the European Union - Uncertainty and economic forces, at least in the short term, within both the local business and wider business sector may have an adverse impact on investment decisions and local employment which, in turn, would impact on business rate income.	Likely	Moderate	<ul style="list-style-type: none"> <li>National and local modelling in respect of the future approach to business rate retention will need to reflect changes in the financial environment.</li> <li>There may be either pressure or incentives for non UK owned business to move operations back to within an EU country.</li> <li>Treasury Management advisors are regularly updating the Council on the economic impact of exiting the European Union, the strength of the pound, inflation and interest rates.</li> </ul>	Likely	Moderate
FR14.	There are unplanned and unforeseen consequences (and costs) arising from the implementation of new, or changed, systems and processes across service areas within the organisation	Possible	Moderate	<ul style="list-style-type: none"> <li>A Projects and Change Team has been established. A full programme management process is in place including planning and risk assessment, with significant support to major projects.</li> </ul>	Unlikely	Moderate
FR15.	New accounting rules for financial investments may result in adverse valuation movements being charged to the General Fund in the year that they occur.	Possible	Moderate	<ul style="list-style-type: none"> <li>New accounting rules require gains/losses from valuation movements for certain types of financial investments to be recognised in the year they occur, rather than when the investments are sold. The Risk Reserve will be used to manage the volatility that the timing difference may cause.</li> <li>The Government has put in place legislation to mitigate the impact on the General Fund for the five years 2018/19 to 2022/23.</li> </ul>	Possible	Moderate



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Southampton City Council  
HRA Business Plan  
Operating Account  
(expressed in money terms)

		Income				Expenditure									Surplus (Deficit) for the Year		Surplus (Deficit) b/fwd		Surplus (Deficit) c/fwd		Surplus (Deficit) c/fwd	
Year	Year	Net rent Income	Other income	Misc Income	Total Income	Managt.	Depreciation	Revenue R&M	Other Revenue spend	Total expenses	Capital Charges	Net Operating (Expenditure)	Repayment of loans	RCCO	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
		£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
1	2019.20	69,751	3,426	0	73,178	(22,019)	(19,968)	(16,511)	(100)	(58,598)	(6,645)	7,934	0	(7,937)	(3)	2,000	3	2,000	2,000			
2	2020.21	70,479	3,526	360	74,365	(22,720)	(20,471)	(16,813)	(116)	(60,121)	(7,067)	7,177	0	(7,177)	0	2,000	3	2,003	2,003			
3	2021.22	72,484	3,628	529	76,641	(23,379)	(21,039)	(16,993)	(120)	(61,531)	(7,326)	7,784	0	(7,787)	(3)	2,003	3	2,003	2,003			
4	2022.23	74,243	3,733	545	78,521	(24,057)	(21,526)	(17,150)	(124)	(62,857)	(7,538)	8,126	0	(8,127)	(2)	2,003	3	2,004	2,004			
5	2023.24	75,980	3,841	561	80,382	(24,755)	(21,986)	(17,303)	(128)	(64,172)	(7,721)	8,489	0	(8,477)	12	2,004	3	2,020	2,020			
6	2024.25	79,756	3,953	577	84,286	(25,473)	(22,467)	(17,478)	(133)	(65,550)	(7,812)	10,924	0	(10,752)	172	2,020	3	2,195	2,195			
7	2025.26	79,605	4,075	594	84,273	(26,211)	(23,010)	(17,695)	(137)	(67,053)	(7,897)	9,324	0	(8,622)	702	2,195	4	2,901	2,901			
8	2026.27	81,075	4,193	611	85,879	(26,971)	(23,624)	(17,933)	(142)	(68,670)	(8,020)	9,188	0	(9,245)	(56)	2,901	4	2,849	2,849			
9	2027.28	82,571	4,315	628	87,514	(27,754)	(24,254)	(18,173)	(147)	(70,327)	(8,150)	9,037	0	(9,877)	(840)	2,849	4	2,013	2,013			
10	2028.29	84,502	4,440	647	89,588	(28,559)	(24,900)	(18,412)	(152)	(72,023)	(8,280)	9,285	0	(9,121)	164	2,013	3	2,180	2,180			
11	2029.30	86,891	4,569	665	92,125	(29,387)	(25,731)	(18,652)	(157)	(73,927)	(8,382)	9,816	0	(9,902)	(86)	2,180	3	2,098	2,098			
12	2030.31	91,061	4,701	685	96,447	(30,239)	(26,588)	(19,151)	(163)	(76,141)	(8,416)	11,891	0	(11,886)	5	2,098	3	2,106	2,106			
13	2031.32	91,706	4,838	705	97,248	(31,116)	(27,474)	(19,662)	(169)	(78,420)	(8,377)	10,451	(3,540)	(5,733)	1,178	2,106	4	3,287	3,287			
14	2032.33	93,688	4,978	725	99,391	(32,018)	(28,325)	(20,187)	(175)	(80,705)	(8,340)	10,346	(6,912)	(4,386)	(952)	3,287	4	2,340	2,340			
15	2033.34	95,420	5,122	746	101,288	(32,947)	(29,081)	(20,726)	(181)	(82,935)	(8,350)	10,003	(3,400)	(6,195)	408	2,340	4	2,751	2,751			
16	2034.35	97,184	5,271	768	103,223	(33,902)	(29,857)	(21,280)	(187)	(85,226)	(8,333)	9,664	(1,722)	(4,710)	3,232	2,751	7	5,990	5,990			
17	2035.36	100,883	5,424	790	107,097	(34,885)	(30,654)	(21,848)	(194)	(87,581)	(8,141)	11,375	(5,905)	(4,824)	646	5,990	9	6,645	6,645			
18	2036.37	100,808	5,581	813	107,202	(35,897)	(31,472)	(22,431)	(163)	(89,962)	(7,984)	9,257	(3,900)	(4,941)	415	6,645	10	7,071	7,071			
19	2037.38	102,670	5,743	836	109,250	(36,938)	(32,311)	(23,029)	(167)	(92,445)	(7,802)	9,002	(6,450)	(5,061)	(2,509)	7,071	9	4,570	4,570			
20	2038.39	104,567	5,909	861	111,337	(38,009)	(33,173)	(23,643)	(172)	(94,997)	(7,460)	8,880	(5,047)	(0)	3,833	4,570	10	8,413	8,413			
21	2039.40	106,498	6,081	886	113,464	(39,112)	(34,057)	(24,274)	(177)	(97,620)	(7,209)	8,635	(5,165)	(1,297)	2,173	8,413	14	10,600	10,600			
22	2040.41	108,465	6,257	911	115,634	(40,246)	(34,965)	(24,921)	(182)	(100,314)	(6,836)	8,484	(8,863)	(1,423)	(1,802)	10,600	15	8,813	8,813			
23	2041.42	112,592	6,439	938	119,968	(41,413)	(35,897)	(25,585)	(188)	(103,083)	(6,287)	10,598	(15,707)	(1,491)	(6,600)	8,813	8	2,221	2,221			
24	2042.43	112,507	6,625	965	120,097	(42,614)	(36,854)	(26,267)	(193)	(105,928)	(5,733)	8,436	(6,760)	(0)	1,676	2,221	5	3,902	3,902			
25	2043.44	114,583	6,817	993	122,393	(43,850)	(37,835)	(26,967)	(199)	(108,851)	(5,341)	8,202	(7,072)	(387)	743	3,902	6	4,651	4,651			
26	2044.45	116,698	7,015	1,022	124,735	(45,121)	(38,843)	(27,686)	(204)	(111,855)	(5,143)	7,737	0	(3,214)	4,522	4,651	10	9,184	9,184			
27	2045.46	118,852	7,219	1,051	127,122	(46,430)	(39,878)	(28,423)	(210)	(114,941)	(5,143)	7,038	0	(3,289)	3,748	9,184	17	12,949	12,949			
28	2046.47	121,045	7,428	1,082	129,555	(47,776)	(40,939)	(29,180)	(216)	(118,112)	(5,143)	6,300	0	(3,366)	2,934	12,949	22	15,904	15,904			
29	2047.48	125,649	7,643	1,113	134,406	(49,162)	(42,029)	(29,957)	(223)	(121,371)	(5,143)	7,892	0	(3,445)	4,447	15,904	27	20,378	20,378			
30	2048.49	125,554	7,865	1,146	134,564	(50,587)	(43,148)	(30,755)	(229)	(124,719)	(5,143)	4,702	0	(3,525)	1,177	20,378	31	21,587	21,587			

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**Southampton City Council**  
**HRA Business Plan**  
**Major Repairs and Improvements Financing**  
(expressed in money terms)

		Expenditure			Financing						
Year	Year	Major Works & Imps	New Build & Estate Regen Costs	Total Expenditure	Borrowing	RTB 141 Receipts	Other RTB Receipts	Other	MRR	RCCO	Total Financing
		£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
1	2019.20	29,152	14,271	43,423	10,824	3,473	1,292	0	19,897	7,937	43,423
2	2020.21	29,910	9,040	38,950	8,510	1,270	1,333	188	20,471	7,177	38,950
3	2021.22	30,676	3,492	34,168	3,611	354	1,376	0	21,039	7,787	34,167
4	2022.23	34,313	4,676	38,989	6,912	1,003	1,421	0	21,526	8,127	38,989
5	2023.24	31,519	4,819	36,338	3,400	1,009	1,466	0	21,986	8,477	36,338
6	2024.25	33,762	3,730	37,492	1,722	1,038	1,513	0	22,467	10,752	37,492
7	2025.26	33,099	3,561	36,661	3,050	1,068	911	0	23,010	8,622	36,661
8	2026.27	35,146	3,665	38,810	3,900	1,099	943	0	23,624	9,245	38,810
9	2027.28	35,916	3,771	39,687	3,450	1,131	976	0	24,254	9,877	39,687
10	2028.29	36,165	3,880	40,045	3,850	1,164	1,010	0	24,900	9,121	40,045
11	2029.30	35,782	3,993	39,775	1,900	1,198	1,045	0	25,731	9,902	39,775
12	2030.31	36,679	4,109	40,787	0	1,233	1,081	0	26,588	11,886	40,787
13	2031.32	32,786	4,228	37,013	1,420	1,268	1,118	0	27,474	5,733	37,013
14	2032.33	37,722	4,350	42,072	6,900	1,305	1,157	0	28,325	4,386	42,072
15	2033.34	37,459	4,476	41,936	4,120	1,343	1,196	0	29,081	6,195	41,936
16	2034.35	32,579	4,606	37,186	0	1,382	1,237	0	29,857	4,710	37,186
17	2035.36	33,439	4,740	38,179	0	1,422	1,279	0	30,654	4,824	38,179
18	2036.37	34,321	4,877	39,199	0	1,463	1,323	0	31,472	4,941	39,199
19	2037.38	35,227	5,019	40,245	0	1,506	1,367	0	32,311	5,061	40,245
20	2038.39	28,260	5,164	33,424	0	1,549	1,413	0	30,462	0	33,424
21	2039.40	29,511	5,314	34,825	0	1,594	1,461	0	30,473	1,297	34,825
22	2040.41	30,296	5,468	35,764	0	1,640	1,510	0	31,191	1,423	35,764
23	2041.42	31,101	5,627	36,728	0	1,688	1,561	0	31,988	1,491	36,728
24	2042.43	30,336	5,790	36,126	0	1,737	1,613	0	32,776	0	36,126
25	2043.44	31,467	5,958	37,425	0	1,787	1,666	0	33,584	387	37,425
26	2044.45	39,488	6,131	45,618	0	1,839	1,722	0	38,843	3,214	45,618
27	2045.46	40,530	6,308	46,838	0	1,893	1,779	0	39,878	3,289	46,838
28	2046.47	41,599	6,491	48,090	0	1,947	1,837	0	40,939	3,366	48,090
29	2047.48	42,696	6,680	49,375	0	2,004	1,898	0	42,029	3,445	49,375
30	2048.49	43,822	6,873	50,695	0	2,062	1,960	0	43,148	3,525	50,695

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<b>DECISION-MAKER:</b>	CABINET COUNCIL		
<b>SUBJECT:</b>	THE GENERAL FUND & HOUSING REVENUE ACCOUNT CAPITAL STRATEGY & PROGRAMME 2018/19 TO 2022/23		
<b>DATE OF DECISION:</b>	19 FEBRUARY 2019 (CABINET) 20 FEBRUARY 2019 (COUNCIL)		
<b>REPORT OF:</b>	CABINET MEMBER FOR FINANCE & CUSTOMER EXPERIENCE		
<b><u>CONTACT DETAILS</u></b>			
<b>Author:</b>	<b>Name:</b>	Janette Gill Vicki Remsbery	<b>Tel:</b> 023 8083 3574 023 8083 3376
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<b>S151 Officer</b>	<b>Name:</b>	Sue Cuerden	<b>Tel:</b> 023 8083 4153
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## STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

## BRIEF SUMMARY

The purpose of this report is to update the Capital Strategy and to inform Council of any major changes in the overall General Fund and HRA Capital Programme for the period of 2018/19 to 2022/23, highlighting the changes in the programme since the last reported position to Cabinet in November 2018.

The net result of the changes since the previous report is that the current overall programme has increased by £16.68M within the General Fund programme and £36.69M within the HRA programme.

## RECOMMENDATIONS:

**It is recommended that Cabinet:**

	(i)	Notes the revised General Fund Capital Programme, which totals £184.11M (as detailed in paragraphs 6 & 30) and the associated use of resources.
	(ii)	Notes the revised Housing Revenue Account (HRA) Capital Programme, which totals £221.59M (as detailed in paragraph 6 & 30) and the associated use of resources.
	(iii)	Notes that a further £16.68M has been added to the General Fund programme and £36.69M to the HRA programme totalling £53.37M, requiring approval to spend, by Cabinet subject to the relevant financial limits. These additions are detailed in paragraphs 9 to 13 and Appendix 1.

	(iv)	Notes the net addition of £53.37M to the overall capital programme and the request for approval to spend £53.37M as detailed in paragraphs 9 to 13 and Appendix 1.
	(v)	Notes the slippage and re-phasing totalling £20.52M as set out in paragraphs 14 to 21 and as detailed in Appendix 2.
	(vi)	Notes the removal of schemes from the general fund capital programme totalling £3.90M and £12.05M from the HRA capital programme as set out in paragraphs 14 to 21 and as detailed in Appendix 1.
	(viii)	Notes that the capital programme remains fully funded up to 2022/23 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 and the use of prudent assumptions of future Government Grants to be received.
	(ix)	Note that a review of the Council's capital strategy has been undertaken as detailed in Appendix 4.
<b>It is recommended that Council:</b>		
	(i)	Approves the revised General Fund Capital Programme, which totals £184.11M (as detailed in paragraphs 6 & 30) and the associated use of resources.
	(ii)	Approves the revised Housing Revenue Account (HRA) Capital Programme, which totals £221.59M (as detailed in paragraph 6 & 30) and the associated use of resources.
	(iii)	Approves additions of £16.68M which has been added to the General Fund programme and £36.69M to the HRA programme totalling 53.37M, requiring approval to spend. These additions are detailed in paragraphs 9 to 13 and Appendix 1.
	(iv)	Approves the addition of £53.37M to the overall capital programme and the request for approval to spend £53.37M as detailed in paragraphs 9 to 13 and Appendix 1.
	(v)	Approves the slippage and re-phasing totalling £20.52M as set out in paragraphs 14 to 21 and as detailed in Appendix 2.
	(vi)	Approves the removal of schemes from the general fund capital programme totalling £3.90M and £12.05M from the HRA capital programme as set out in paragraphs 14 to 21 and as detailed in Appendix 1.
	(vii)	Notes that the capital programme remains fully funded up to 2022/23 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 and

		the use of prudent assumptions of future Government Grants to be received.																												
	(viii)	Approves the Council's capital strategy detailed in Appendix 4.																												
<b>REASONS FOR REPORT RECOMMENDATIONS</b>																														
1.	The Capital Programme is reviewed on a quarterly basis in accordance with the Council's Capital Strategy. The forecast position is reported to the Council Capital Board with any required programme update reported to Cabinet and Council for approval. This is required to enable schemes in the programme to proceed and to approve additions and changes to the programme.																													
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>																														
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.																													
<b>DETAIL (Including consultation carried out)</b>																														
	<b>CONSULTATION</b>																													
3.	Service Directors, Service Leads and Project Managers have been consulted in preparing the reasons for variations contained in this report. The General Fund and HRA capital programme monitoring report summarises additions to the capital programme and slippage and rephasing since the last approved programme reported in November 2018. Each addition has been subject to the relevant consultation process which reflects the role played by Council Capital Board. The content of this report has been subject to consultation with Finance Officers for each service.																													
<b>THE FORWARD CAPITAL PROGRAMME</b>																														
4.	Table 1 shows a comparison of the latest capital expenditure for the period 2018/19 to 2022/23 compared to the previously reported programme.																													
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6.	Table 2 below shows that the General Fund Capital Programme has increased by £16.68M with a further increase of £36.69M in the HRA Capital programme. Appendix 1 provides details of each variation by portfolios.																																												
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8.	<p>Table 3 summarises the items of major spend by Outcome.</p> <p><u>Table 3 – Major Schemes by Outcome</u></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">Outcome</th> <th style="width: 20%;">Major Project</th> <th style="width: 10%;">2018/19 £M</th> <th style="width: 10%;">2019/20 £M</th> <th style="width: 10%;">2020/21 £M</th> <th style="width: 10%;">2021/22 £M</th> <th style="width: 10%;">2022/23 £M</th> </tr> </thead> <tbody> <tr> <td rowspan="4">Children and young people getting a good start in life</td> <td>Early Years Expansion</td> <td style="text-align: center;">0.56</td> <td style="text-align: center;">0.65</td> <td style="text-align: center;">0.00</td> <td style="text-align: center;">0.00</td> <td style="text-align: center;">0.00</td> </tr> <tr> <td>Play Area Improvements</td> <td style="text-align: center;">0.38</td> <td style="text-align: center;">0.32</td> <td style="text-align: center;">0.00</td> <td style="text-align: center;">0.00</td> <td style="text-align: center;">0.00</td> </tr> <tr> <td>Primary Review &amp; Expansion</td> <td style="text-align: center;">1.12</td> <td style="text-align: center;">1.12</td> <td style="text-align: center;">0.00</td> <td style="text-align: center;">0.00</td> <td style="text-align: center;">0.00</td> </tr> <tr> <td>School Capital Maintenance</td> <td style="text-align: center;">1.84</td> <td style="text-align: center;">2.06</td> <td style="text-align: center;">0.00</td> <td style="text-align: center;">0.00</td> <td style="text-align: center;">0.00</td> </tr> </tbody> </table>	Outcome	Major Project	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	Children and young people getting a good start in life	Early Years Expansion	0.56	0.65	0.00	0.00	0.00	Play Area Improvements	0.38	0.32	0.00	0.00	0.00	Primary Review & Expansion	1.12	1.12	0.00	0.00	0.00	School Capital Maintenance	1.84	2.06	0.00	0.00	0.00												
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	Children and young people getting a good start in life	School Expansion Programme Phase 3	1.70	2.38	0.06	0.00	0.04
		Secondary Review & Expansion	4.24	13.88	28.21	11.96	18.59
		Springwell Expansion	3.40	3.83	0.00	0.00	0.00
		Other	0.06	0.00	0.00	0.00	0.00
	Southampton is a city with strong, sustainable economic growth	Affordable Housing	0.93	0.00	0.00	0.00	0.00
		Bridges Programme	1.64	0.25	0.00	0.00	0.00
		Integrated Transport	9.86	5.85	2.16	0.00	0.00
		Millbrook Roundabout	0.43	0.00	0.00	0.00	0.00
		Property Investment Fund	0.00	0.00	0.00	0.00	0.00
		Solar Powered Compactor Bins	0.00	1.00	0.00	0.00	0.00
		Other	9.31	0.27	0.85	0.00	0.00
	People in Southampton lead safe, healthy independent lives	Anti-Terror Measures	1.05	0.00	0.00	0.00	0.00
		Communal Facilities	2.05	1.14	0.26	1.43	0.00
		Disabled Facilities Grant	1.35	1.85	0.00	0.00	0.00
		Estate Regeneration	1.75	0.00	0.00	0.00	0.00
		Health & Adult Social Care	0.73	0.63	0.50	0.00	0.00
		Improving Quality of homes	6.28	9.32	10.09	12.00	15.77
		Making homes energy efficient	8.22	10.27	8.35	10.14	13.28
		Making homes safe	14.23	12.20	7.13	4.17	1.38
		Modern Facilities	2.10	0.00	0.00	0.00	0.00
		Safe Wind/Weather Tight	1.33	0.00	0.00	0.00	0.00
		Supporting Communities	0.47	2.22	2.22	2.25	2.28
		Supporting Individual living	0.49	2.01	2.12	2.12	1.60
		Warm & Energy Efficient	1.40	0.00	0.00	0.00	0.00
		Other	14.99	17.47	9.04	3.49	4.68

	Outcome	Major Project	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
	A modern attractive city where people are proud to live and work	Arts & Heritage	0.18	1.42	0.00	0.00	0.00
		Alternate Weekly Collections	0.12	0.00	0.00	0.00	0.00
		Millbrook Roundabout	7.45	0.00	0.00	0.00	0.00
		Minor Parks Development Works	0.58	0.07	0.00	0.00	0.00
		Outdoor Sports Centre Improvements	0.17	0.40	0.00	0.00	0.00
		Purchase of Vehicles	0.88	3.82	0.00	0.00	0.00
		QE2 Mile	0.00	0.96	0.00	0.00	0.00
		Roads Programme	14.76	6.47	0.00	0.00	0.00
		WWQ	0.17	0.34	0.00	0.00	0.00
		Other	2.60	0.76	0.00	0.00	0.00
	Modern sustainable Council	Digital & IT	5.29	0.28	0.00	0.00	0.00
		Resources	0.45	1.70	0.00	0.00	0.00
		Other	0.01	0.00	0.00	0.00	0.00
		<b>TOTAL</b>	<b>124.57</b>	<b>104.95</b>	<b>70.99</b>	<b>47.56</b>	<b>57.62</b>
9.	The capital strategy, attached as Appendix 4, provides further details of how the proposed capital spend supports the Outcomes and priorities of the Council.						
	<b>PROGRAMME CHANGES</b>						
	<b><u>Aspiration, Schools and Lifelong Learning Portfolio - £2.92M Increase</u></b>						
10.	<b><u>St. Denys School – Increase of £2.92M</u></b>						
	A grant of £2.92M for the St. Denys school has been awarded from The Education and Skills Funding Agency (ESFA) as part of the total cost of the scheme for the extension and refurbishment of the school. Approval is sought to add this to the programme and for approval to spend giving an overall scheme total of £3.95M, phased £1.51M 2018/19, £2.38M 2019/20 and £0.06M 2020/21.						
	<b><u>Clean Growth &amp; Development - £0.51M Increase</u></b>						
11.	<b><u>Studio 144</u></b>						
	As reported in November 2018 to Cabinet as part of the Capital Programme monitoring report, additional spend of £3.03M is forecast on this scheme however, at this stage it is still subject to the resolution of claims in relation to the installation of lifts. Additional grant funding has been received of £1.6M for which approval is now sought to add this to the programme. This will reduce the forecast overspend to £1.43M which will be reported as part of the year end 2018/19 outturn position.						
	Approval is also sought to remove the Water Fountains Scheme of £0.09M where an alternative solution has been found and to remove the Hampshire						

	Community Bank Scheme of £1.00M as a banking licence has not been obtained and therefore the investment will not be made.
	<b><u>Community Wellbeing Portfolio - £0.69M Increase</u></b>
12.	<p><b><u>Warm Homes (Increase of £0.67M in 2019/20)</u></b></p> <p>A successful bid was made for funding from the Warm Homes Fund £0.46M to provide capital funding for the installation of affordable heating solutions in fuel poor households who do not use mains gas as their primary heating fuel. Additionally, the council will provide match funding from existing resources of £0.37M (£0.21M of S106 contributions and £0.16M identified funding within the approved Green Projects Scheme and CCTV Schemes within the Community Wellbeing Portfolio).</p> <p>Approval is sought to add the scheme to the Community Wellbeing Portfolio totalling £0.83M and to give approval to spend in 2019/20 funded by a scheme virement from the Green Projects and within this programme, S106 funding and from the Warm Homes Front Grant.</p> <p><b><u>CCTV (Increase of £0.02M in 2018/19)</u></b></p> <p>£0.02M has been added to the existing CCTV project within the Community Wellbeing portfolio for network enhancements to the CCTV camera infrastructure at East Park Terrace funded by S106 Contributions.</p>
	<b><u>Transport &amp; Public Realm Portfolio - £15.21M Increase</u></b>
13.	<p><b><u>Integrated Transport (Increase of £0.33M in 2018/19)</u></b></p> <p>Additions to programme from site specific S106 contributions of £0.33M. These works will enhance existing schemes in the programme and enable the authority to fulfil the obligations specified in the S106 agreements. These will primarily be focused on cycling schemes and congestion reduction.</p> <p><b><u>Play Area Improvements (Increase of £0.15M in 2018/19)</u></b></p> <p>Works on various play areas around the city to improve equipment, surfacing and fencing funded from site specific S106 contributions.</p> <p><b><u>Minor Parks Development Works (Increase of £0.03M in 2018/19)</u></b></p> <p>Green Park which sits in the Millbrook Ward on new equipment, surfacing and fencing, where the equipment is old and damaged and requires replacement. The £0.03M is being funded from S106 Contributions.</p> <p><b><u>Car Parking (Increase of £0.46M in 2018/19 )</u></b></p> <p>Payment card readers in car parking pay and display machines need to be updated in line with the latest industry standards. This will ensure customers will have a convenient payment option for parking and ensure that card transactions are better protected against potential fraud.</p> <p><b><u>Highways (Increase of £9.86M in 2018/19)</u></b></p> <p><b>There are a number of additions to the programme:</b></p> <p>Additional investment of £2.98M in the highways network to increase the road programme in 2018/19.</p> <ul style="list-style-type: none"> <li>• This includes £0.51M of works funded by the Department for Transport Highways Maintenance Incentive Element grant on repairing a failing embankment on South East Road; improving</li> </ul>

Chilworth Roundabout; and drainage improvement work in areas susceptible to flooding.

- An additional £0.20M will be invested in pothole repairs.
- The remaining £2.27M will fund essential works across the network on classified roads £0.96M, principal roads £0.61M, unclassified roads £0.48M, and £0.22M on Highways Network Delivery projects.

An additional £5.7M has been added to the programme in 2019/20 in respect of the Roads Programme. Approval is requested to add this to the programme and for approval to spend in 2019/20 to be funded from specific grants, contributions and S106 funding with the balance funded from borrowing.

It should be noted that this funding is in addition to the existing £8.00M investment in residential roads.

**Red Lodge Depot Bin Storage (increase of £0.07M in 2019/20)**

Refuse container storage is costing SCC £0.04M per annum. An opportunity has been identified to store bins at Red Lodge Depot. The approved capital investment would mean that the current storage costs could be saved.

**Electric Vehicles (Increase of £0.82M in 2019/20)**

The SCC fleet vehicles, with the exception of 16 vans, are all owned by the authority. Many of the vehicles fall well below Euro 6 emissions ratings and are polluting the air in the City. Capital funding of £0.82M has been agreed for the procurement of replacement electric vehicles within the fleet.

**Refuse vehicles (Increase of £2.90M in 2019/20)**

There are currently 17 Refuse Collection Vehicles (RCV's) that do not meet Euro 6 emission standards and are nearing or past the anticipated end of life. Approval was granted by Council at a meeting in November 2018 for the replacement of these refuse vehicles. These replacement vehicles will ensure that the council's heavy goods vehicles (HGV's) all comply with the latest emission standards and contribute to cleaner air in the city.

**Alternative Weekly Collections (Decrease of £2.65M 2019/20)**

A provision was made linked to alternatively weekly collections for the replacement of refuse collection vehicles. The subsequent request for funding noted above, also provided for the replacement of these vehicles. Therefore, approval is now sought to remove the £2.65M from the programme. Further approval will need to be sought to meet the future replacement vehicle requirement once known.

**Compact Solar Bins (Increase of £1.00M in 2019/20)**

The Business Planning exercise for the 2019/20 budget has identified an opportunity to invest in solar compactor bins, with a view to generate potential efficiencies through reduced collections and smarter ways of working. Approval was by Cabinet in October 2018 to proceed with this project.

**Weston Shore Coastal Erosion Project (Increase £1.00M)**

Weston Shore is the city's only publically accessible natural coastline. The combined footpath and cycle path is at significant risk of continued erosion



	<p>and collapse if there is no intervention now. It is proposed to construct a modular concrete retaining wall for the purpose of coastal erosion defence. Approval is sought to add this to the programme and for approval to spend £0.50M 2020/21 and £0.50M 2021/22. The scheme will be funded by a scheme virement from the Cycleway Improvement programme of £0.20M with the balance funded from CIL contributions.</p>
	<p><b><u>Housing Revenue Account (HRA) – Increase £36.69M</u></b></p>
14.	<p><b><u>Making Homes Safe £19.83M Increase</u></b></p> <p>An additional £11.58M of walkway structural works is required between 2019/20 and 2021/22 due to increased priority for safety compliance. Additional £8.1M of fire safety/sprinkler works are required also for safety compliance.</p> <p><b><u>Making Homes Energy Efficient – Increase £7.12M</u></b></p> <p>There has been a £11.00M reduction in year on year (2019/20 to 2021/22) in Making Homes Energy Efficient works in part due to funding requirements for the Making Homes Safe programme and Regeneration schemes. This is offset by an additional £13.30M additional works in 2022/23 to meet the requirements identified under this programme.</p> <p><b><u>Improving Quality of Homes Reduction £12.05M</u></b></p> <p>There has been a £29.00M reduction in year on year (2019/20 to 2021/22) Improving Quality of Homes works in part due to funding requirements for the Making Homes Safe programme and Regeneration schemes. This includes £24.80M of Kitchen &amp; Bathroom Refurbishment works. The position is offset by an additional £13.30M additional works in 2022/23.</p> <p><b><u>Supporting Independent Living</u></b></p> <p>There has been a £0.50M increase in Supporting Independent Living across the years 2019/20 to 2021/22 to fund additional works required for Disabled Adaptations with a further year added to the programme of £1.60M in 2022/23.</p> <p><b><u>Supporting Communities £4.10M Increase</u></b></p> <p>There is also an additional works totalling £4.10M with £2.30M of works added in 2022/23.</p> <p><b><u>Estate Regeneration and New Build</u></b></p> <p>There is an additional £9.40M of works required at Townhill Park to develop the site further with the additional plots requiring design and build as well as decommissioning and demolition works.</p> <p>A sum of £3.30M has been added to the programme in 2022/23 to reflect the need for further new build schemes. Locations and build specifications along with property types are still to be determined.</p> <p>Council is asked to approve the above additions to the programme with approval to spend as detailed above. Additions are to be funded through a combination of Capital Receipts, the Major Repairs Allowance the direct revenue financing.</p>
	<p><b>SLIPPAGE AND REPHASING</b></p>

15.	The proposed programme identifies £20.52M of net slippage and rephasing from 2018/19 into future years as summarised in Table 4 below and detailed by scheme in Appendix 2. The reason for the major items of slippage and rephasing are detailed below:																				
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	<b><u>Adult Care - £0.13M Slippage</u></b>																				
16.	<p><b><u>32B Kentish Road Capital Upgrade (Slippage of £0.03M from 2018/19 to 2019/20)</u></b></p> <p>The project has slipped due to a review of options and proposals around the 32 Kentish Road site involving all stakeholders in determining how outcomes can be best delivered. A Kentish Road “vision” working group has been set up to appraise all options and is engaging with the Capital Assets team with architectural costs to be incurred in 2019/20.</p> <p><b><u>Integrated Working (Slippage of £0.10M to 2019/20)</u></b></p> <p>This project has slipped due to a revised timeline in work commencing on the Client Case Management system (CCM) which is planned to replace the ‘Paris’ system from April 2020. The project is currently on hold whilst temporary resources are being transferred to that project with recommencing in early 2019.</p>																				
	<b><u>Aspiration, Schools and Lifelong Learning Portfolio £9.15M Slippage</u></b>																				
17.	<p><b><u>Primary Review Phase 2 - Valentine Primary School Westwood Block (Slippage of £1.02M from 2018/19 to 2019/20)</u></b></p> <p>Slippage of £1.02M from 2018/19 to 2019/20 due to the project being put on hold while a reassessment of need was completed. The expansion of this school is to be delivered via an Education and Skills Funding Agency (ESFA) rebuild of the Westwood block and a revised start date is now scheduled to commence in January 2019. A contractor has now been appointed and the delivery of the new classroom block to replace the Westwood Block and the project is due for completion in September 2019. Appointment of the contractor was delayed because Council and the Skills</p>																				

Funding Agency (SFA) needed to undertake further work to negotiate a common position on the buildings research energy efficiency model (BREEAM) standards for the scheme to meet the Councils requirement to achieve an “excellent” rating.

**Springwell School - Main Expansion (Slippage of £3.83M from 2018/19 to 2019/20)**

Phase 1 completion was delayed due to a number of works variations to meet special education needs (SEN) school requirements for noise and disturbance to pupils. The phase 2 planning application has been submitted and although there has been steady progress with the team of consultants on the design stage, the majority of work for Phase 2 is scheduled to take place in 2019/20. Slippage has also occurred following a decision taken to undertake a full OJEU procurement to secure best value for Phase 2 of the works which added several months to the scheme’s planned timetable but was necessary to ensure high quality and value for money.

**R&M Programme for School (Slippage of £2.06M from 2018/19 to 2019/20)**

Slippage of £2.06M from 2018/19 to 2019/20 due to difficulties in managing the volume and complexity of works required. A recent condition survey of the schools within the city highlighted a backlog of works and a prioritised list has been drawn up for the remainder of 2018/19 and 2019/20. Due to delays in obtaining statistical data surrounding school condition surveys, the basis for planned work has delayed progress on the scheme.

**Early Years Expansion Programme (Slippage of £0.65M from 2018/19 to 2019/20)**

A reassessment of the availability of providers prepared to offer an increased provision of thirty hours is required due to difficulties in identifying providers willing to extend their current hours. Works to support the extension of hours have delayed until these providers can be identified resulting in slippage into 2019/20.

**Bitterne Park Autism Resource Base (Slippage of £0.16M from 2018/19 to 2019/20)**

The programme has slippage of £0.16M from 2018/19 to 2019/20. The revised planned start date for on-site works is February 2019 and the delay is a result of design work elements which required further electrical and mechanical works to take place before the on-site works.

**St George’s School (Slippage of £1.79M from 2018/19 to 2019/20)**

This is a diocese scheme with the ESFA. The council is contributing to the scheme to replace, modernise and increase science classroom accommodation at the school. The ESFA are the Responsible Body and are the agency who are responsible for project management and delivery of the

	<p>scheme. The delay follows obtaining agreement over strategy decision making within the diocese which is undertaken independently from the council.</p> <p><b><u>Chamberlayne Refurbishment (Slippage of £0.54M from 2018/19 to 2019/20)</u></b></p> <p>A delay in decision making on the overall strategy for Secondary School expansion has delayed progress on this scheme which is currently out to tender. Proposals have been drawn up to RIBA Stage 1 for the refurbishment of the main teaching block at Chamberlayne College, which is now on target and due to complete in September 2020. Work has also now commenced on RIBA Stage 2. The viability of an extended scheme is also been considered as part of a wider Local Enterprise Partnership proposal to develop the Chamberlayne site bringing education, leisure, early years and other service together into a single hub.</p> <p><b><u>Regents Park Expansion (Rephase of £0.90M from 2019/20 to 2018/19)</u></b></p> <p>At Quarter 1, it was estimated the building work for this project would not begin until 2019/20 due to delays in both the decision making of the overall strategy for Secondary School expansion and outstanding elements of the design stage to be completed. However, those delays have now been rectified and the programme has been accelerated and re-phased back into 2018/19.</p>
	<b><u>Clean Growth and Development</u></b>
18.	<p><b><u>QE2 Mile – Bargate Square (Slippage of £0.96M from 2018/19 to 2019/20)</u></b></p> <p>The scheme is to fund works associated with the Bargate Square redevelopment project which will improve retail provision, increase residential buildings and enhance the public realm in the area around the Bargate. The redevelopment project has commenced but the works, which are primarily funded from the private sector, with the paving works partly funded by the council, will now be undertaken in 2019/20. A total of £0.96M will need to be slipped into 2019/20.</p> <p><b><u>Bitterne Public Services Hub (Slippage of £0.21M from 2018/19 to 2019/20)</u></b></p> <p>The project is currently at the Outline Business Case phase. This is likely to cost around £0.10M subject to tender. It is estimated that 75% of this work could be completed by the end of March subject to the use of framework agreements for procurement rather than an open tender process with the remaining work in 2019/20.</p>
19.	<b><u>Community Wellbeing – £0.05M Slippage</u></b>
	There is a small amount of slippage on the Green Projects scheme of £0.06M which will be used to support the Warm Homes Front scheme.
	<b><u>Homes and Culture £1.32M Slippage</u></b>

20.	<p><b><u>Tudor House Museum (Slippage of £0.06M from 2018/19 to 2019/20)</u></b></p> <p>An Archaeology report is required as part of the planning conditions attached to the original project to redevelop Tudor House. The Council has an obligation to write the report so the Archaeology team will be commissioned in 2019/20 to undertake the required work due to staff resourcing shortfall (£0.04M). An issue with water ingress has also been identified. Following an initial survey a more detailed assessment is required before work can begin to resolve the issue (£0.02M).</p> <p><b><u>Sea City Treasure Trove (Slippage of £0.65M from 2018/19 to 2019/20)</u></b></p> <p>The Scheme aims to move stored collections into the Pavilion space at the SeaCity Museum. This project has now been amalgamated into a wider project to redevelop the cultural offering at the Civic Centre. The whole scheme will be revisited as one to maximise the opportunity to take more strategic approach across collections and venues and tie into future developments in the cultural development of the City. Initial commitments and plans in March 2018 were initially rejected due to the need for a more specific direction for the project, this was confirmed with the Heritage Lottery Fund (HLF) in September 2018 when more ambitious plans were submitted with a more integrated approach for both the treasure trove and cultural hub.</p> <p><b><u>Ancient Scheduled Monuments (Slippage of £0.20M from 2018/19 to 2019/20)</u></b></p> <p>Following unsuccessful attempts to recruit a suitable project manager to deliver this project in 2018/19, alternative delivery methods are now being considered in order to prioritise spend and activities. A consultant will be engaged in order to escalate this project and deliver the works successfully, subject to procurement approval.</p> <p><b><u>Outdoor Sports Centre Improvements (Slippage of £0.40M from 2018/19 to 2019/20)</u></b></p> <p>Initial feasibility work was undertaken in 2017/18. This determined further surveys were required in order to fully assess the feasibility of the scheme. These additional surveys are currently being undertaken and are being part-funded by Sport England.</p>
	<p><b><u>Transport &amp; Public Realm Portfolio Slippage 3.09M</u></b></p>
21.	<p><b><u>Highways (Slippage of £1.0M from 2018/19 to 2019/20)</u></b></p> <p>Some works on the additional roads programme will slip into 2019/20 as the required treatment can only be undertaken in warm weather. There is a further slippage on bridge maintenance as a result of delays from the transition for delivery of structural related works to the Highways Partnership.</p> <p><b><u>Integrated Transport (Slippage of £1.87M from 2018/19 to 2019/20)</u></b></p> <p>This is made up of slippage on Congestion Reduction schemes of £1.06M, Public Transport £0.35M, Cycling £0.28M, Improved Safety £0.08M and Sustainable Travel £0.09M.</p> <p>The Congestion Reduction slippage is primarily made up of £0.81M due to a delay on the Electric Vehicle Action Plan as a result of procurement issues and ongoing discussions to link the project into the Street lighting PFI. This means that the majority of the project is now scheduled to be delivered in</p>

	<p>early 2019/20. Other projects totalling slippage of £0.25M are due to a delay in a project around the General Hospital to ensure that emergency access provision is maintained until a suitable time in the new financial year and a project that has been delayed until a decision on the proposed clean air zone is resolved.</p> <p>The Public Transport slippage is made up of £0.35M on works on the Bus network due to issues with schemes needing to be carried out with adjoining works that will take place in 2019/20.</p> <p>The slippage on the Cycling programme is due to a delay in the City Centre Cycle Network project due to waiting for an adjoining development application on Threefields Lane to be determined and works on the Northern Cycle Route which will now be undertaken in 2019/20.</p> <p><b><u>Wildflower Mower (Slippage of £0.04M from 2018/19 to 2019/20)</u></b></p> <p>The procurement process for the wildflower mower is expected to commence in January 2019. The lead in time for procurement means that actual purchase will likely be in early 2019/20 and the budget will therefore require slippage.</p> <p><b><u>Play Sites and Minor Park Development projects (Slippage of £0.19M from 2018/19 to 2019/20)</u></b></p> <p>A review of actual and committed expenditure across all play sites and parks development has identified a number of projects not yet commenced. It is therefore likely that works will be carried out late in the current year or early in the new year. The slippage required is £0.18M.</p>
	<p><b><u>Housing Revenue Account - Slippage £5.60M</u></b></p>
22.	<p><b><u>Energy Company Obligations - Lydgate -External Wall Insulation- (Slippage of £0.90M from 2018/19 to 2019/20)</u></b></p> <p>At the start of the project a direct engagement was assumed with the contractor, however amended tender documents needed to be developed. The programme period was extended to ensure this activity was completed. However, due to the lengthy process, the delay has resulted in the need to slip £0.90M into 2019/20.</p> <p><b><u>Estate Regeneration- Potters Court- (Slippage of £3.70M from 2018/19 to 2019/20)</u></b></p> <p>Due to delays in contract formation, the works have started on site later than anticipated resulting in slippage of £3.70M. The project is however expected to remain within budget</p> <p><b><u>Energy Company Obligations - Thornhill Heating- (Slippage of £1.50M from 2018/19 to 2019/20)</u></b></p> <p>The original budget of £7.10M had been reduced to £1.60M, which reflects the correct scope of work at Thornhill and realignment of the scheme funding against other priorities in the Fire Safety programme and replacement heating at Milner Court. An immediate start on installation work was assumed without full development of design options and a full procurement. The programme period has therefore been extended to allow for the critical activities to be undertaken, which has resulted in a lengthy delay to deliver the project in 2018/19.</p>

	<p><b><u>Townhill Park Regeneration- Rephasing (£0.50M)</u></b></p> <p>This project has developed well on site and the contractor has progressed ahead of the original financial schedule as a result the properties will be delivered early. This has resulted in an accelerated spend in this financial year but not for the project as a whole. As the project has been accelerated, funding will be sought from the future years of this project to ensure project is delivered within the reported timescale.</p>																														
	<p><b>CAPITAL RESOURCES</b></p>																														
23.	<p>The resources which can be used to fund the capital programme are as follows:</p> <ul style="list-style-type: none"> <li>• Council Resources – Borrowing;</li> <li>• Council Resources - Capital Receipts from the sale of HRA assets;</li> <li>• Council Resources - Capital Receipts from the sale of General Fund assets;</li> <li>• Contributions from third parties;</li> <li>• Central Government Grants and from other bodies ; and</li> <li>• Direct Revenue Financing.</li> </ul>																														
24.	<p>Capital receipts from the sale of Right to Buy (RTB) properties are passed to the General Fund capital programme to support the Private Sector Housing schemes within the Sustainability Portfolio.</p>																														
25.	<p>It should be noted that the revised General Fund Capital Programme is based on prudent assumptions of future Government Grants to be received. The majority of these grants relate to funding for schools and transport and are non-ring fenced. However in 2018/19 those grants have been passported to these areas.</p>																														
26.	<p>Table 5 shows the current level of available resources.</p> <p><u>Table 5 – Available Capital Funding</u></p> <table border="1"> <thead> <tr> <th>Resource</th> <th>Balance B/Fwd £M</th> <th>Received to Date 2018/19 £M</th> <th>Allocated To Current Programme £M</th> <th>Available Funding £M</th> <th>Anticipated Receipts 2018/19 £M</th> </tr> </thead> <tbody> <tr> <td>Capital Receipts</td> <td>(11.28)</td> <td>(0.77)</td> <td>14.15</td> <td>2.10</td> <td>(5.88)</td> </tr> <tr> <td>CIL</td> <td>(9.43)</td> <td>(3.73)</td> <td>5.08</td> <td>(8.08)</td> <td>(0.50)</td> </tr> <tr> <td>S106</td> <td>(10.63)</td> <td>(0.83)</td> <td>9.48</td> <td>(1.98)</td> <td>(0.43)</td> </tr> <tr> <td></td> <td><u>(31.34)</u></td> <td><u>(5.33)</u></td> <td><u>28.71</u></td> <td><u>(7.96)</u></td> <td><u>(6.81)</u></td> </tr> </tbody> </table>	Resource	Balance B/Fwd £M	Received to Date 2018/19 £M	Allocated To Current Programme £M	Available Funding £M	Anticipated Receipts 2018/19 £M	Capital Receipts	(11.28)	(0.77)	14.15	2.10	(5.88)	CIL	(9.43)	(3.73)	5.08	(8.08)	(0.50)	S106	(10.63)	(0.83)	9.48	(1.98)	(0.43)		<u>(31.34)</u>	<u>(5.33)</u>	<u>28.71</u>	<u>(7.96)</u>	<u>(6.81)</u>
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27.	<p>The table shows that the largest resource currently available is Community Infrastructure Levy (CIL) funding. A review has been undertaken of all S106 and CIL monies to ensure that programmes of work are matched to the appropriate funding and to identify areas where business cases are required for new projects. This work will be ongoing as part of the monitoring process.</p>																														
28.	<p>Funding for the capital programme has previously been 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 economic climate has increased the Council's risk in this area.</p>																														

29.	Table 6 below shows the previous and current capital receipt assumptions, together with the actual receipts received in year for the General Fund. There has been an increase of £0.04M since the last reported position due to updated valuations based on the current market conditions. It should be noted that both the previous and latest forecast positions have been adjusted to remove receipts for properties not yet on the market.																																																																																																																							
30.	<p><b>Table 6 – General Fund Capital Receipts Estimates</b></p> <table border="1" data-bbox="328 488 1422 719"> <thead> <tr> <th></th> <th>B/Fwd £M</th> <th>2018/19 £M</th> <th>2019/20 £M</th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> <th>Total £M</th> </tr> </thead> <tbody> <tr> <td>Latest Forecast</td> <td>11.28</td> <td>5.98</td> <td>0.67</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>17.93</td> </tr> <tr> <td>Previous Forecast</td> <td>11.28</td> <td>5.94</td> <td>0.67</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>17.89</td> </tr> <tr> <td><b>Variance</b></td> <td><b>0.00</b></td> <td><b>0.04</b></td> <td><b>0.00</b></td> <td><b>0.00</b></td> <td><b>0.00</b></td> <td><b>0.00</b></td> <td><b>0.04</b></td> </tr> </tbody> </table>		B/Fwd £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	Total £M	Latest Forecast	11.28	5.98	0.67	0.00	0.00	0.00	17.93	Previous Forecast	11.28	5.94	0.67	0.00	0.00	0.00	17.89	<b>Variance</b>	<b>0.00</b>	<b>0.04</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.04</b>																																																																																							
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31.	<p>Tables 7 and 8 show capital expenditure by portfolio and the use of resources to finance the General Fund Capital Programme up to and including 2022/23. Appendix 3 provides details of each portfolios latest programme and the financing of that programme.</p> <p><b>Table 7 – Capital Expenditure by Programme</b></p> <table border="1" data-bbox="328 1025 1422 1615"> <thead> <tr> <th></th> <th>2018/19 £M</th> <th>2019/20 £M</th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> <th>Total £M</th> </tr> </thead> <tbody> <tr> <td>Adult Care</td> <td>0.73</td> <td>0.63</td> <td>0.50</td> <td>0.00</td> <td>0.00</td> <td>1.86</td> </tr> <tr> <td>Aspiration, Schools &amp; Lifelong learning</td> <td>12.92</td> <td>23.92</td> <td>28.27</td> <td>11.96</td> <td>18.63</td> <td>95.70</td> </tr> <tr> <td>Clean Growth &amp; Development</td> <td>10.56</td> <td>1.81</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>12.37</td> </tr> <tr> <td>Community Wellbeing</td> <td>2.49</td> <td>1.94</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>4.43</td> </tr> <tr> <td>Finance &amp; Customer Experience</td> <td>5.74</td> <td>1.98</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>7.72</td> </tr> <tr> <td>Homes and Culture</td> <td>0.60</td> <td>1.82</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>2.42</td> </tr> <tr> <td>Transport and Public Realm</td> <td>38.37</td> <td>18.22</td> <td>3.01</td> <td>0.00</td> <td>0.00</td> <td>59.61</td> </tr> <tr> <td><b>General Fund Programme</b></td> <td><b>71.41</b></td> <td><b>50.32</b></td> <td><b>31.78</b></td> <td><b>11.96</b></td> <td><b>18.63</b></td> <td><b>184.11</b></td> </tr> <tr> <td><b>HRA Programme</b></td> <td><b>53.16</b></td> <td><b>54.63</b></td> <td><b>39.21</b></td> <td><b>35.60</b></td> <td><b>38.99</b></td> <td><b>221.59</b></td> </tr> <tr> <td><b>Total Capital Programme</b></td> <td><b>124.57</b></td> <td><b>104.95</b></td> <td><b>70.99</b></td> <td><b>47.56</b></td> <td><b>57.62</b></td> <td><b>405.70</b></td> </tr> </tbody> </table> <p><b>Table 8 – Use of Resources</b></p> <table border="1" data-bbox="328 1742 1422 2036"> <thead> <tr> <th></th> <th>2018/19 £M</th> <th>2019/20 £M</th> <th>2020/21 £M</th> <th>2021/22 £M</th> <th>2022/23 £M</th> <th>Total £M</th> </tr> </thead> <tbody> <tr> <td>*CR - GF Borrowing</td> <td>24.47</td> <td>16.50</td> <td>11.63</td> <td>11.96</td> <td>18.59</td> <td>83.15</td> </tr> <tr> <td>*CR - HRA Borrowing</td> <td>19.25</td> <td>10.33</td> <td>8.54</td> <td>3.61</td> <td>6.91</td> <td>48.64</td> </tr> <tr> <td>Capital Receipts</td> <td>18.43</td> <td>10.03</td> <td>2.86</td> <td>3.16</td> <td>2.42</td> <td>36.90</td> </tr> <tr> <td>Contributions</td> <td>12.95</td> <td>11.16</td> <td>7.23</td> <td>7.79</td> <td>8.13</td> <td>47.26</td> </tr> <tr> <td>Capital Grants</td> <td>24.66</td> <td>21.17</td> <td>19.30</td> <td>0.00</td> <td>0.04</td> <td>65.17</td> </tr> </tbody> </table>		2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	Total £M	Adult Care	0.73	0.63	0.50	0.00	0.00	1.86	Aspiration, Schools & Lifelong learning	12.92	23.92	28.27	11.96	18.63	95.70	Clean Growth & Development	10.56	1.81	0.00	0.00	0.00	12.37	Community Wellbeing	2.49	1.94	0.00	0.00	0.00	4.43	Finance & Customer Experience	5.74	1.98	0.00	0.00	0.00	7.72	Homes and Culture	0.60	1.82	0.00	0.00	0.00	2.42	Transport and Public Realm	38.37	18.22	3.01	0.00	0.00	59.61	<b>General Fund Programme</b>	<b>71.41</b>	<b>50.32</b>	<b>31.78</b>	<b>11.96</b>	<b>18.63</b>	<b>184.11</b>	<b>HRA Programme</b>	<b>53.16</b>	<b>54.63</b>	<b>39.21</b>	<b>35.60</b>	<b>38.99</b>	<b>221.59</b>	<b>Total Capital Programme</b>	<b>124.57</b>	<b>104.95</b>	<b>70.99</b>	<b>47.56</b>	<b>57.62</b>	<b>405.70</b>		2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	Total £M	*CR - GF Borrowing	24.47	16.50	11.63	11.96	18.59	83.15	*CR - HRA Borrowing	19.25	10.33	8.54	3.61	6.91	48.64	Capital Receipts	18.43	10.03	2.86	3.16	2.42	36.90	Contributions	12.95	11.16	7.23	7.79	8.13	47.26	Capital Grants	24.66	21.17	19.30	0.00	0.04	65.17
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Homes and Culture	0.60	1.82	0.00	0.00	0.00	2.42																																																																																																																		
Transport and Public Realm	38.37	18.22	3.01	0.00	0.00	59.61																																																																																																																		
<b>General Fund Programme</b>	<b>71.41</b>	<b>50.32</b>	<b>31.78</b>	<b>11.96</b>	<b>18.63</b>	<b>184.11</b>																																																																																																																		
<b>HRA Programme</b>	<b>53.16</b>	<b>54.63</b>	<b>39.21</b>	<b>35.60</b>	<b>38.99</b>	<b>221.59</b>																																																																																																																		
<b>Total Capital Programme</b>	<b>124.57</b>	<b>104.95</b>	<b>70.99</b>	<b>47.56</b>	<b>57.62</b>	<b>405.70</b>																																																																																																																		
	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	Total £M																																																																																																																		
*CR - GF Borrowing	24.47	16.50	11.63	11.96	18.59	83.15																																																																																																																		
*CR - HRA Borrowing	19.25	10.33	8.54	3.61	6.91	48.64																																																																																																																		
Capital Receipts	18.43	10.03	2.86	3.16	2.42	36.90																																																																																																																		
Contributions	12.95	11.16	7.23	7.79	8.13	47.26																																																																																																																		
Capital Grants	24.66	21.17	19.30	0.00	0.04	65.17																																																																																																																		



	Revenue Financing	10.66	5.79	0.99	0.00	0.00	17.44
	HRA – MRA	14.15	29.97	20.44	21.04	21.53	107.13
	<b>Total Financing</b>	<b>124.57</b>	<b>104.95</b>	<b>70.99</b>	<b>47.56</b>	<b>57.62</b>	<b>405.70</b>
	<i>*CR – Council Resources</i>						
32.	Table 8 demonstrates that the most significant amount of funding for the General fund programme is provided by Council Resources, which at present, will be mainly through borrowing. Borrowing costs are in the main met within a central provision. The HRA programme is primarily funding by MRA (Major Repairs Allowance).						
	<b>CAPITAL STRATEGY</b>						
33.	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 2018/19 to 2022/23 and this is attached in Appendix 4.						
34.	As part of the December 2017 update of the Prudential Code for Capital Finance in Local Authorities a requirement to produce a capital strategy has been introduced. The guidance outlines a number of key factors which they recommend be included in a capital strategy. One of the key recommendations within the Prudential Code is that links should be made where appropriate to the treasury strategy, therefore the revised prudential indicators have been included as Appendix 5.						
35.	<p>Prudential Indicators are an indication that capital investment planning and that the Authority’s borrowing decisions are prudent and sustainable. In setting the indicators, the Authority will also take into account Minimum Revenue Provision (MRP) to set aside amounts for repayment of debt over the loan period or an equitable amount in line with Capital Regulations. HRA prudential indicators by statute are ring-fenced and are calculated separately. The prudential indicators have been set for the forthcoming four year period and comprise of three main components relating to:-</p> <ul style="list-style-type: none"> <li>• <b>Capital Expenditure</b> – Estimates of capital Expenditure and capital Financing, Current and Estimated Movement in the capital financing requirement i.e. the Authority’s underlying need to borrow;</li> <li>• <b>External Debt</b> – Current and Estimated Movement in Gross debt. Authorised limits for borrowing set by the Authority and the Operational Boundary for total external debt (excluding investments) and separate identification for borrowing against debt and other long term liabilities. Other indicators outline the estimated movement in Borrowing Requirement and loans over the forthcoming five year period; and</li> <li>• <b>Affordability</b> – the Ratio of Financing costs to Net Revenue Stream – this indicates the revenue implications of capital expenditure required to meet borrowing costs.</li> </ul>						
<b>RESOURCE IMPLICATIONS</b>							
<b><u>Capital/Revenue</u></b>							

36.	This report principally deals with capital and the implications are set out in the main body of the report. However, the revenue implications arising from borrowing to support the capital programme are considered as part of the General Fund revenue budget. In addition any revenue consequences arising from new capital schemes are considered as part of the approval process for each individual scheme.
<b><u>Property/Other</u></b>	
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.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
38.	Financial reporting is consistent with the Chief Financial Officer's duty to ensure good financial administration within the Council. The Capital Programme update is prepared in accordance with the Local Government Acts 1972 – 2003.
<b><u>Other Legal Implications:</u></b>	
39.	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.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
40.	None.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
41.	The update of the Capital Programme forms part of the overall Budget Strategy of the Council.

<b>KEY DECISION?</b>	No
<b>WARDS/COMMUNITIES AFFECTED:</b>	All
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	Variations Since the November 2018 Capital Update
2.	Major Slippage & Re-phasing
3.	General Fund & HRA Capital Programme – Scheme Details
4.	Capital Strategy 2018/19 – 2022/23
5.	Capital Strategy - Prudential Indicators
<b>Documents In Members' Rooms</b>	

1.	None
2.	
<b>Equality Impact Assessment</b>	
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.	Yes/No
<b>Privacy Impact Assessment</b>	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	Yes/No
<b>Other Background Documents</b>	
<b>Equality Impact Assessment and Other Background documents available for inspection at:</b>	
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.	

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# Agenda Item 5

## Appendix 1

### VARIATIONS SINCE NOVEMBER 2018 CAPITAL UPDATE

<b>Portfolio</b>	<b>Scheme</b>	<b>£M</b>	<b>Approval</b>	<b>Funding Source</b>
<b><u>Additions to the Programme</u></b>				
Aspiration, Schools and Lifelong Learning	St Denys	2.92		Grant
		<u>2.92</u>		
Clean Growth & Development	Studio 144	1.60		Grant
		<u>1.60</u>		
Community Wellbeing	Warm Homes Funding	0.83		S106 Contributions / External Contributions
	CCTV	0.02	***	S106 Contributions
		<u>0.85</u>		
Transport and Public Realm	Weston Shore Coastal Erosion	0.80		S106 Contributions / CIL Contributions
	Highways Programme 2019/20	5.70		Grant / DRF/ S106 Contributions / External Contributions
	Pothole Action Fund	0.20	*	S106 Contributions / Grant
	Highways Network Delivery	0.73	*	Grant
	Various Principal	0.61	*	Grant
	Classified Roads	0.96	*	CIL Contributions / Grant
	Unclassified Roads	0.48	*	CIL Contributions
	Purchase of vehicles - Refuse Collection Vehicles	2.90	*	Capital Receipts
	Purchase of vehicles - Electric Vehicles	0.82	**	Capital Receipts
	Solar Powered Compactor Bins	1.00	**	CIL Contributions
	Replacement Card Readers	0.46	**	DRF
	Cycling	0.13	**	S106 Contributions
	Bus Corridor Minor Works	0.03	**	S106 Contributions
	Improved Safety – Engineering	0.04	**	S106 Contributions
	Intelligent Transport Systems	0.13	**	S106 Contributions
	Green Park	0.03	**	S106 Contributions
	Coxford Play Area	0.02	**	S106 Contributions
	Inkerman Play Area	0.02	**	S106 Contributions
	Hinkler Play Area	0.02	**	S106 Contributions
	Mandela Way Play Area	0.02	**	S106 Contributions
	Woodmill Play Area	0.01	**	S106 Contributions
	St James Park Play Area	0.03	***	S106 Contributions
	Red Lodge Bin Storage	0.07	***	Council Resources
		<u>15.21</u>		
	<b>TOTAL GF</b>	<b><u>20.58</u></b>		
HRA	Making Homes Safe	19.83		Capital Receipts / MRA / DRF
	Making Homes Energy Efficient	7.12		Capital Receipts / MRA / DRF
	Supporting Independent Living	2.10		Capital Receipts / MRA / DRF
	Supporting Communities	4.10		Capital Receipts / MRA / DRF
	Townhill Park	9.40		Capital Receipts / MRA / DRF
	New Build	3.30		Capital Receipts / MRA / DRF
	HRA - Misc	2.89		Capital Receipts / MRA / DRF
		<u>48.74</u>		
	<b>TOTAL HRA</b>	<b><u>48.74</u></b>		
	<b>TOTAL PROGRAMME ADDITIONS</b>	<b><u>69.32</u></b>		
<b><u>Reductions from the Programme</u></b>				
Clean Growth & Development	Hampshire Community Bank	(1.00)		Council Resources
	Water Fountains	(0.09)		CIL Contributions
		<u>(1.09)</u>		
Community Wellbeing	Green Projects	(0.16)		Grants
		<u>(0.16)</u>		
Transport & Public Realm	AWC Replacement Vehicles	(2.65)		Council Resources
		<u>(2.65)</u>		
	<b>TOTAL GF</b>	<b><u>(3.90)</u></b>		
HRA	Improving Quality of Homes	(12.05)		Capital Receipts / MRA / DRF
		<u>(12.05)</u>		
	<b>TOTAL HRA</b>	<b><u>(12.05)</u></b>		
	<b>TOTAL PROGRAMME REDUCTIONS</b>	<b><u>(15.95)</u></b>		
<b>Total Variations to the Overall Programme</b>		<b><u>53.37</u></b>		
* Approved By Full Council		5.88		
** Approved By Cabinet		2.73		
*** Approved under Delegated Powers		0.12		
To be Approved		44.64		
		<u>53.37</u>		

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# Agenda Item 5

## Appendix 2

### SLIPPAGE & REPHASING AS AT DECEMBER 2018 CAPITAL UPDATE

Portfolio	Scheme	(Slippage)/ Rephasing £M	Report Paragraph Ref.
Adults	32B Kentish Rd Capital Upgrade	(0.03)	
	Integrated Working	(0.10)	
		<b>(0.13)</b>	
Aspiration, Schools and Lifelong Learning	Regent Park Expansion	0.90	
	Primary Review P2 - Valentine Primary School Westwood Block	(1.02)	
	Springwell School - Main Expansion 15/16	(3.83)	
	R&M Programme for School 2016/17 (inc 17/18)	(2.06)	
	Early Years Expansion Programme	(0.65)	
	Bitterne Park Autism Resource Base	(0.16)	
	St George's School ESFA	(1.79)	
	Chamberlayne Refurbishment	(0.54)	
		<b>(9.15)</b>	
Clean Growth & Development	QE2 Mile - Bargate Square	(0.96)	
	Bitterne Public Services Hub	(0.22)	
		<b>(1.18)</b>	
Community Wellbeing	Green Projects	(0.05)	
		<b>(0.05)</b>	
Homes and Culture	Tudor House Museum Phase 1	(0.01)	
	Tudor House Museum Phase 2 Implementation	(0.03)	
	Water ingress repairs project at Westgate & Tudor House	(0.02)	
	SeaCity Treasure Trove	(0.65)	
	Ancient Scheduled Monuments	(0.20)	
	Outdoor Sports Centre Improvements	(0.40)	
		<b>(1.31)</b>	
Transport and Public Realm	Bridges to Prosperity - Vicarage Bridge	(0.03)	
	Other Bridge Works	(0.02)	
	Northam River Bridge Containment	(0.20)	
	Additional Roads Programme	(0.30)	
	Highways Network Delivery	(0.30)	
	Highways Improvements (Developer)	(0.15)	
	Cycling	(0.11)	
	Eastern strategic cycle route development	(0.06)	
	NCR: Ave East Lodge Rd – Dorset St	(0.10)	
	Bitterne Park Triangle	(0.02)	
	Public Transport	(0.03)	
	Bus Lane & Traffic Enforcement	(0.07)	
	Bus Corridor Minor Works	(0.26)	
	Road Safety Partnership	(0.02)	
	Improved Safety	(0.06)	
	Travel to School	(0.06)	
	School Travel Plan Measures	(0.02)	
	Intelligent Transport Systems	(0.02)	
	Urban Freight Strategy - Delivery Service Plans	(0.05)	
	Hospital Access Improvements (Coxford Road)	(0.18)	
	Electric Vehicle Action Plan	(0.81)	
	Wildflower Area Mower	(0.04)	
	Green Park	(0.04)	
	Lordsdale Greenway	(0.01)	
	Westwood Greenway	(0.01)	
	Mobile Working for Parks & Street Cleansing Frontline	(0.01)	
	Realignment of Park Walk Entrance to East Park	(0.03)	
	Deep Dene Play Area	(0.01)	
	Cedar Lodge Play Area	(0.01)	
	Daisy Dip Play Area	(0.01)	
	(0.02)		
Inkerman Play Area	(0.02)		
Mandela Way Play Area	(0.02)		
	<b>(3.10)</b>		
		<b>(14.92)</b>	
	<b>GF PROGRAMME TOTAL</b>		
HRA	Townhill Park Regeneration	0.50	
	Estate Regeneration Woodside/Wimpson	(3.70)	
	Energy Company Obligations - Thornhill Heating	(1.50)	
	Energy Company Obligations - Lydgate - External Wall Insulation	(0.90)	
		<b>(5.60)</b>	
		<b>(5.60)</b>	
	<b>HRA PROGRAMME TOTAL</b>		
		<b>(20.52)</b>	
	<b>OVERALL PROGRAMME TOTAL</b>		

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## ADULT CARE

Scheme No.	Description	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Budget 2022/23 £M	Total £M
R9330	National Care Standards and H&S Work	0.020	0.000	0.000	0.000	0.000	0.020
R9340	Replacement of Appliances and Equipment	0.019	0.000	0.000	0.000	0.000	0.019
R9700	Common Assessment Framework	0.004	0.000	0.000	0.000	0.000	0.004
R9720	Residential Homes fabric furnishing - Care Quality Commissions	0.003	0.000	0.000	0.000	0.000	0.003
R9777	Integrated Working	0.180	0.103	0.000	0.000	0.000	0.283
R9600	Telecare Equipment	0.500	0.500	0.500	0.000	0.000	1.500
R9919	32B Kentish Rd Capital Upgrade	0.005	0.025	0.000	0.000	0.000	0.030
		<b>0.731</b>	<b>0.628</b>	<b>0.500</b>	<b>0.000</b>	<b>0.000</b>	<b>1.859</b>
<b>Sources of Finance</b>							
	Council Resources	0.680	0.603	0.500	0.000	0.000	1.783
	Capital Receipts	0.007	0.025	0.000	0.000	0.000	0.032
	Central Govt Grants	0.044	0.000	0.000	0.000	0.000	0.044
	<b>Total Programme</b>	<b>0.731</b>	<b>0.628</b>	<b>0.500</b>	<b>0.000</b>	<b>0.000</b>	<b>1.859</b>

## ASPIRATION, SCHOOLS AND LIFELONG LEARNING

Scheme No.	Description	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Budget 2022/23 £M	Total £M
E5017	Primary Review P2 - Valentine Primary School Westwood Block	0.400	1.124	0.000	0.000	0.000	1.524
E5020	Primary Review P2 - Fairisle Junior	0.701	0.000	0.000	0.000	0.000	0.701
E5022	Primary Review Contingency	0.022	0.000	0.000	0.000	0.000	0.022
E5027	Expansion of St Johns Primary & Nursery	0.023	0.000	0.000	0.000	0.000	0.023
E5030	Portwood Primary Expansion	0.152	0.000	0.000	0.000	0.000	0.152
E5037	Springwell School - Main Expansion 15/16	3.400	3.826	0.000	0.000	0.000	7.226
E5039	Remedial Works at Sholing-Springwell Intake 2015	0.007	0.000	0.000	0.000	0.000	0.007
E5041	Springhill Primary Academy School - one modular building	0.000	0.000	0.000	0.000	0.039	0.039
E5046	Thornhill Expansion	0.030	0.000	0.000	0.000	0.000	0.030
E5047	St Denys	1.510	2.380	0.060	0.000	0.000	3.950
E7203	Health and Safety Capital	0.041	0.000	0.000	0.000	0.000	0.041
E7205	Solar PV Resources Project	0.102	0.000	0.000	0.000	0.000	0.102
E7206	Renewable Heat Incentive	0.005	0.000	0.000	0.000	0.000	0.005
E7218	R&M Programme for School 2016/17 (inc 17/18)	1.015	2.056	0.000	0.000	0.000	3.071
E7220	Early Years Expansion Programme	0.555	0.651	0.000	0.000	0.000	1.206
E8185	St Mark's School	0.175	4.000	18.000	9.760	0.000	31.935
E9061	Mayfield Academy	0.004	0.000	0.000	0.000	0.000	0.004
E9062	Lordshill Academy	0.121	0.000	0.000	0.000	0.000	0.121
E9121	Bitterne Park Secondary Building Programme - planning contribution	0.195	0.000	0.000	0.000	0.000	0.195
E9122	Bitterne Park Autism Resource Base	0.400	0.160	0.000	0.000	0.000	0.560
E9133	School Access Initiative 2016/17	0.283	0.000	0.000	0.000	0.000	0.283
E9140	Asbestos 2016/17	0.373	0.000	0.000	0.000	0.000	0.373
E0NEW	Schools Programme	0.000	0.000	0.000	0.000	18.590	18.590
E9134	St George's School ESFA	0.075	1.805	0.000	0.000	0.000	1.880
E9135	Sholing Technical College Renovation	1.900	0.572	0.000	0.000	0.000	2.472
E9136	Regent Park Expansion	1.200	2.800	0.210	0.000	0.000	4.210
R9801	Post 19 Learning & Skills Hub	0.064	0.000	0.000	0.000	0.000	0.064
E9211	St George's Expansion	0.012	1.000	3.000	0.400	0.000	4.412
E9215	St Anne's Expansion	0.100	1.000	3.000	0.400	0.000	4.500
E9236	Chamberlayne Refurbishment	0.056	2.544	4.000	1.400	0.000	8.000
		<b>12.921</b>	<b>23.918</b>	<b>28.270</b>	<b>11.960</b>	<b>18.629</b>	<b>95.698</b>
<b>Sources of Finance</b>							
	Council Resources	6.575	8.915	11.132	11.960	18.590	57.172
	Capital Receipts	0.064	0.000	0.000	0.000	0.000	0.064
	Central Govt Grants	6.282	15.003	17.138	0.000	0.039	38.462
	<b>Total Programme</b>	<b>12.921</b>	<b>23.918</b>	<b>28.270</b>	<b>11.960</b>	<b>18.629</b>	<b>95.698</b>

## LEADER'S, CLEAN GROWTH &amp; DEVELOPMENT

Scheme No.	Description	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Budget 2022/23 £M	Total £M
C257G	Lighting Upgrades Salix Works	0.041	0.000	0.000	0.000	0.000	0.041
C620Y	QE2 Mile - Bargate Square	0.000	0.960	0.000	0.000	0.000	0.960
L8200	Studio 144	1.600	0.000	0.000	0.000	0.000	1.600
M9390	Royal Pier	0.100	0.306	0.000	0.000	0.000	0.406
M9400	Mayflower Park Spitfire Memorial	0.012	0.000	0.000	0.000	0.000	0.012
M9420	West Quay Phase 3 Watermark West Quay	0.100	0.337	0.000	0.000	0.000	0.437
M942B	West Quay Phase 3 Site B	0.065	0.000	0.000	0.000	0.000	0.065
M9430	Northern Above Bar Fees - Marketing Fees	0.023	0.000	0.000	0.000	0.000	0.023
M9100	Enterprise Centre	1.463	0.000	0.000	0.000	0.000	1.463
M6000	Bitterne Public Services Hub	0.035	0.208	0.000	0.000	0.000	0.243
M9001	Strategic Property Acquisition	7.125	0.000	0.000	0.000	0.000	7.125
		<b>10.564</b>	<b>1.811</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>12.375</b>
<b>Sources of Finance</b>							
	Council Resources	8.616	1.778	0.000	0.000	0.000	10.394
	Capital Receipts	0.200	0.000	0.000	0.000	0.000	0.200
	Contributions	0.148	0.033	0.000	0.000	0.000	0.181
	Central Govt Grants	1.600	0.000	0.000	0.000	0.000	1.600
	<b>Total Programme</b>	<b>10.564</b>	<b>1.811</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>12.375</b>

## COMMUNITY WELLBEING

Scheme No.	Description	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Budget 2022/23 £M	Total £M
G4310	Green Projects	0.063	0.000	0.000	0.000	0.000	0.063
G4490	Insulation and Fuel Poverty Initiatives	0.056	0.000	0.000	0.000	0.000	0.056

G6430	Support for Estate Regeneration	0.932	0.000	0.000	0.000	0.000	0.932
G6580	Estate Parking Improvements	0.150	0.083	0.000	0.000	0.000	0.233
C718D	CCTV Cameras	0.034	0.000	0.000	0.000	0.000	0.034
G4730	Disabled Facilities Grants - Approved Adaptations	1.200	1.020	0.000	0.000	0.000	2.220
G4740	Disabled Facilities Grants - Support Costs	0.032	0.000	0.000	0.000	0.000	0.032
R1100	S106 - Centenary Quay	0.038	0.000	0.000	0.000	0.000	0.038
GCAP1	Warm Homes	0.000	0.834	0.000	0.000	0.000	0.834
		<b>2.505</b>	<b>1.937</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>4.432</b>
<b>Sources of Finance</b>							
	Capital Receipts	0.432	0.000	0.000	0.000	0.000	0.432
	Contributions	1.163	0.760	0.000	0.000	0.000	1.923
	Central Govt Grants	0.910	1.177	0.000	0.000	0.000	2.087
<b>Total Programme</b>		<b>2.505</b>	<b>1.937</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>4.432</b>

**FINANCE AND CUSTOMER EXPERIENCE**

Scheme No.	Description	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Budget 2022/23 £M	Total £M
P5100	Desktop Refresh Programme	0.800	0.279	0.000	0.000	0.000	1.079
P5140	Customer Portal	0.052	0.000	0.000	0.000	0.000	0.052
T1000	Digital Investment Phase 1	0.056	0.000	0.000	0.000	0.000	0.056
T2000	Customer Relationship Management Project	0.298	0.000	0.000	0.000	0.000	0.298
T1001	Digital Investment Phase 2 & 3	4.084	0.000	0.000	0.000	0.000	4.084
P5150	Civic Centre Upgrade	0.448	1.700	0.000	0.000	0.000	2.148
		<b>5.738</b>	<b>1.979</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>7.717</b>
<b>Sources of Finance</b>							
	Council Resources	0.267	1.028	0.000	0.000	0.000	1.295
	Capital Receipts	4.382	0.000	0.000	0.000	0.000	4.382
	Direct Revenue	1.089	0.951	0.000	0.000	0.000	2.040
<b>Total Programme</b>		<b>5.738</b>	<b>1.979</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>7.717</b>

**HOMES AND CULTURE**

Scheme No.	Description	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Budget 2022/23 £M	Total £M
L1440	Tudor House Museum Phase 1	0.000	0.005	0.000	0.000	0.000	0.005
L6790	Sections 106 Playing Field Improvement	0.071	0.000	0.000	0.000	0.000	0.071
L810U	Art in Public Places – Millbrook and Weston	0.000	0.013	0.000	0.000	0.000	0.013
L8260	Tudor House Museum Phase 2 Implementation	0.000	0.030	0.000	0.000	0.000	0.030
L8370	Woolston Library	0.064	0.000	0.000	0.000	0.000	0.064
L1011	Water ingress repairs project at Westgate & Tudor House	0.002	0.018	0.000	0.000	0.000	0.020
L1015	SeaCity Treasure Trove	0.050	0.650	0.000	0.000	0.000	0.700
L6792	Outdoor Sports Centre Improvements	0.099	0.400	0.000	0.000	0.000	0.499
L1016	Woodmill Outdoor Activity Centre (Stone Repair - Tidal Wall)	0.191	0.000	0.000	0.000	0.000	0.191
L1014	Arts Gallery Improvements	0.000	0.500	0.000	0.000	0.000	0.500
L1017	God's House Tower	0.125	0.000	0.000	0.000	0.000	0.125
L1018	Ancient Scheduled Monuments	0.001	0.199	0.000	0.000	0.000	0.200
		<b>0.603</b>	<b>1.815</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>2.418</b>
<b>Sources of Finance</b>							
	Council Resources	0.432	0.673	0.000	0.000	0.000	1.105
	Contributions	0.100	0.413	0.000	0.000	0.000	0.513
	Other Grants	0.070	0.030	0.000	0.000	0.000	0.100
	Direct Revenue	0.001	0.699	0.000	0.000	0.000	0.700
<b>Total Programme</b>		<b>0.603</b>	<b>1.815</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>2.418</b>

**TRANSPORT AND PUBLIC REALM**

Scheme No.	Description	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Budget 2022/23 £M	Total £M
C2100	Purchase of vehicles	0.876	0.100	0.000	0.000	0.000	0.976
C240E	Itchen Masterplan	0.003	0.000	0.000	0.000	0.000	0.003
C2410	Mobile Working	0.048	0.000	0.000	0.000	0.000	0.048
C2440	Priory Road - Property Level Protection Scheme	0.007	0.000	0.000	0.000	0.000	0.007
C2750	Itchen Bridge Server	0.098	0.000	0.000	0.000	0.000	0.098
C2921	Weekly Collection Support Scheme	0.010	0.000	0.000	0.000	0.000	0.010
C2922	Alternative Weekly Collection - Implementation Works	0.111	0.000	0.000	0.000	0.000	0.111
C2923	Red Lodge Bin Storage	0.070	0.000	0.000	0.000	0.000	0.070
C550H	Improved Safety – Engineering	0.152	0.000	0.000	0.000	0.000	0.152
C7112	Road Safety Partnership	0.020	0.017	0.000	0.000	0.000	0.037
C7131	Cycling	2.734	0.359	0.450	0.000	0.000	3.543
C7141	Public Transport	0.180	0.320	0.290	0.000	0.000	0.790
C7151	Improved Safety	0.154	0.264	0.200	0.000	0.000	0.618
C7161	Travel to School	0.191	0.196	0.134	0.000	0.000	0.521
C716M	Workplace Travel Plan Measures	0.055	0.008	0.000	0.000	0.000	0.063
C716N	School Travel Plan Measures	0.019	0.019	0.000	0.000	0.000	0.038
C7171	Accessibility	0.220	0.250	0.250	0.000	0.000	0.720
C717S	Station Boulevard	0.200	0.000	0.000	0.000	0.000	0.200
C717T	Local Transport Improvement Fund	0.748	0.000	0.000	0.000	0.000	0.748

**TRANSPORT AND PUBLIC REALM**

Scheme No.	Description	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Budget 2022/23 £M	Total £M
C7181	Intelligent Transport Systems	3.082	2.904	0.800	0.000	0.000	6.786
C718F	LTP Monitoring	0.060	0.000	0.000	0.000	0.000	0.060
C718T	Urban Freight Strategy - Delivery Service Plans	0.008	0.047	0.000	0.000	0.000	0.055
C718V	Hospital Access Improvements (Coxford Road)	0.020	0.178	0.000	0.000	0.000	0.198
C718W	Thomas Lewis Way/Stoneham Lane	0.729	0.000	0.000	0.000	0.000	0.729
C718X	Electric Vehicle Action Plan	0.270	0.812	0.000	0.000	0.000	1.082
C718Y	Cooperative Intelligent Transport Systems - Bluetooth	0.032	0.000	0.000	0.000	0.000	0.032
C7191	Additional Roads Programme	7.700	0.300	0.000	0.000	0.000	8.000
C719D	Pothole Action Fund	0.296	0.000	0.000	0.000	0.000	0.296
C719E	Cycleways Improvements Programme	0.855	0.000	0.000	0.000	0.000	0.855
C719F	Anti-Terrorist Measures	1.046	0.000	0.000	0.000	0.000	1.046
C723B	Major Cycle Route Signage	0.040	0.000	0.000	0.000	0.000	0.040



HRA10	H6334	Decent Neighbourhoods: Cuckmere Lane	1.120	0.000	0.000	0.000	0.000	1.120
HRA10	H8006	Tower Block Communal Works	0.612	0.000	0.000	0.000	0.000	0.612
<b>HRA10 Total</b>			<b>1.812</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>1.812</b>
HRA11	H1134	Insulation Works - City Wide	0.071	0.000	0.000	0.000	0.000	0.071
HRA11	H1135	External Wall Insulation - Kingsland Estate	0.133	0.000	0.000	0.000	0.000	0.133
HRA11	H8005	External Wall Insulation - Low Rise	1.000	0.000	0.000	0.000	0.000	1.000
HRA11	H8010	Removal of Gas from Tower Blocks	0.200	0.000	0.000	0.000	0.000	0.200
<b>HRA11 Total</b>			<b>1.404</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>1.404</b>
HRA01	H1290	Hants Fire & Rescue Service - Fire Safety / Sprinkler Project	8.413	6.100	2.000	0.000	0.000	16.513
HRA01	H1113	Structural Works	5.421	5.062	3.768	2.993	0.000	17.244
HRA01	H0281	Housing Health & Safety Rating System - Approved	0.000	0.000	0.000	0.000	0.200	0.200
HRA01	H4593	Tenant Alteration Budget	0.000	0.000	0.331	0.331	0.331	0.993
HRA01	H139A	Water Quality Remedial Works	0.400	0.100	0.100	0.100	0.100	0.800
HRA01	HCAP1	Structural Works	0.000	0.834	0.834	0.700	0.700	3.068
HRA01	HCAP2	Non High Rise FRA Remedial Works	0.000	0.100	0.100	0.050	0.050	0.300
<b>HRA01 Total</b>			<b>14.234</b>	<b>12.196</b>	<b>7.133</b>	<b>4.174</b>	<b>1.381</b>	<b>39.118</b>
HRA02	H1116	External Windows and Doors	0.898	0.050	3.000	2.500	4.998	11.446
HRA02	H1128	Electrical Heating Systems	0.138	0.000	0.000	0.250	1.710	2.098
HRA02	H1355	ECO: City Energy Scheme	1.355	1.166	0.000	0.000	0.000	2.521
HRA02	HCAP3	Millbank House EWI Refurbishment	0.000	0.000	0.000	2.000	2.000	4.000
HRA02	HCAP4	Millbrook House - EWI Upgrade	0.000	0.000	0.750	0.750	0.000	1.500
HRA02	HCAP5	Milner Court Heating Upgrade	0.000	1.000	0.000	0.000	0.000	1.000
HRA02	HCAP6	Albion Towers Heating	0.000	0.000	0.000	0.650	0.000	0.650
HRA02	HCAP7	Gas Heating Upgrades/Refurbishments	0.000	0.600	0.750	0.938	1.172	3.460
HRA02	HCAP8	Insulation Upgrades	0.000	0.050	0.253	0.253	0.599	1.155
HRA02	H8004	Energy Company Obligations - Canberra Towers	0.100	3.400	2.800	2.800	2.800	11.900
HRA02	H8008	Energy Company Obligations - Thornhill Heating	5.674	3.100	0.800	0.000	0.000	9.574
HRA02	H8009	Energy Company Obligations - Lydgate - External Wall Insulation	0.050	0.900	0.000	0.000	0.000	0.950
<b>HRA02 Total</b>			<b>8.215</b>	<b>10.266</b>	<b>8.353</b>	<b>10.141</b>	<b>13.279</b>	<b>50.254</b>
HRA05	H6570	Townhill Park Regeneration	7.704	2.193	4.807	2.312	1.333	18.349
HRA05	H6720	Estate Regeneration Woodside/Wimpson	7.132	15.278	4.233	1.180	0.000	27.823
HRA05	HCAP13	GN New Homes	0.000	0.000	0.000	0.000	3.343	3.343
<b>HRA05 Total</b>			<b>14.836</b>	<b>17.471</b>	<b>9.040</b>	<b>3.492</b>	<b>4.676</b>	<b>49.515</b>
HRA03	H1115	Door Entry Systems	0.058	0.159	0.319	0.364	0.352	1.252
HRA03	H1122	Wall Structure & Finish	0.500	0.250	0.500	0.700	1.672	3.622
HRA03	H118A	Housing Refurbishment Programme	1.200	0.850	1.063	1.328	1.660	6.101
HRA03	H1154	Lift Refurbishment - Shirley Towers	0.000	2.159	0.308	0.308	0.308	3.083
HRA03	H1110	Communal Areas Works	0.273	0.647	0.979	0.497	0.400	2.796
HRA03	H012A	Roofing Lot 1 West	4.249	4.000	4.000	4.000	6.560	22.809
HRA03	H1272	Renew Porch/Canopy	0.000	0.050	0.250	0.300	0.372	0.972
HRA03	H1261	Refurbish Balconies Approved	0.000	0.000	0.342	0.149	0.123	0.614
HRA03	HCAP9	Block Modernisation Programme	0.000	1.100	2.200	4.190	4.130	11.620
HRA03	HCAP10	Electrical System Upgrades/Refurbishments	0.000	0.100	0.125	0.156	0.195	0.576
<b>HRA03 Total</b>			<b>6.280</b>	<b>9.315</b>	<b>10.086</b>	<b>11.992</b>	<b>15.772</b>	<b>53.445</b>
HRA07	H1740	Renew Warden Alarm	0.494	0.414	0.518	0.518	0.000	1.944
HRA07	HCAP11	Disabled Adaptations	0.000	1.600	1.600	1.600	1.600	6.400
<b>HRA07 Total</b>			<b>0.494</b>	<b>2.014</b>	<b>2.118</b>	<b>2.118</b>	<b>1.600</b>	<b>8.344</b>
HRA04	H6319	Decent Neighbourhoods: Estate Improvement Programme (EIP)	0.139	0.100	0.100	0.120	0.140	0.599
HRA04	H1133	Roads/Paths/Hard Standing	0.332	0.321	0.321	0.321	0.321	1.616
HRA04	H033A	Decent Neighbourhoods: Future Decent Neighbourhood Schemes	0.242	1.142	0.259	1.432	0.000	3.075
HRA04	HCAP12	Decent Neighbourhoods	0.000	1.800	1.800	1.810	1.820	7.230
<b>HRA04 Total</b>			<b>0.713</b>	<b>3.363</b>	<b>2.480</b>	<b>3.683</b>	<b>2.281</b>	<b>12.520</b>
			<b>53.159</b>	<b>54.625</b>	<b>39.210</b>	<b>35.600</b>	<b>38.989</b>	<b>221.583</b>
<b>Sources of Finance</b>								
	Council Resources		19.246	10.324	8.541	3.612	6.912	48.635
	Capital Receipts		8.159	6.140	2.862	3.162	2.424	22.747
	Contributions		2.151	0.255	0.188	0.000	0.000	2.594
	MRA		14.151	29.969	20.442	21.039	21.525	107.126
	Direct Revenue		9.452	7.937	7.177	7.787	8.128	40.481
<b>Total Programme</b>			<b>53.159</b>	<b>54.625</b>	<b>39.210</b>	<b>35.600</b>	<b>38.989</b>	<b>221.583</b>



**SOUTHAMPTON CITY COUNCIL  
CAPITAL STRATEGY  
2018/19 TO 2022/23**

**FEBRUARY 2019**

# Capital Strategy 2018/19 to 2022/23

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## SECTION 1 - THE SOUTHAMPTON CAPITAL STRATEGY

### Aims of the Strategy and its links to the Council's 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 - "Southampton - a city of opportunity where everyone thrives"

Reflecting the ambition and vision above the council's priority outcomes are:



These objectives reflect the on-going commitment to ensure the council puts residents and the customers at the heart of everything we do, reflecting the city's diversity. Strong leadership is essential if the council is to meet the immediate and the medium term challenges in sustainable way and make the most of future opportunities.

We have moved to outcomes based planning and budgeting as an approach and as a result, to manage our resources effectively to deliver these priority outcomes, we have allocated resources against each of them. We have considered what is being achieved from the services provided and focused on what makes the most difference to residents, customers and businesses. Under each outcome, we then identified proposals to reduce costs in the following areas:

- Business as usual - being more efficient in how we manage and deliver our services on a day-to-day basis
- Digital savings - changing and improving how we deliver services, making better use of online channels
- Service delivery changes - redesigning, sharing, stopping, reducing or changing services

We expect the shape of the council, including the types of services we deliver and how we will deliver them, will be very different over the coming years. The council Strategy sets out that this will be achieved through:

- Taking personal responsibility
- Working through and with others
- Embracing change
- Balancing commercial demands
- Being customer orientated

## The Capital Strategy

The council's Capital Strategy is to ensure the council is able to plan and allocate the available resources for capital projects and programmes that contribute to the delivery of priority outcomes in the council Strategy and sets out the long term vision giving consideration to risk and reward. In order to demonstrate that the council takes capital and investment decisions in line with its strategic priorities, and to ensure that it takes account of stewardship of assets, value for money, prudence, affordability and sustainability the council is committed to fully appraising the capital investment process. The Capital Strategy is also intended to show how both capital expenditure, capital financing and treasury management contribute towards service potential and how the associated risk is managed effectively. The principles of the strategy are as follows:

- The Council Capital Board (CCB), chaired by the Cabinet Member for Finance, leads on the strategic direction of capital investment for the council. The CCB operates 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 and sub-regional strategies and programmes and the need to apply for funds on a regional basis. As a result, the council must also ensure that its Capital Strategy reflects the vision set out by the LEP, PUSH, and Transport for South Hampshire. These partnerships aim to work together with other stakeholders to secure a more prosperous and sustainable future for the Solent area.

- 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.
- 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.
- All capital investment decisions will be made with reference to council outcomes, priorities, Executive commitments and regional strategies and, only after a positive contribution to one or more of the objectives has been demonstrated, will a project be considered for resource allocation.
- 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 priority outcomes. This funding will be allocated as the CCB feel is appropriate to achieve these outcomes, following receipt of a robust 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.
- The non-ring fenced and corporate resources will be managed by the CCB and it will review all capital 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 Four of this Strategy.



- 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 outcomes, priorities and Executive commitments.
- The CCB will recommend the use of both non-ring fenced and ring-fenced resources and also the general prioritisation of resources so that Cabinet/council can make well informed final decisions on the utilisation of resources, as per the timeline set out in Section Five.
- 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 Ministry of Housing, Communities and Local Government.
- New reforms such as the HRA removal of the borrowing cap announced by the MHCLG on the 29<sup>th</sup> October, 2018 will give the council greater freedoms surrounding HRA borrowing for building homes. A dedicated task group has been created in order to respond to this opportunity. The Capital Programme is currently being updated to 2022/23 with levels of voluntary 'Minimum Revenue Provision' (MRP) under review. This will be reported in the Medium Term Financial Strategy at full council in February 2019.
- There will be an annual review of the individual capital schemes undertaken to:
  - a) Ensure that schemes still meet strategic priorities and outcomes via a capital appraisal process;
  - 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 re-phasing of planned expenditure; and
  - d) Identify any unutilised or underutilised resources.
  - e) Consider any reallocation of resources.
- All applications/bids for external capital grant funding will be presented to the CCB prior to submission to ensure they are in line with agreed priorities and outcomes and that all capital and revenue consequences have been considered. 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 and outcomes.

## **The Wider Region**

### **Solent Local Enterprise Partnership (LEP) Update**

The Solent is a unique place with unique challenges and opportunities. This update has set out some of the key challenges and opportunities that the Solent LEP faces. 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.

A number of additional, supplementary documents have been published in the interim period from 2015, including impact assessment, sector assessments (maritime), infrastructure and investment plans. Many of these are referred to in the 'Productivity and growth strategy update February 2017'. This update seeks to help frame policy and investment decisions, ahead of a refresh of our Strategic Economic Plan.

Since the publication of the Solent Strategic Economic Strategy in 2014 and Growth Plans in 2014, 2015 and 2016 the Solent LEP have continually assessed what capabilities needed to deliver growth and prosperity in the future in the Solent. Investments will be focussed on activity that will help to give businesses and individuals the support they need to respond to any new challenges such as the imminent change in our relationship with Europe.

In 2017 a five point plan was published to guide partners and support the on-going development of a new Solent Strategic Economic Strategy.

- Address deficits in infrastructure, most pronounced in transport, also in flood defence and superfast broadband, and the infrastructure required to unlock new development opportunities
- Address the serious and chronic shortage of housing in the Solent area.
- Develop the skills that our economy needs to succeed, with a continued focus on higher level skills, apprenticeships and STEM (Science, Technology, Engineering and Maths).
- Ensure that ideas and knowledge are at the forefront of our approach working with our world class universities to support our businesses to innovate and grow.
- Address the economic challenges across the Solent area.

The Solent economic strategy update began in 2017 with a series of discussions with key local stakeholders (including local business, academia and the public sector) to shape a new vision for the Solent Economy going forward.

This vision needs to provide a clear statement for the future of the economy so that the Solent is positioned to respond to the opportunities and challenges ahead.

Productivity and growth will remain as key issues in the new Solent economic strategy and in the imminent development of a Solent (Local) Industrial Strategy. The Government has set a clear agenda to raise productivity in the UK and see this as the central long-term economic challenge facing the country. The government's approach to raising productivity, set out in the 2015 Productivity Plan, is based on:

- encouraging long-term investment in economic capital, such as technology, innovation, infrastructure, and skills; and
- creating a dynamic economy which ensures resources are put to their best use.

The Industrial Strategy sets out how plans to build a Britain fit for the future, positioning the UK at the forefront of what is referred to as the fourth industrial revolution by helping businesses create better, higher-paying jobs with investment in the skills, industries and infrastructure of the future. The focus is on five foundations: ideas, people, infrastructure, business environment and places.

The underperformance of the UK in terms of productivity is mirrored in the Solent economy. The total value of GVA in Solent stood at £27.8 billion, accounting for just under 12% of regional output. The productivity gap to the regional average is explained by the relatively high concentration of jobs in the Solent economy in lower productivity sectors such as health and social work and a lower share of jobs in higher value sectors such as financial activities; and information and communications.

By accelerating job growth in higher value sectors, the Solent LEP area will be able to close the productivity gap over the medium to long term. In the longer term to 2036 GVA in the Solent LEP area is forecast to grow by 2% per annum and this is slightly slower than both the south east (2.2%) and the UK (2.1%) as a whole.

Future priorities relevant to Southampton partly relate to a focus on strategic projects such as Southampton Airport Economic Gateway, Itchen Riverside and also on transport projects such as Solent Metro. Other thematic priorities include infrastructure, skills, innovation, enterprise and a focus on science.

In 2017 the main priorities for the Solent areas included:

- 'Developing our Economic Infrastructure' with improved connectivity, with a strengthened pipeline of infrastructure projects, with the release of public land assets to accelerate employment growth and/or housing delivery.
- 'Skills' with the delivery of the Solent Area Review, the refresh of the skills strategy and explore the implications of automation, autonomy and the increasing use of Artificial Intelligence.
- 'Science and Innovation' including the development of a Solent Innovation Strategy informed by a science and innovation audit, an assessment of the economic value of Solent Area universities and by building on the opportunities for transferring enabling technologies and emerging technologies (such as high-performance computing and big data; advanced materials and composites; nanotechnology and nanophysics; autonomous systems; high

power lasers; and optoelectronics and fibre optics) across the industry sectors and sub-sectors.

- ‘Enterprise’ with further development of the Solent Growth Hub to engage with more local businesses, with the on-going provision of funding and support for innovative, high growth businesses as well as support those business that are experiencing challenging trading conditions.
- ‘Strategic Sectors’ with a particular focus the value of the strategic marine and maritime sectors, whilst increasing the focus on growing sectors based around professional, scientific, and technical activities and with a renewed focus on tourism and the visitor economy.

Solent LEP prioritisation for capital programmes will use a scored methodology which is outcome based and focuses on the delivery of outcomes such as the creation of new homes, new jobs and infrastructure projects to support local economic growth.

The Solent LEP Board comprises of a fully elected board of 15 Directors, democratically elected by its members and underpinned by robust, transparent and accountable delivery structure. A Funding, Finance and Performance Management Group supports and advises to the board in relation to overall performance.

### Economic Development

The City council is working with key partners including Solent LA’s, business organisations, Higher and Further Education, the Department for Trade and Investment, training providers and businesses to generate economic growth in the city to strengthen Southampton’s reputation as a place that welcomes and supports business growth.

The current focus is on supporting the attraction of new businesses to the VIP development schemes included in the City Centre Masterplan, providing property solutions for business, sector development and facilitating businesses’ support services to maximise the potential of the City through the enhanced cultural, retail and hospitality offer, improving productivity, and ensuring that all residents can benefit from, and contribute to the City’s growth. The Economic Development and Skills team has an active programme for working with developers and occupiers to ensure that residents of the city are given the opportunity to gain employment created by major development schemes. It also levers significant external funding for labour market interventions.

### Estate Regeneration

In 2009 Southampton City Council launched its Estate Regeneration programme, this outlined the vision to create successful communities on its estates where people will want to live in the future.

Estate regeneration schemes followed at Hinkler Way, Laxton Close, Exford Avenue, Meggeson Avenue, Cumbrian Way and Weston Lane. The preparation for these projects were funded by the HRA (with some of this funding being repaid through grants and land receipts). A mixture of homes for sale and Housing Association funded affordable homes (for rent and shared ownership) were provided plus new shopping parades in some developments. These projects were not designed to create council owned homes.

In August 2013, the administration outlined an aspiration for estate regeneration development to be council led with the HRA acquiring new homes for rent (at Affordable Rent levels). The initial focus of this work was Townhill Park, which was identified as the council's first area of comprehensive regeneration.

In 2017 construction commenced on 56 general needs affordable homes on Plot 1 at Townhill Park, with completion planned for May 2019. The work is ahead of schedule and the homes will be handed over in early February, and the flats at the beginning of April. The homes are being constructed for the council by Drew Smith Group, the council will own the properties all of which will be available at affordable rents. The council's investment in Plot 1 is supported by a grant from 'Homes England' and money received in Section 106 payments from private housing developers and right to buy receipts. The council's wider plans for Townhill Park across a number of plots are intended to deliver around 665 new homes. In February 2018 the Chancellor confirmed Southampton's successful bid for £3.75M from the Housing Infrastructure fund towards Townhill Park Regeneration, this grant is to fund road improvements, including traffic calming, to Meggeson Avenue and the development of a ~~village green~~ new central open space. The formal grant offer was received in September 2018 and work is ongoing to enable formal agreement to be reached with Homes England to allow work to commence and is to be completed by March 2021.

The council is currently using and exploring a number of different models for development and funding of new homes across the city, these include:

- **Direct Development** within the HRA –two developments are currently on site and under construction, these include Townhill Park Plot 1 (56 homes) and Potters/Kiln Court (84 homes with extra care and 15 general needs age designated homes)
- **The sale of sites** to Housing Association Partners – this includes the former Lordshill Housing Office site plus sites in Andromeda Way and Lower Brownhill Road.
- **The potential sale of sites to institutional funding partners** – this could make completed units available to the council through finance leases with options to purchase. This is being explored particularly in relation to the former Oaklands School Site and Plot 2 in Townhill Park.

The housing targets for Southampton are set out in the Southampton City Council Housing Strategy 2016-2025 and the Southampton Core Strategy 2006-2026. This currently states that there is a requirement for an additional 16,300 housing units for the city by 2026.

Despite the council owning 16,000 properties there is still an urgent need for social and affordable housing with over 9,000 families currently waiting for homes on the housing register.

In 2018 the administration set a target of developing a 1,000 council owned homes in a five year period. A plan is therefore currently being developed for the delivery of 1,000 homes over 5 years with sites identified, a method of taking these forward, and a timeline.

As part of the Autumn Budget 2017 the government confirmed its commitment to delivering 300,000 homes per year and on the 29<sup>th</sup> October 2018, the Housing Revenue Account (HRA) borrowing cap was formally removed with the publication of the Limits on Indebtedness (Revocation) Determination 2018. Southampton City Council responded to this opportunity with the formation of a dedicated task and finish group. The terms of reference of this group

and representation by senior managers across the council was approved by the Councils capital board in November 2018. The Service Director for Adults, Housing and Communities was appointed as the lead for the task and finish group. The approved purpose of task and finish group are to:

- Evaluate the implications of the removal of the cap, in order to maximise any opportunities that support delivery of the council's strategic objectives.
- Consider whether any additional prudential indicators are required and to propose these.
- Test the assumptions that have been proposed as part of the HRA 30 year business plan review.
- Agree the methodology that the council will use to assess the financial viability of new build proposals under various models.
- Make recommendations over future governance arrangements and how this work is best coordinated and delivered as 'business as usual'.
- Prepare a short report for consideration at Full Council in February 2019.

## **Key Priority Issues**

### Housing

The Southampton Core Strategy identifies a housing requirement for the city of 16,300 by 2026. Local Plans for homes include delivery of priority home categories including affordable, starter home for first time buyers, council new-build and extra care, by making use of exception sites including redundant public land. A commitment has been made to develop at least 2,000 new starter homes within the city. This has been supported to date by additional government funding including;

- The Help to Buy scheme which has been in place since 2013, to ensure that working people who were doing the right thing and saving for a deposit could achieve their aspiration of buying their own home through Government support.
- The Help to Buy ISA was introduced from 1<sup>st</sup> December 2015 whereby first-time buyers can save up to £200 a month towards their first home and the government will boost their savings by 25%, or £50 for every £200, up to a £3,000 bonus.
- Additional funding streams, such as for low-cost home ownership are intended to be available for councils as well as housing associations and private developers. Councils are encouraged to think creatively about the homes they could deliver.

In the Autumn Budget 2018 the government built on previous budgets in relation to a focus on new homes and supporting the development of more social housing. This included:

- An announcement that the Housing Revenue Account (HRA) borrowing cap has been abolished from 29<sup>th</sup> October 2018, enabling councils greater freedom to increase house building in England to approximately 10,000 homes per year.
- Further to the announcement of the abolition of the borrowing cap, the council has set up a dedicated task group to evaluate the implications of the removal of the cap in order to maximise this opportunity as part of the Building Council Homes Programme.

- Stamp duty will be lifted for first time buyers of shared ownership properties worth less than £500,000.
- The Housing Infrastructure Fund will increase by £500M to a total of £5.5BN.
- Town planning rules to be eased allowing for the conversion of under-used retail units to be made into residential properties.
- New partnerships with housing associations in England to deliver 13,000 new homes
- Guarantees of up to £1BN for smaller house-builders.
- Lettings relief limited to properties where the owner is in shared occupancy with the tenant.

During the Autumn 2018, the Government also consulted on the Social Housing Green Paper 'A new deal for Social Housing'. The paper proposed reforms to ensure social homes provide an essential, safe, well managed service for all those who need it. This included looking at tenant empowerment to ensure that issues are addressed and resolved and strengthening the regulatory framework for social housing. The Government is currently considering the feedback from consultation which closed in November 2018, and any future legislative or regulatory requirements introduced following the Green Paper may have impacts on the way that HRA is managed and the requirements for Southampton City Council as a landlord.

### Affordable Housing

In June 2018, the Government issued an addendum to the Shared Ownership Affordable Homes Programme 2016-2021 (SOAHP) introducing additional funding for affordable housing including affordable rented homes. Alongside the announcement to abolish the HRA borrowing cap giving greater freedoms to build more affordable housing the Government confirmed a total of :-

- £1.7bn Grants included within the SOAHP 2016-2021 in a range of tenures between affordable homes and affordable rented homes with around a total of 69,600 total homes forecast announced at the end of June 2018
- This is in addition to the £2BN previously announced October 2017 to deliver social rent across England as well as tenures currently available through the programme.
- £400M announced May 2018 to fully fund the removal and replacement of dangerous cladding by councils and Housing Associations. This funding will come from the current SOAHP. To provide long term certainty £400M grant funding will be coming back into the SOAHP in 2021/22.

Alongside this funding, the government is expanding the existing affordable homes programme to offer a wider range of ways to help people into home ownership and to provide support for those that need affordable housing such as Affordable Rent, Shared Ownership and Rent to Buy.

### Building new homes

Following the announcement of the abolition of the HRA borrowing cap formally removed as at 29<sup>th</sup> October 2018, the council responded by forming an HRA task group to benefit from this opportunity. The objectives of the task and finish group are:

- To explore and evaluate the implications of the removal of the cap in order to maximise opportunities for the Authority and support the delivery of the council's priorities in line with the Southampton City Strategy 2015-2025
- To update and develop the city's Housing Strategy
- Agree and consider any additional prudential indicators to address affordability
- Assess the financial viability of schemes and agree methodology for proposals under various models
- To make recommendations for embedding governance and how delivery of the work is best co-ordinated

A report will go to full council this month during February 2019. A project plan for which the council is seeking support is to deliver 1000 homes over five years. The project will include:

- Identifying key sites within the city to support these additional homes
- To explore a range of sites with mixed options for redevelopment
- To address individuals requiring a range of special needs including care and disabilities (Research demonstrates a need for an addition of 450 homes with care)
- Exploring the use of external consultants to for redesign, development and initial project scoping
- The use of a financial appraisal system on key sites to identify viability
- Ensure early planning consultation to identify issues early within the process

A government grant of £0.050M has been awarded to the council in order to start initial feasibility studies and project scoping.

#### Southampton Business Improvement District

In November 2016, City Centre businesses voted in favour of the establishment of a Business Improvement District (BID). Over £1M will be generated for each year from 2018/19 to 2022/23, through a levy of 1.5% of business' rateable value in the specified BID area (with some concessions). The funds will be overseen by the businesses via a Board, and allocated for activities to improve the marketing and experience of the City Centre. Delivery must add value to council services, for which a baseline agreement will be in place. The BID has the potential to match fund and augment existing services, to consider alternative delivery models in the future, and to lever additional resources to the City. This will support the council's outcomes and priorities, particularly in relation to economic growth.

#### Public Sector Plc (PSP)

Southampton City council on the 15<sup>th</sup> of September 2014 entered into a limited liability partnership with PSP Facilitating Limited and PSP Southampton LLP for a minimum period of 10 years.

It provides the council with an additional option with regard to the disposal, sale or use of its assets to maximise income and opportunity. The relationship brings funding opportunities which are not traditionally available and the formed LLP is required to demonstrate its value to the council before projects are agreed for delivery.

The aims and aspirations of the Partnership are as follows:



- Overall to be a facilitating organisation and development partner for the council enabling it to better realise the efficient management of its assets by unlocking value and reducing liabilities in relation to the council's operational properties and investment properties;
- To undertake specific regeneration opportunities by entering into land transactions that achieve the success criteria in a way that maximises the commercial benefits of the Sites;
- To act as a facilitating organisation giving the council choice as to how it pursues its asset management plans; and
- To assist in achieving broader social, economic and environmental outcomes through true partnership working incorporating the insourcing principle which optimises the use of council staff and infrastructure where it is practical and prior to the appointment of any third party.

To date option agreements have been entered into with the partnership in respect of land at Drivers Wharf, 160 -164 Above Bar (The Scholars Arms) and 150 – 162 High Street.

### Flood Defence and Coastal Erosion

Southampton has 35km of coastline including areas around Redbridge, the Docks, Northam, St Denys, Woodmill, Bitterne Manor, Woolston and Weston. Our greatest flood risk is tidal, with around 10% of the city at risk from flooding from the sea. Southampton also contains a number of main Rivers that can pose fluvial flood risk, including the River Test, River Itchen and a number of smaller brooks and streams. Additionally, surface water flooding can occur anywhere in the city following heavy rain, particularly when rainfall is unusually intense or prolonged, overwhelming the local drainage network.

The council is committed to protecting existing and new developments from flood risk through the development of flood defences to protect vulnerable areas alongside the River Itchen, which will be designed to integrate with the city's existing infrastructure.

A report was presented to Capital Board and council in March 2016 providing details of the River Itchen Flood Alleviation Scheme (RIFAS) identifying the need to strengthen flood defences in that vicinity to:

- Provide strategic flood defence infrastructure that will reduce the tidal flood risk for existing commercial (775) and residential properties (1434) in this area over the next 100 years which will avoid approx. £1.39BN of flood damages in present day cash terms (which is equivalent to £249M present value); and
- Provide strategic flood defence infrastructure that will be future proofed to enable future redevelopment in the area when these aspirations are realised.

It was envisaged that this project will be a collaboration between the council, the Environment Agency, Solent LEP, private companies and landowners.

Due to the large scale of the project work is still ongoing to assess potential additional external funds, along with alternative proposals should funding not be secured.

The Autumn Statement announced that there will be government support for flood defence of £13 million for the UK to tackle risks from floods and climate change, through pilot projects to ensure property owners have the best information on protecting their homes, and expanding the flood warning system to an additional 62,000 at-risk properties.

An area at Weston Shore has been identified as of concern due to coastal erosion processes threatening the nearby cycle path and Southern Water infrastructure. A proposed coastal erosion defence scheme will construct a modular concrete retaining wall to protect these assets from 2019/20 over two years, at total cost of £1.0M financed partly by a £0.2M grant from Strategic Transport Cycleway Maintenance Fund with the remaining being funded by CIL monies.

#### Commercialisation and interests in other entities

Considering the continued financial challenge facing the council there is an increased need for fundamental, transformational change across the organisation, in both the services it delivers and how it delivers them.

Cabinet approved at its meeting in December 2016 to undertake the necessary works to explore option for a LATCo. Following public consultation, the council is now seeking to establish a LATCo which will have a number of objectives, including:

- To enable the on-going transformation of a range of in-scope council services, particularly the need for a new operating model that supports cost efficiency in the delivery of services back to the council together with further commercialisation and potential trading opportunities.
- To maximise the effective, efficient and economic management and operation of the in-scope services.
- To develop a commercial capacity that can, where appropriate and in the public interest, profitably trade the services with other councils, public sector organisations, businesses and, where relevant, residents of the City and the broader commercial market.
- To support the council in achieving its aim of continuing to grow the local economy, bringing investment into the city and increasing employment opportunities for local people.

Work has been progressing and following an initial Best Value consultation undertaken in 2017, Cabinet agreed to proceed with the option of establishing a LATCo without an external partner as this is in the best interests of the council.

In establishing a LATCo, the council will ensure that the process includes effective due diligence when seeking to maximise the opportunities associated with such ventures. It will seek to secure independent professional advice on all aspects of commercial activity including robust outline business case, tax implications and all aspects of commercialisation

In January 2018 a report was presented to Cabinet outlining the proposed governance arrangements and company structure, along with proposed phasing of the migration of services. A Best Value consultation has now been launched and will run until April 2018. Following the outcome a final report with the proposals and business plans for the LATCo will be presented for consideration and approval by council in May/June 2018.

Other considerations such as joint ventures/joint working arrangements seeking to maximise opportunities and an effective use of resources to ensure that the strategic priorities of both service potentials are addressed.

### Demographic Pressures

The Medium Term Financial Strategy details the significant demographic pressures that are impacting the financial position of the authority both now or are likely to in the future. Whilst the revenue implications are being captured there are also likely to be significant capital spend requirements.

A key pressure has been identified as a result of the need to expand secondary school places. Following the primary school expansion programme, there is now a requirement to expand the secondary schools to meet the need for additional year 7 places in the future. It is forecast that the current surplus of year 7 places within the City's secondary schools will be insufficient to meet both demand and the DfE requirement for a 5% surplus. The level of capital Basic Needs grant, which is provided to Local Authorities to increase school places, is based on the differential between the forecast number of children and the number of places within the city. Across the secondary sector the total number of places exceeds demand in the city until 2023, which in turn will likely delay the allocation of any further Basic Needs funding to 2021/22. Therefore during this period any required works to increase the Published Admission Numbers (PAN) of Secondary schools, in order to accommodate the increase in year 7 children, will need to be funded from Council resources.

The current Secondary expansion programme will deliver an additional 1,500 in line with the known demand into the early 2020's. There has been a surplus of Year 7 places in Hampshire which has led to an outflow of children from the City to Hampshire Schools. It is known that this surplus of secondary places will diminish in the coming years the extent and timing of this pushback is difficult to predict however it is likely Southampton will need to create further secondary places for 2025 and beyond.

### Property Investment Fund

Local Authorities face a difficult financial climate with ever decreasing funding from Central Government. This has necessitated in councils looking at innovative ways to generate regular revenue streams so they can reduce reliance on Central Government funding.

Many councils are acting to strengthen their funding base and reduce their reliance on Government grant by building asset portfolios that provide a commercial return. They have made the decision to expand their investment property portfolio, which provides an important and substantial revenue income stream, in order to generate a higher level of income by acquiring additional properties.

The council's strategy for undertaking 'Property Investment' activities was approved by Cabinet on 19<sup>th</sup> April 2016. The key themes of the Property Investment Strategy are to:

- Set criteria for making investments;
- Identify the types of investment and vehicles that would allow for a balanced investment portfolio. Examples which will be considered include direct investment, i.e. properties that already produce income; indirect investment i.e. investing in property investment vehicles such as investment funds; and corporate investment i.e. investment in or acquisition of property management, trading or investment companies.
- Highlight the main property sectors as retail, office, industrial and leisure/healthcare. The portfolio will aim to spread its investment across the sectors to limit exposure to any volatility in a particular area:
- Maximise rental income and minimise management cost thus maximising returns;
- Pursue opportunities to increase commercial return and improve investment value of commercial assets;
- Choose property in locations driven by financial criteria, so may not be in Southampton although property in Southampton will be considered if it meets the relevant criteria; and
- Set the governance and decision structure
- Define a clear exit strategy.

To date £57M has been invested, £30M in 3 commercial properties (with a return on investment of 5.9%) and £27M invested in the CCLA, to manage risk through diversification.

No further investments are planned at this time. The outcome of Central Government's review of the guidance surrounding Local Authority investments has been released. This will now need to be considered by the CCB with a review of the current investments being undertaken in line with the new code of practice recommendations. This review will be considered and reported in the latest Treasury Management Strategy.

### The Digital Agenda

A fundamental review has been undertaken of the council's use of technology, with the objective of positioning this not merely as an essential tool for the delivery of services, but rather an intrinsic part of the council's future 'DNA'.

The council aims for its customers to have an increased and better ability to self-serve, online, at a time that suits them, while ensuring that the requisite support is available for customers who do not have the skills or means to interact with us digitally.

The 'Digital' programme comprises two elements.

- The first focuses on 'digitising' high volume, high cost services in order to drive efficiencies through the automation of process and enhanced levels of integrated workflow solution; and
- The second element will build on this fundamental step to position the council as a 'digital' organisation by facilitating better integration of services across departments, ensuring better and more seamless customer journeys.

These initiatives will enable the council to operate a leaner structure, whilst also delivering savings in third party spend (with contractors and suppliers) and assets (such as property and office accommodation). These will be through enabled reductions in facility requirements, customer contact structures, consolidation of back office and corporate service functions and retirement of old IT legacy. This is currently being progressed through the implementation of an Enterprise Resource Planning System.

## **SERVICE PRIORITIES**

### Schools

The Council has a statutory duty to ensure that there are sufficient school places in the City, promote high educational standards, ensure fair access to educational opportunity and promote the fulfilment of every child's educational potential. This is reflected within the Council's priority outcome of children and young people getting a good start in life.

To support the achievement of this outcome a comprehensive Capital Programme is essential to ensure that there are sufficient places available, which enables parental choice and that are of appropriate quality fabric to promote a safe and suitable environment for educational attainment.

The programme is developed in line with the City's Education Strategy and considers both the expansion of school places through development of existing sites and new build projects in conjunction with local need and preference. In addition the maintenance and fabric of the existing buildings is a high priority to ensure all children continue to receive their education in a safe and supportive environment.

After undertaking a programme of Primary school expansions in recent years there is now a need to expand the number of Secondary school places to accommodate the additional pupils currently at Primary age. As part of the February 2018 Capital Programme update approval is being sought for a £67M project to deliver the places required. This is in addition to the £10M already committed for improvements to 3 Secondary schools.

The Council does not currently have sufficient special school places to meet the demand and needs of the Special Educational Needs and Disability ('SEND') population. On 16th March 2016 Council approved plans to expand Springwell School and work has begun on 10 classrooms, a hydrotherapy pool which will be available out of school hours to parents of SEND children, a sensory room, hall, catering kitchen and associated supporting facilities for 128 children. This expansion will assist a number of children and young people get a good start in life, which is crucial to enabling them to go on to fulfil their potential and become successful adults who are engaged in their communities. The work is due to be completed during 2019/20.

The SEND provision across the City is subject to strategic development and this will require significant capital investment to provide places by 2022. Southampton City Council has submitted a Free School bid; if successful this would secure significant inward investment in SEND places. If the bid is unsuccessful the Southampton will need to find circa £30M to provide sufficient capacity for SEND

## Transport

The Council's Transport Asset Management Plan (TAMP) remains the backbone of investment decisions on the maintenance of the highways assets, and is instrumental in determining the appropriate level of investment required to maintain the condition of the roads and pavements in the City. The overall condition of the highway network and ability to assist in providing high quality transport links for all modes is seen to be a key priority in terms of providing an indication of the health and vitality of the City.

Additionally, a programme of Integrated Transport Schemes is determined by the Local Transport Plan (Implementation Plan). These schemes focus on walking, cycling, public transport, road safety, congestion reduction and public realm improvements. Collectively they aim to deliver against the Local Transport Plan aims and objectives. They also directly contribute to core council outcomes such as delivering strong and sustainable economic growth and ensuring Southampton is an attractive and modern city.

As such schemes are prioritised through a series of criteria to identify what schemes will be delivered as part of the capital programme each year. In 2016/17 the council committed to utilising the full LTP Integrated Transport grant over a 5 year period with plans to invest in schemes such as Electric Vehicle Technology, delivery of the Southampton Cycle Network, city centre public realm enhancements and junction capacity improvements.

Further to this, a need has been identified to make improvements to the roundabout infrastructure along the A33 corridor which includes Millbrook and Redbridge roundabouts. The Millbrook project is underway after the successful award of government funding matched with an SCC Integrated Transport grant. The council is working with Highways England to deliver traffic improvements around the M271 motorway and A35 Redbridge Roundabout, with works expected to start in the spring 2019.

Highways England is also consulting on proposals to improve the A3024 Eastern Access Corridor from the motorway into the City Centre, including a replacement Northam road over rail bridge and a package of highway junction improvements aimed at boosting productivity and supporting delivery of housing and jobs by easing congestion and improving journey time for all modes along the A3024 corridor in Southampton.

## E&T – City Services

Within Southampton local recycling rates have plateaued and waste growth is expected in line with increased housing numbers. Therefore a new Materials Recycling Facility will be required to future proof capacity and realise efficiencies. Work will need to be undertaken to assess viable options along with potential funding sources. Negotiations are ongoing surrounding the funding of this project.

## The Green City Charter

The council is proposing to develop a new citywide Green City Charter which will seek to deliver actions that will reduce pollution and waste, minimise the impact of climate change, stop health inequalities and create a more sustainable approach to economic growth. The Green City charter will identify a clear set of objectives that are aligned with national priorities. As well as setting a set of commitments and actions for the

Council to deliver, it will seek support from partners across the city to do the same. A sum of £0.03M has been identified to develop a work plan involving both internal and external engagement to develop the proposal further, ensure priorities reflect the city's needs and establish a set of ambitious targets and a delivery plan for the Council. The Green City Charter and the council's action plan will be presented to Cabinet in spring 2019.

### Leisure

Southampton strives to be a healthy place to live and work with strong, active communities. To accomplish this a number of proposals for the City's leisure facilities are being investigated; including provision of an integrated water sports facility to capitalise on the City's waterfront location, revised sustainable facility at the Quays Leisure Centre and redevelopment of the Sports Centre.

### Housing

In line with the executive commitment to develop council owned buildings that are empty work is underway around the Central Station for starter homes, to be sold to young people who want to get on the property ladder at a discount. An opportunity for refurbishment/redevelopment of the Nelson Gate site to provide some residential element alongside office use is currently being appraised. A draft masterplan has been produced to assess land on the south of the station, to include a mix of offices, retail and housing.

Through its LATCo proposals, the council is committed to setting up a letting agency as a 'fair deal' competitor to expensive commercial letting agencies. The proposal is focused on expanding the capacity and capability of the current lettings function the council provides to tenants, to include other properties and tenures including market rented property. This may develop alongside estate regeneration and city development proposals as PRS providers / investors are engaged.

### Leader's Portfolio

There is an outline concept for the creation of a new Public Sector Community Hub in the east of the city incorporating a Leisure Facility, Health Primary Care 'Cluster Hub', Library and a Police Public Access point, in a new purpose built building in a central location. This project aims to contribute to the council priority of a modern, attractive city where people are proud to live and work.

Feasibility work has been commissioned and whilst the desire is to promote financially self-supporting regeneration and redevelopment of the area by working with One Public Estate and Public Sector Partners, it is unlikely that the value of released sites alone will generate sufficient funds to establish the Public Sector Community Hub. Alternative funding sources are being investigated as part of the feasibility study, including possible grants.

Southampton is progressing plans for a Business Incubator which will provide office space to small businesses, groups and individuals. This will benefit small and start-up businesses to grow without having to invest heavily up front. The vision of the Business Incubator is to nurture and encourage innovation, whilst supporting strong and sustainable economic growth.

## HRA

To achieve the priority outcome of people in Southampton leading safe, healthy, independent lives, the Executive have committed to build Extra Care housing so that older people can live independent lives in a supported environment. In pursuant of this objective, the council has recently delivered the successful conversion and new build projects at Manston, Rosebrook and Erskine Courts, with detailed design of a further facility at Woodside Lodge well under way. It is estimated that there is demand/need for between 500 and 600 units across the City with a potential capital cost of up to £120M (excluding land). Options being investigated will include sharing or passing this cost to development/management partners.

In light of advice from Hampshire Fire and Rescue Service and specialist fire safety consultants, a need has been identified to install sprinkler systems in all tower blocks. Work is currently underway to establish the full programme of works required in 2018/19.

## SECTION 2 - CAPITAL RESOURCES

### Current Capital Priorities and Potential Investment levels

The table below identifies the major priorities of the capital programme for 2018/19 to 2022/23.

Outcome	Major Project	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Children and young people getting a good start in life	Early Years Expansion	0.56	0.65	0.00	0.00	0.00
	Play Area Improvements	0.38	0.32	0.00	0.00	0.00
	Primary Review & Expansion	1.12	1.12	0.00	0.00	0.00
	School Capital Maintenance	1.84	2.06	0.00	0.00	0.00
	School Expansion Programme Phase 3	1.70	2.38	0.06	0.00	0.04
	Secondary Review & Expansion	4.24	13.88	28.21	11.96	18.59
	Springwell Expansion	3.40	3.83	0.00	0.00	0.00
	Other	0.06	0.00	0.00	0.00	0.00
Southampton is a city with strong, sustainable economic growth	Affordable Housing	0.93	0.00	0.00	0.00	0.00
	Bridges Programme	1.64	0.25	0.00	0.00	0.00
	Integrated Transport	9.86	5.85	2.16	0.00	0.00
	Millbrook Roundabout	0.43	0.00	0.00	0.00	0.00
	Property Investment Fund	0.00	0.00	0.00	0.00	0.00
	Solar Powered Compactor Bins	0.00	1.00	0.00	0.00	0.00
	Other	9.31	0.27	0.85	0.00	0.00
People in Southampton lead safe, healthy independent lives	Anti-Terror Measures	1.05	0.00	0.00	0.00	0.00
	Communal Facilities	2.05	1.14	0.26	1.43	0.00
	Disabled Facilities Grant	1.35	1.85	0.00	0.00	0.00
	Estate Regeneration	1.75	0.00	0.00	0.00	0.00
	Health & Adult Social Care	0.73	0.63	0.50	0.00	0.00
	Improving quality of homes	6.28	9.32	10.09	12.00	15.77
	Making homes energy efficient	8.22	10.27	8.35	10.14	13.28
	Making homes safe	14.23	12.20	7.13	4.17	1.38
	Modern Facilities	2.10	0.00	0.00	0.00	0.00



Outcome	Major Project	2018/19	2019/20	2020/21	2021/22	2022/23
		£M	£M	£M	£M	£M
	Safe Wind/Weather Tight	1.33	0.00	0.00	0.00	0.00
	Supporting Communities	0.47	2.22	2.22	2.25	2.28
	Supporting independent living	0.49	2.01	2.12	2.12	1.60
	Warm & Energy Efficient	1.40	0.00	0.00	0.00	0.00
	Other	14.99	17.47	9.04	3.49	0.00
A modern attractive city where people are proud to live and work	Arts & Heritage	0.18	1.42	0.00	0.00	0.00
	Alternate Weekly Collections	0.12	0.00	0.00	0.00	0.00
	Millbrook Roundabout	7.45	0.00	0.00	0.00	0.00
	Minor Parks Development Works	0.58	0.07	0.00	0.00	0.00
	Outdoor Sports Centre Improvements	0.17	0.40	0.00	0.00	0.00
	Purchase of Vehicles	0.88	3.82	0.00	0.00	0.00
	QE2 Mile	0.00	0.96	0.00	0.00	0.00
	Roads Programme	14.76	6.47	0.00	0.00	0.00
	WWQ	0.17	0.34	0.00	0.00	0.00
	Other	2.62	0.76	0.00	0.00	0.00
Modern sustainable council	Digital & IT	5.29	0.28	0.00	0.00	0.00
	Other	0.45	1.70	0.00	0.00	0.00
	Resources	0.01	0.00	0.00	0.00	0.00
	<b>TOTAL</b>	<b>124.59</b>	<b>104.95</b>	<b>70.99</b>	<b>47.56</b>	<b>57.62</b>

The capital programme report 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:

- a) Non-ring fenced – 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.
- b) Ring-fenced – resources which are ring fenced to particular areas and therefore have restricted uses, specified by the funder.

### 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.

## Local Enterprise Partnership Funding

Priorities are largely as set by the Government Department concerned and jobs created, private sector leverage and deliverability. The process to award funding 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.

The PWLB remains the council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide. The council qualified for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2018, through its application via the 2018/19 Capital Estimates Return.

An alternative debt instrument is the UK Municipal Bonds Agency plc, established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing councils may be required to provide bond investors with a joint and several guarantees over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. This is explored in further detail in the Treasury Management Strategy.

The council Capital Board will try to secure all other sources of funding before this source of funding is utilised unless a clear invest to save case can be made.

## 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 MHCLG.

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.

The current strategy for the use of capital receipts is to:

- Provide for an MRP holiday to the value of external loan payments generating a revenue budget saving;
- Consider use to meet the costs of equal pay claims as detailed below;

- Consider forgoing the immediate capital receipt for longer term and sustainable income stream through development of sites;
- Consider flexible use to meet the costs of reform projects as detailed below; and
- Capital Board approved that in future, assumed receipts from sale of assets not currently on the market will not be taken into consideration when assessing the total value of receipts available to fund the capital programme.

#### Flexible use of Capital Receipts

The 2015 Comprehensive Spend Review (CSR) announced that local authorities will be allowed to spend up to 100% of capital receipts (excluding Right to Buy receipts) on the revenue costs of reform projects. Instead of holding assets that could be made surplus, councils will be able to sell them to reinvest in their services. Guidance relating to specific conditions, number of years that this will be offered and the qualifying criteria for a 'reform' project was issued as part of the Final Local Government Settlement on 11th March 2016. The key points included:

- The direction only relates to new receipts received in the period 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2019 that could be applied to meet the revenue costs of reform incurred in the same timeframe;
- The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to the authority's net service expenditure and is expenditure on a project where incurring up-front costs will generate ongoing savings; and
- Individual authorities demonstrate the highest standards of accountability and transparency. The guidance recommends that each authority should prepare a strategy that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full council or the equivalent. This strategy can be included as part of the annual budget documentation and approved by full council or the equivalent at the same time as the annual budget. The guidance provides detail of the content of the strategy and that this strategy does need full council approval in advance of the intended financial year of application. If the strategy is updated during the financial year MHCLG must be notified.
- Examples of qualifying expenditure include the sharing of back office and administrative services; investment in service reform feasibility work; collaboration between central and local government to free up land for economic use; funding the cost of service reconfiguration or restructuring leading to ongoing efficiencies; sharing Chief Executives; driving a digital approach; aggregating procurement on common goods; improving systems and processes to tackle fraud; setting up commercial or alternative delivery models to deliver services more efficiently or increase revenue income; and integrating public facing services across two or more public sector bodies.

It should be noted that, whilst not a recent change, that the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013 were amended to allow the financial implications of meeting backdated Equal Pay claims from capital receipts in order to reduce the additional pressure the council's revenue budget position. It provides for any capital receipt received after the 1<sup>st</sup> April 2012. It is possible that surplus capital receipts could be used to mitigate the impact of this for Southampton City council.

### 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 MHCLG.

### Revenue Contributions

An element of the revenue budget can be set aside to fund the capital programme (Direct Revenue Financing). The Capital Programme Update Report will detail any 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. The International Accounting Standards Board have reviewed how leased assets are treated and in January 2016 issued a new standard for annual periods starting on or after the 1<sup>st</sup> January 2019. This will need to be reflect as part of any future business cases.

### 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 councils 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

S106 agreements are made with developers / landowners as part of the planning approval process to ensure that new development mitigates its own impact and provides the necessary site specific infrastructure to support it.

These contributions are site specific or can be 'pooled' for a maximum of 5 site specific projects. Any contributions received are 'ring-fenced' for the purpose as set out in the relevant S106 agreement and are applied to fund schemes within the relevant capital programme once an eligible scheme has been identified.

S106 contribution agreements have covered all types of infrastructure including transport, affordable housing, play areas, open spaces, playing fields, public realm and public art.

However, since the council adopted CIL the planning obligations sought within S106 agreements have been scaled back to deal with only site specific requirements, as required by the CIL Regulations. Pooled contributions previously sought for strategic transport, public realm and public open space related obligations are now dealt with by CIL.

The S106 contributions are time limited in that if they are not spent within an agreed timescale, typically 5 – 10 years, dependent on what has been agreed in the S106 agreement and any funds not spent in line with the agreement would have to be repaid to the developer, which, may include interest.

Consideration of available S106 funding should be taken into consideration when agreeing, for example, the roads programme for future years to maximise the use of the available funding and reduce the reliance on other sources of funding, predominantly borrowing. With the exception of funding for affordable housing the other pooled S106 obligations, such as Strategic Transport, Public Realm and Public Open Space will become zero over time as the CIL continues to be applied.

### Community Infrastructure Levy (CIL)

CIL was adopted by the council in September 2013. CIL contributions are determined by set rates as detailed within the council's CIL Charging Schedule, and based on the amount of floor space being created by the development. CIL can be used to fund a wide range of infrastructure that is needed as a result of new development but is not site specific, giving more flexibility in where the funding can be used in geographical terms.

The CIL does not replace the requirement of S106 contributions. S106 contributions will still be relevant and will be sought alongside CIL.

The Planning Act and subsequent Community Infrastructure Levy Regulations 2010 (as amended) says that authorities can only spend CIL on providing infrastructure to support the development of their areas. This includes flood defence, open space, recreation and sport, roads and transport facilities, education and health facilities. However, it does not include affordable housing, which will continue to be funded by S106 obligations. In addition, SCC have opted to continue to seek S106 contributions for transport. All other S106s contributions are now agreed through CIL.

The Localism Act also clarifies that CIL can be spent on the ongoing costs of providing infrastructure, including maintenance works. The funding can be used towards a significant number of the council's current programmes i.e. School Expansion and the Roads Programme.

The CIL funding can be used to fund existing schemes within the current General Fund capital programme that meet the definition of infrastructure. Capital Board approved, at its meeting on the 22nd October 2015, to treat the CIL monies as a central pot of funding to be allocated as overall council resources to fund the capital programme.

However, it should be noted that 15% (25% if a Neighbourhood Plan is in place) of receipts need to be applied to schemes in the ward that the receipt originated from, in consultation and agreement with the local community.

CIL monies will be allocated to fund key infrastructure schemes within the overall capital programme, future potential investment sites will be identified and options for utilising CIL monies at these sites will be considered within the overarching capital strategy which supports the achievement of council outcomes, priorities and Executive commitments.

## 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 outcomes, priorities and Executive commitments. As most capital financing can be used for projects at the council's discretion, then the council is able to address its own outcomes and priorities to 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-ring fenced 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 outcomes and 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.

Cabinet/Council will make the final decision on the overarching capital programme and will subsequently delegate the updating of the programme and revisions to projects to the Leader of the council and Cabinet Member for Finance, in conjunction with the Service Director - Finance and Commercialisation (S151 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 non-ring-fenced resources will be allocated the CCB will have regard to:

- The preparation of the statutory Local Transport Plan, and Transport Asset Management Plan (TAMP);
- The preparation of the Asset Management Plan for Schools and council Buildings to ensure health and safety issues have been dealt with appropriately; and
- The council's obligation to finance adaptations to the homes of disabled residents. Funding is 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, 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.

### **SECTION 3 - CAPITAL INVESTMENT AND DISPOSAL APPRAISAL PROCESS**

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

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

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

1. Outline Business Case (OBC) which will focus on options appraisal and quantifiable outcomes.
2. 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:
  - a) Project description
  - b) Consultation
  - c) Expenditure and funding including whole life costs and revenue implications
  - d) Outputs
  - e) Any further option appraisal
  - f) Value for Money
  - g) Delivery
  - h) Timescales
  - i) Risk Management
  - j) Sustainability, Forward strategy and evaluation
  - k) Asset Management
  - l) Procurement
  - m) Equality Impact Assessment
  - n) Environmental Impact Assessment
3. 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, a 'Bid on a Page' will be 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.

The main focus is on projects commissioned by the CCB and therefore, these will be the exceptions.

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

#### How projects are appraised

Capital Projects are appraised using the following criteria:

1. Does the project deliver or facilitate the delivery of a strategic priority outcome?
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 are presented to CCB on the basis that they have had the appropriate clearance by finance, legal, property, and strategy.

### **SECTION 4 - HOW THE CAPITAL REQUIREMENTS ARE PRIORITISED**

Once a project has demonstrated that it meets the council's strategic outcomes, priorities and Executive commitments 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 examines 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 Outcome Plan priorities and achieve key objectives;
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

This criteria are reviewed and any changes reported each year in line with the council Strategy. Following this, a process of commissioning alongside officer requests for funding are undertaken and 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.

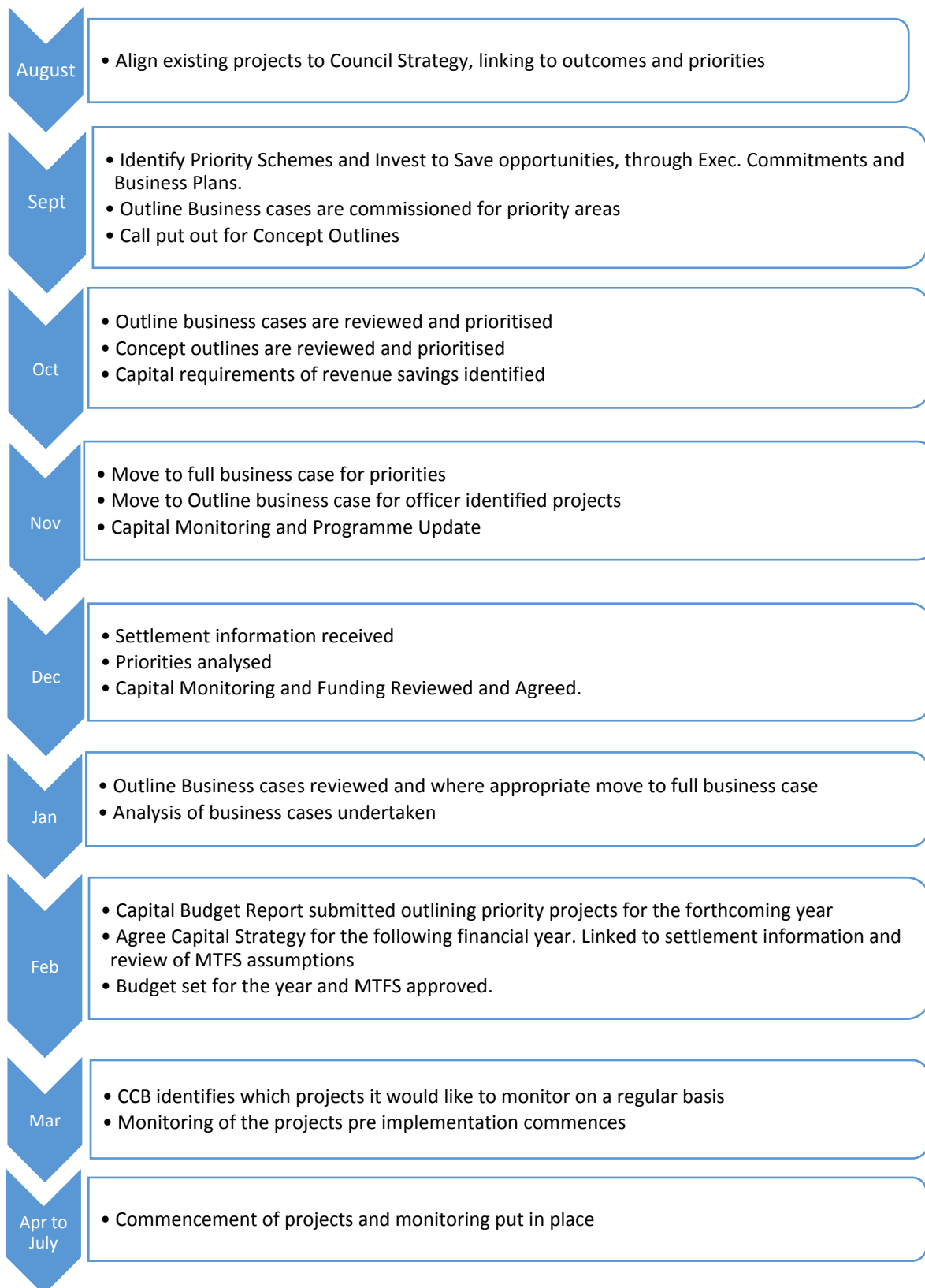
All projects have to demonstrate that they:

- 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.



## SECTION 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



## **SECTION 6 - HOW THE COUNCIL PROCURES ITS CAPITAL PROJECTS**

Cabinet have approved the council's Procurement Strategy and the Southampton First Policy. The implementation Strategy will ensure that the principles and practices associated with procuring works, goods and services consistently achieve value-for-money and actively contribute to the council's priority outcomes as well as to support the achievement of a modern, sustainable council.

The Strategy helps to ensure that procurement becomes an enabler of the business and is sufficiently flexible and agile to support the council to operate in an efficient, compliant and ethical manner to deliver capital projects on time, on budget and to specified quality standards.

Future procurement within the council will consider the whole of the third party spend across capital and revenue categories and budgets to ensure that the total spend and demand are driven downwards to support the budget challenges. Opportunities to consolidate and aggregate spend and achieve economies of scale will be a key focus. There will be an underpinning principle of commercial focus and a drive to better understand and adapt our approach to the markets through risk and reward strategies and utilising commercial mechanisms which incentivise suppliers.

The council's strategic partner, Capita, has a specialist procurement function containing experienced procurement professionals who will support the council's project managers in delivering effective and complaint sourcing of services and works.

This will be coupled with a new and more effective approach to contract management which will ensure the performance of council's strategic contracts is managed by a specialist team and other key contracts are actively managed by Capita. The council will ensure that the procurement - contract management – re-procurement process is treated as a linked cycle to help embed a commissioning-style approach to all forms of procurement.

Regional, joint and framework options will be utilised where value for money, an appropriate structure, compliance with the council's ethical procurement strategy and innovation can be demonstrated.

Immediately after the exit from the European Union (EU), existing UK regulations on procurement, which implement EU directives, will continue to apply. After this transition period, there will be more freedom for the UK to set/change its own procurement rules.

## **SECTION 7 - HOW THE COUNCIL MONITORS AND MEASURES THE PERFORMANCE OF THE CAPITAL PROGRAMME**

The CCB reviews the financial performance of the capital programme on a monthly basis. Financial monitoring reports are therefore considered by Cabinet on a quarterly basis together with a capital outturn report. Issues that have been considered and recommended by the CCB are 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 requires 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 is recognised that there may be a potential revenue consequences of doing this due to the capital accounting requirement to transfer abortive costs to revenue.

The Local Capital Board for the Education and HRA programme meet to monitor the implementation and delivery of the individual projects they are responsible for. The CCB decides 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.

## **SECTION 8 - THE COUNCIL CAPITAL BOARD**

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

- Cabinet Member for Finance and Customer Experience (Chair)
- Leader of the council
- Chief Executive
- Deputy Chief Executive (Chief Strategy Officer)
- Chief Operating Officer
- Service Director - Finance and Commercialisation (S151)
- Cabinet Members
- Service Lead – Corporate Planning & Commercialisation
- Head of Capital Assets
- By invite:
- Service Directors
- Project/Programme Managers

The Board meets on a monthly basis to:

- Discuss and recommend actions around developing capital issues;
- Develop the capital strategy;
- Commission the coming years capital programme;
- Review the capital receipts position;
- Review the assets disposal plan;
- Monitor the performance of the capital programme overall;
- Monitor the performance of strategic and high risk projects;
- Periodically review the strategic fit of projects; and
- 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. These are attached as Annex 1.

It should be noted that projects maybe proposed through other boards such as the Joint Commissioning Board. Whilst funding, with the exception of the requirement of council capital resources, can be approved by these boards, the requests to changes and additions to the programme should still follow the proposed process detailed in the sections above.

## **ANNEX 1**

### **COUNCIL CAPITAL BOARD TERMS OF REFERENCE**

#### **General**

1. To oversee and endorse the council's Capital Strategy.
2. To own and oversee the development of, the council's Capital Programme for both the General Fund and the Housing Revenue Account. Through doing so, and taking a long-term view, the Board should ensure that both individual projects and the programme as a whole is affordable and fits with the councils vision, priorities and outcomes as laid out in the council Plan and other inter linked plans and strategies.
3. To develop and regularly review the processes to support a strategic approach to capital investment planning which will justify investment decisions, taking account of the council priorities within the resources available.
4. To operate according to the approved processes for consideration of all capital expenditure and for new proposed capital projects.
5. To operate as a critical gateway for capital projects put forward for endorsement of concept and for ultimate commitment by the council.

#### **On an Annual Basis**

6. To receive bids for inclusion in the council's Capital Programme.
7. To prioritise all bid submissions.
8. To format a multiyear capital programme taking into account projected available resources for submission to Cabinet and or Council.
9. Receive capital monitoring reports (financial and performance information).
10. Receive asset disposal programme update.

#### **On a Monthly Basis**

11. Consider all requests for in - year additions and changes to the Capital Programme that are not Officer delegated decisions, in accordance with the limits set out in the Financial Procedure Rules.
12. To review all in - year additions and changes to the Capital Programme that have been made as Officer delegated decisions, in accordance with the limits set out in the Financial Procedure Rules.
13. To oversee, monitor and authorise the progression of capital projects through key stages (to include receiving reports from established project, programme or capital boards as appropriate, and approving variations to schemes).

#### **On an Adhoc Basis**

14. Review prioritisation and adequacy of existing scoring mechanism.
15. Review systems of pre-project evaluation including project appraisal and business case justification.
16. Review systems of post project evaluation and application to all completed schemes.
17. To review at appropriate points major projects during the construction stage.

18. To receive post-implementation review presentations after the completion of major projects.

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

- Cabinet Member for Finance (Chair)
- Leader of the Council
- Chief Executive
- Deputy Chief Executive (Chief Strategy Officer)
- Chief Operating Officer
- Service Director - Finance and Commercialisation (S151)
- Cabinet Members
- Service Lead – Corporate Planning & Commercialisation
- Head of Capital Assets

By invite:

- Service Directors
- Project/Programme Managers

### **BACKGROUND PAPERS/LINKS TO STRATEGY REPORTS 2019/20**

The Capital Strategy links and overarches the Treasury Management Strategy incorporating both capital expenditure, debt borrowing, commercial activity and any other long term liabilities. This complies with the latest Prudential Code and those links provide a high level overview of how capital expenditure, capital financing and treasury management actively contribute towards demonstrating how stewardship, value for money, prudence, sustainability and affordability is secured to meet statutory reporting requirements and to allow Members to understand how those principles align to legislative reporting. The reports that provide these links are outlined in the following background papers:-

- Capital Programme update report 2019/20
- Treasury Strategy 2019/20
- Asset Investment Strategy 2019/20
- MRP Statement
- Prudential Indicators

Additionally the above reports link to Treasury Management Practices updates and non-treasury investments such as commercialisation and investments for service potential. The revised Prudential Indicators as reported in the Treasury Strategy 2019/20 have been included within the capital programme update report in Appendix 5.

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<b><u>CAPITAL STRATEGY PRUDENTIAL INDICATORS</u></b>																																																																																					
<b><u>Background</u></b>																																																																																					
1.	The Prudential Code requires the Council to have in place a Capital Strategy that sets out the long term context in which capital expenditure decisions are made. In order to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability. The following indicators, which were previously included with the Treasury Management Strategy, now form part of the Capital Strategy report but have been included as background, as they provide the framework around which the Treasury Indicators have been set.																																																																																				
<b><u>Gross Debt and the Capital Financing Requirement</u></b>																																																																																					
2.	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 Council 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.																																																																																				
3.	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.																																																																																				
4.	The estimated capital financing requirement and gross debt is shown in the tables below:																																																																																				
<p><b>Table 1 – Current and Estimated Movement in Capital Financing Requirement</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Capital Financing Requirement</th> <th style="text-align: center;">31/03/2018 £M</th> <th style="text-align: center;">31/03/2019 £M</th> <th style="text-align: center;">31/03/2020 £M</th> <th style="text-align: center;">31/03/2021 £M</th> <th style="text-align: center;">31/03/2022 £M</th> <th style="text-align: center;">31/03/2023 £M</th> </tr> </thead> <tbody> <tr> <td>Balance Brought forward</td> <td style="text-align: right;">322.62</td> <td style="text-align: right;">322.03</td> <td style="text-align: right;">338.93</td> <td style="text-align: right;">345.79</td> <td style="text-align: right;">347.27</td> <td style="text-align: right;">348.58</td> </tr> <tr> <td>New Borrowing</td> <td style="text-align: right;">4.41</td> <td style="text-align: right;">24.47</td> <td style="text-align: right;">16.50</td> <td style="text-align: right;">11.63</td> <td style="text-align: right;">11.96</td> <td style="text-align: right;">18.59</td> </tr> <tr> <td>MRP</td> <td style="text-align: right;">(7.13)</td> <td style="text-align: right;">(5.65)</td> <td style="text-align: right;">(6.26)</td> <td style="text-align: right;">(6.61)</td> <td style="text-align: right;">(6.71)</td> <td style="text-align: right;">(7.01)</td> </tr> <tr> <td>Appropriations (to) from HRA</td> <td style="text-align: right;">0.56</td> <td style="text-align: right;">0.00</td> <td style="text-align: right;">0.00</td> <td style="text-align: right;">0.00</td> <td style="text-align: right;">0.00</td> <td style="text-align: right;">0.00</td> </tr> <tr> <td>Movement in Other Liabilities</td> <td style="text-align: right;">(3.78)</td> <td style="text-align: right;">(2.47)</td> <td style="text-align: right;">(3.38)</td> <td style="text-align: right;">(3.54)</td> <td style="text-align: right;">(3.94)</td> <td style="text-align: right;">(3.93)</td> </tr> <tr> <td>MRP Holiday</td> <td style="text-align: right;">5.35</td> <td style="text-align: right;">0.55</td> <td style="text-align: right;">0.00</td> <td style="text-align: right;">0.00</td> <td style="text-align: right;">0.00</td> <td style="text-align: right;">0.00</td> </tr> <tr> <td><b>Total General Fund Debt</b></td> <td style="text-align: right;"><b>322.03</b></td> <td style="text-align: right;"><b>338.93</b></td> <td style="text-align: right;"><b>345.79</b></td> <td style="text-align: right;"><b>347.27</b></td> <td style="text-align: right;"><b>348.58</b></td> <td style="text-align: right;"><b>356.23</b></td> </tr> <tr> <td>HRA</td> <td style="text-align: right;">157.92</td> <td style="text-align: right;">171.67</td> <td style="text-align: right;">182.00</td> <td style="text-align: right;">190.54</td> <td style="text-align: right;">192.84</td> <td style="text-align: right;">199.75</td> </tr> <tr> <td><b>Total CFR</b></td> <td style="text-align: right;"><b>479.95</b></td> <td style="text-align: right;"><b>510.60</b></td> <td style="text-align: right;"><b>527.79</b></td> <td style="text-align: right;"><b>537.81</b></td> <td style="text-align: right;"><b>541.42</b></td> <td style="text-align: right;"><b>555.98</b></td> </tr> <tr> <td>Estimated Debt (<i>see below for breakdown</i>)</td> <td style="text-align: right;">324.56</td> <td style="text-align: right;">343.44</td> <td style="text-align: right;">370.62</td> <td style="text-align: right;">380.67</td> <td style="text-align: right;">384.28</td> <td style="text-align: right;">399.21</td> </tr> <tr> <td><b>Under / (Over) Borrowed</b></td> <td style="text-align: right;"><b>155.39</b></td> <td style="text-align: right;"><b>167.16</b></td> <td style="text-align: right;"><b>157.17</b></td> <td style="text-align: right;"><b>157.14</b></td> <td style="text-align: right;"><b>157.14</b></td> <td style="text-align: right;"><b>156.77</b></td> </tr> </tbody> </table>		Capital Financing Requirement	31/03/2018 £M	31/03/2019 £M	31/03/2020 £M	31/03/2021 £M	31/03/2022 £M	31/03/2023 £M	Balance Brought forward	322.62	322.03	338.93	345.79	347.27	348.58	New Borrowing	4.41	24.47	16.50	11.63	11.96	18.59	MRP	(7.13)	(5.65)	(6.26)	(6.61)	(6.71)	(7.01)	Appropriations (to) from HRA	0.56	0.00	0.00	0.00	0.00	0.00	Movement in Other Liabilities	(3.78)	(2.47)	(3.38)	(3.54)	(3.94)	(3.93)	MRP Holiday	5.35	0.55	0.00	0.00	0.00	0.00	<b>Total General Fund Debt</b>	<b>322.03</b>	<b>338.93</b>	<b>345.79</b>	<b>347.27</b>	<b>348.58</b>	<b>356.23</b>	HRA	157.92	171.67	182.00	190.54	192.84	199.75	<b>Total CFR</b>	<b>479.95</b>	<b>510.60</b>	<b>527.79</b>	<b>537.81</b>	<b>541.42</b>	<b>555.98</b>	Estimated Debt ( <i>see below for breakdown</i> )	324.56	343.44	370.62	380.67	384.28	399.21	<b>Under / (Over) Borrowed</b>	<b>155.39</b>	<b>167.16</b>	<b>157.17</b>	<b>157.14</b>	<b>157.14</b>	<b>156.77</b>
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**Table 2 – Current and Estimated Movement in Gross Debt**

Gross Debt	31/03/2018 Actual £M	31/03/2019 Estimate £M	31/03/2020 Estimate £M	31/03/2021 Estimate £M	31/03/2022 Estimate £M	31/03/2023 Estimate £M
Borrowing (Long Term GF)	74.90	68.93	50.33	115.63	120.89	132.49
Borrowing (Long Term HRA)	142.91	137.41	119.54	190.67	192.96	199.86
Borrowing (Short Term)	33.35	66.17	133.20	10.35	10.35	10.35
<b>Total Borrowing (see Table 18)</b>	<b>251.16</b>	<b>272.51</b>	<b>303.07</b>	<b>316.65</b>	<b>324.20</b>	<b>342.70</b>
Finance leases and Private Finance Initiatives	58.84	56.74	53.73	50.55	46.98	43.41
Transferred Debt	14.55	14.19	13.83	13.46	13.10	13.10
<b>Total Other Debt</b>	<b>73.39</b>	<b>70.93</b>	<b>67.55</b>	<b>64.02</b>	<b>60.08</b>	<b>56.50</b>
<b>Total Debt</b>	<b>324.56</b>	<b>343.44</b>	<b>370.62</b>	<b>380.67</b>	<b>384.28</b>	<b>399.21</b>

**Estimates of Capital Expenditure**

5. The Council's planned capital expenditure and financing is summarised below, further detail is provided in the General Fund and HRA capital programme report.

6. **Table 3 – Capital Expenditure**

Capital Expenditure & Refinancing	Budget 2018/19 £M	Forecast 2018/19 £M	Forecast 2019/20 £M	Forecast 2020/21 £M	Forecast 2021/22 £M	Forecast 2022/21 £M
General Fund	81.33	71.41	50.32	31.78	11.96	18.63
HRA	58.76	53.16	54.63	39.21	35.60	38.99
<b>Total Expenditure</b>	<b>140.09</b>	<b>124.57</b>	<b>104.95</b>	<b>70.99</b>	<b>47.56</b>	<b>57.62</b>
Capital Receipts	19.08	18.43	10.03	2.86	3.16	2.42
Capital Grants	27.51	24.66	21.17	19.30	0.00	0.04
Contributions	9.67	10.66	5.79	0.99	0.00	0.44
Major Repairs Allowance	19.76	14.15	29.97	20.44	21.04	21.53
Direct Revenue Financing	12.70	12.95	11.16	7.23	7.79	8.13
<b>Total Financing</b>	<b>88.38</b>	<b>80.85</b>	<b>78.12</b>	<b>50.82</b>	<b>31.99</b>	<b>21.12</b>
Council Resources Borrowing	51.71	43.72	26.83	20.17	15.57	25.50
<b>Total Funding</b>	<b>51.71</b>	<b>43.72</b>	<b>26.83</b>	<b>20.17</b>	<b>15.57</b>	<b>25.50</b>
<b>Total Financing &amp; Funding</b>	<b>140.09</b>	<b>124.57</b>	<b>104.95</b>	<b>70.99</b>	<b>47.56</b>	<b>57.62</b>

**Ratio of Financing Costs to Net Revenue Stream**

7. 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 the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio is currently set at 10% and will remain so for the General Fund to allow for known borrowing decisions 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.

8. 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, which is the main contributor for



the increase in 2018/19. 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, which it has opted to do for 2019/20 & 2020/21.

**Table 4 – Ratio of Financing Costs to Net Revenue Stream**

9.

Ratio of Financing Costs to Net Revenue Stream	2018/19 Forecast %	2019/20 Forecast %	2020/21 Forecast %	2021/22 Forecast %	2022/23 Forecast %
General Fund	6.28	8.56	10.07	10.08	10.35
HRA	14.78	6.25	6.82	9.96	8.27
<b>Total</b>	<b>10.52</b>	<b>9.74</b>	<b>10.21</b>	<b>11.27</b>	<b>10.89</b>

**Authorised Limit and Operational Boundary for External Debt**

10.

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.

11.

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).

**Table 5 – Authorised Limit for External Debt**

12.

Authorised Limit for External Debt	Actual 31 December 2018	2018/19 Approved	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£M	£M	£M	£M	£M	£M
Borrowing	235	785	850	700	700	880
Other Long-term Liabilities	77	75	75	70	70	65
<b>Total</b>	<b>311</b>	<b>860</b>	<b>925</b>	<b>770</b>	<b>770</b>	<b>945</b>

13.

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 which allows for a full debt restructure if a favourable opportunity arose.

**Table 6–Operational Boundary for External Debt**

14.	Operational Boundary for External Debt	Actual 31 December 2018 £M	2018/19 Approved £M	2019/20 Estimate £M	2020/21 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M
	Borrowing	235	705	800	660	660	715
	Other Long-term Liabilities	77	75	75	70	70	65
	<b>Total</b>	<b>311</b>	<b>780</b>	<b>875</b>	<b>730</b>	<b>730</b>	<b>780</b>

15. 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.

**Other Tables**

16. **Table 7–Estimated Movement in Borrowing Requirement**

Total Borrowing Requirement	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M	2021/22 Forecast £M	2022/23 Forecast £M
GF New Borrowing Requirement	46.57	105.17	147.96	16.68	21.58
HRA New Borrowing Requirement	19.25	27.68	17.71	3.61	6.91
<b>Total New Borrowing Requirement</b>	<b>65.82</b>	<b>132.85</b>	<b>165.67</b>	<b>20.29</b>	<b>28.49</b>

Movement on Estimated Long Term Borrowing Requirement - General Fund	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M	2021/22 Forecast £M	2022/23 Forecast £M
<b>General Fund (GF)</b>					
Capital Programme	24.47	16.50	11.63	11.96	18.59
Maturing Debt - long term	5.97	19.12	10.10	1.44	0.00
Maturing Debt - short term	21.22	65.81	132.84	10.00	10.00
Movement in Internal Borrowing	0.00	10.00	0.00	0.00	0.00
Less Repayment of Debt Principal	(5.65)	(6.26)	(6.61)	(6.72)	(7.01)
Plus MRP Holiday	0.55	0.00	0.00	0.00	0.00
<b>GF New Borrowing Requirement</b>	<b>46.57</b>	<b>105.17</b>	<b>147.96</b>	<b>16.68</b>	<b>21.58</b>

<b>Movement on Estimated Long Term Borrowing Requirement - HRA</b>	<b>2018/19 Forecast £M</b>	<b>2019/20 Forecast £M</b>	<b>2020/21 Forecast £M</b>	<b>2021/22 Forecast £M</b>	<b>2022/23 Forecast £M</b>
<b>HRA</b>					
Capital Programme	19.25	10.33	8.54	3.61	6.91
Maturing Debt - long term	5.50	17.35	9.17	1.31	0.00
Movement in Internal Borrowing	0.00	0.00	0.00	0.00	0.00
Less Repayment of Debt Principal	(5.50)	0.00	0.00	(1.31)	0.00
<b>HRA New Borrowing Requirement</b>	<b>19.25</b>	<b>27.68</b>	<b>17.71</b>	<b>3.61</b>	<b>6.91</b>

17. **Table 8–Estimated Movement in Loans**

<b>Borrowing</b>	<b>31/03/2019 Forecast £M</b>	<b>31/03/2020 Forecast £M</b>	<b>31/03/2021 Forecast £M</b>	<b>31/03/2022 Forecast £M</b>	<b>31/03/2023 Forecast £M</b>
<b>Long Term</b>					
Balance brought forward	217.81	206.34	169.87	306.30	313.85
Maturing debt	(11.47)	(36.47)	(19.27)	(2.75)	0.00
New Loans raised in year	0.00	0.00	155.70	10.30	18.50
<b>Estimated Long Term Loans</b>	<b>206.34</b>	<b>169.87</b>	<b>306.30</b>	<b>313.85</b>	<b>332.35</b>
<b>Short Term</b>					
Balance brought forward	33.35	66.17	133.20	10.35	10.35
Maturing debt	(33.35)	(66.17)	(133.20)	(10.35)	(10.35)
New Loans raised in year	66.17	133.20	10.35	10.35	10.35
<b>Estimated Short Term Loans</b>	<b>66.17</b>	<b>133.20</b>	<b>10.35</b>	<b>10.35</b>	<b>10.35</b>
<b>Total Estimated Loans</b>	<b>272.51</b>	<b>303.07</b>	<b>316.65</b>	<b>324.20</b>	<b>342.70</b>

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# Agenda Item 6

<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE COUNCIL		
<b>SUBJECT:</b>	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2019/20 TO 2022/23		
<b>DATE OF DECISION:</b>	11 FEBRUARY 2019 20 FEBRUARY 2019		
<b>REPORT OF:</b>	SERVICE DIRECTOR FINANCE AND COMMERCIALISATION (S151)		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	<b>Tina Connolly</b>	<b>Tel:</b> 023 8083 2428
	<b>E-mail:</b>	tina.connolly@southampton.gov.uk	
<b>Director</b>	<b>Name:</b>	<b>Sue Cuerden</b>	<b>Tel:</b> 023 8083 4153
	<b>E-mail:</b>	sue.cuerden@southampton.gov.uk	
<b>STATEMENT OF CONFIDENTIALITY</b>			
NOT APPLICABLE			
<b>BRIEF SUMMARY</b>			
<p>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.</p>			
<p>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 associated risks, including the loss of invested funds and the revenue effect of changing interest rates.</p>			
<p>The core elements of the current 2019/20 Treasury strategy are :</p> <ul style="list-style-type: none"> <li>• To extend the use of short term variable rate debt for a further year to take advantage of the current market conditions of low interest rates.</li> <li>• To constantly review longer term forecasts and to lock into longer term rates through a variety of instruments as appropriate during the year, in order to provide a balanced portfolio against interest rate risk.</li> <li>• To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.</li> <li>• To invest surplus funds prudently, the Council's priorities being: <ul style="list-style-type: none"> <li>- Security of invested capital</li> <li>- Liquidity of invested capital</li> <li>- An optimum yield which is commensurate with security and liquidity.</li> </ul> </li> <li>• To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries.</li> <li>• To approve the 2019 Minimum Revenue Provision (MRP) Statement</li> </ul>			

Since 2012, the Council has pursued a strategy of internal borrowing – minimising external borrowing by running down its own investment balances and only borrowing short term to cover cash flow requirements. This has both reduced the credit risk to which the Council is exposed and, due to the differential between long-term borrowing and short-term investment rates, has saved the Council money in terms of net interest costs. This is now being reviewed to see if an alternative Treasury Strategy could generate income that can support local services.

One option being considered is further investment in external pooled funds which would require the Council to externalise some or all of debt long term. To assist with the appraisal the Council has engaged the council’s financial advisers, Arlingclose, to analyse the scope within the Council’s current and projected balance sheet for longer-term investment, and analyse suitable longer-term asset classes and investment options available to the Council.

Any change to the strategy would require approval by full council and additional Treasury Training would be provided to assist members in understanding the risks and implications of any change to the current strategy.

Investment limits within this report have been increased to allow for a possible change in strategy.

**RECOMMENDATIONS:**

**GOVERNANCE COMMITTEE**

**It is recommended that Governance Committee:**

	(i)	Endorse the Treasury Strategy (TS) for 2019/20 as outlined in the report.
	(ii)	Endorse the 2019 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 106 to 115.
	(iii)	Endorse the Investment Strategy (IS) as detailed in paragraphs 87 to 105.
	(iv)	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 20 February 2019. Should the recommendations change, the Prudential Indicators may have to be recalculated.
	(v)	Note that due to the 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.
	(vi)	Endorse the proposal within the Capital Strategy report, that Governance Committee have delegated authority to approve future Treasury Strategy Reports and associated Prudential Indicators.
	(vii)	Endorse the proposal to explore an alternative Treasury Strategy to generate additional income that can support local services, whilst maintaining a prudent approach.

**COUNCIL**

**It is recommended that Council:**

	(i)	Approve the Council’s Treasury Strategy (TS) and Prudential Indicators for 2019/20 to 2022/23, as detailed within the report.
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	(ii)	Approve the 2019 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 106 to 115 and to delegate authority to the Chief Financial Officer (CFO) to approve any changes necessary that aid good financial management whilst maintaining a prudent approach.
	(iii)	Approve the Investment Strategy as detailed in paragraphs 87 to 105.
	(iv)	Note that at the time of writing this report the recommendations in the Capital update report, submitted to Council on the 20 February 2019, 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.
	(v)	Continue to delegate authority to the Chief Financial Officer (CFO) to approve any changes to the Prudential Indicators, Minimum Revenue Provision 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.
	(vi)	Approve the proposal within the Capital Strategy report, that Governance Committee have delegated authority to approve future Treasury Strategy Reports and associated Prudential Indicators.
	(vii)	Endorse the proposal to explore an alternative Treasury Strategy to generate additional income that can support local services, whilst maintaining a prudent approach.

#### **REASONS FOR REPORT RECOMMENDATIONS**

1.	<p>In order to comply with Part 1 of the Local Government Act 2003, and the established TM procedures that have been adopted by the Council, each year the Council must set certain borrowing limits and approve the various strategies which includes:</p> <ul style="list-style-type: none"> <li>• Treasury Strategy for 2019/20: <ul style="list-style-type: none"> <li>○ Borrowing – Paragraphs 34 to 44,</li> <li>○ Debt Rescheduling – Paragraph 45</li> <li>○ Investments – Paragraphs 46 to 69</li> </ul> </li> <li>• Treasury Management Indicators – Paragraphs 70 to 79</li> <li>• Investment Strategy – Paragraphs 87 to 105</li> <li>• MRP Statement – Paragraphs 106 to 115</li> </ul>
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#### **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2.	Alternative options for borrowing would depend on decisions taken on the review of the capital update report being taken at Full Council on 20 February 2019.
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#### **DETAIL (Including consultation carried out)**

	<b>CONSULTATION</b>
3.	The proposed Capital Update report on which this report is based has been subject to separate consultation processes.
	<b>BACKGROUND</b>

4.	Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's <i>Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code)</i> which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
5.	Investments held for service purposes or for commercial profit though not part of Treasury are also considered in this report for completeness.
6.	Overall responsibility for treasury management remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. Our current policy is shown in appendix 1. This report covers treasury activity and the associated monitoring and control of risk.
7.	The purpose of this report is to allow Council to approve: <ul style="list-style-type: none"> <li>• Treasury Strategy and Prudential Indicators for 2019/20 to 2022/23</li> <li>• Investment Strategy and associated indicators for 2019/20 to 2022/23</li> <li>• 2019 MRP Statement</li> </ul>
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. There is no longer a requirement to include indicators relating to Prudence, Affordability & Sustainability in the Treasury Strategy as they are now required to be reported as part of the Capital Strategy, but these have been included for information as Appendix 2 as they provide the framework around which the Treasury Indicators have been set. The outlook for interest rates (Appendix 3) 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.	In accordance with the CLG Guidance, the Council will be asked to approve a <i>revised Treasury Management Strategy Statement</i> should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates; material change to the Council's capital programme or in the level of its borrowing or investment balances.
11.	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 with relevant officers and members believes that the above strategy represents an appropriate balance between risk management



	and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.		
	<b>Options</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
	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
	<b><u>Economic Background</u></b>		
12.	The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council's treasury management strategy for 2019/20.		
13.	Following a weak reading in the first quarter of 2018 attributed to weather-related factors, UK GDP growth rebounded in the second quarter to 0.4%, but at an annual rate of only 1.2% this remains below trend. As economic growth had evolved broadly in line with its May Inflation Report forecast, the Bank of England's Monetary Policy Committee (MPC) voted unanimously for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.		
14.	<p>The headline rate of UK Consumer Price Inflation rose to 2.7% year on year in August 2018, higher than both the consensus forecast and the Bank's August Inflation Report. Labour market data is positive. The ILO unemployment rate fell to 4%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.1% in August providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.4% and only likely to have a moderate impact on household spending.</p> <p>The ILO unemployment rate fell to 4%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.1% in August providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.4% and only likely to have a moderate impact on household spending.</p>		
15.	In contrast, the US economy has continued to perform well, the US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in November while lowering its forecast of rate rises in 2019 to two from the three previously projected. A temporary truce in the ongoing		

	<p>trade war between the US and China was announced as the leaders of both countries agreed to halt new trade tariffs for 90 days to allow talks to continue. Tariffs already imposed will remain in place. The fallout continues to impact on economic growth and stock market volatility.</p> <p>Despite slower growth in the region, the European Central Bank has started conditioning markets for the end of quantitative easing as well as the timing of the first interest rate hike, currently expected in 2019, and the timing and magnitude of increases thereafter.</p>
	<p><b><u>Credit Outlook</u></b></p>
16.	<p>The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts</p>
17.	<p>European banks are considering their approach to the UK's exit from the European Union, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.</p>
	<p><b><u>Interest Rate Forecast</u></b></p>
18.	<p>Following the increase in Bank Rate to 0.75% in August 2018, the Council's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.</p>
19.	<p>The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.</p>
20.	<p>Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.5% and 2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.</p>

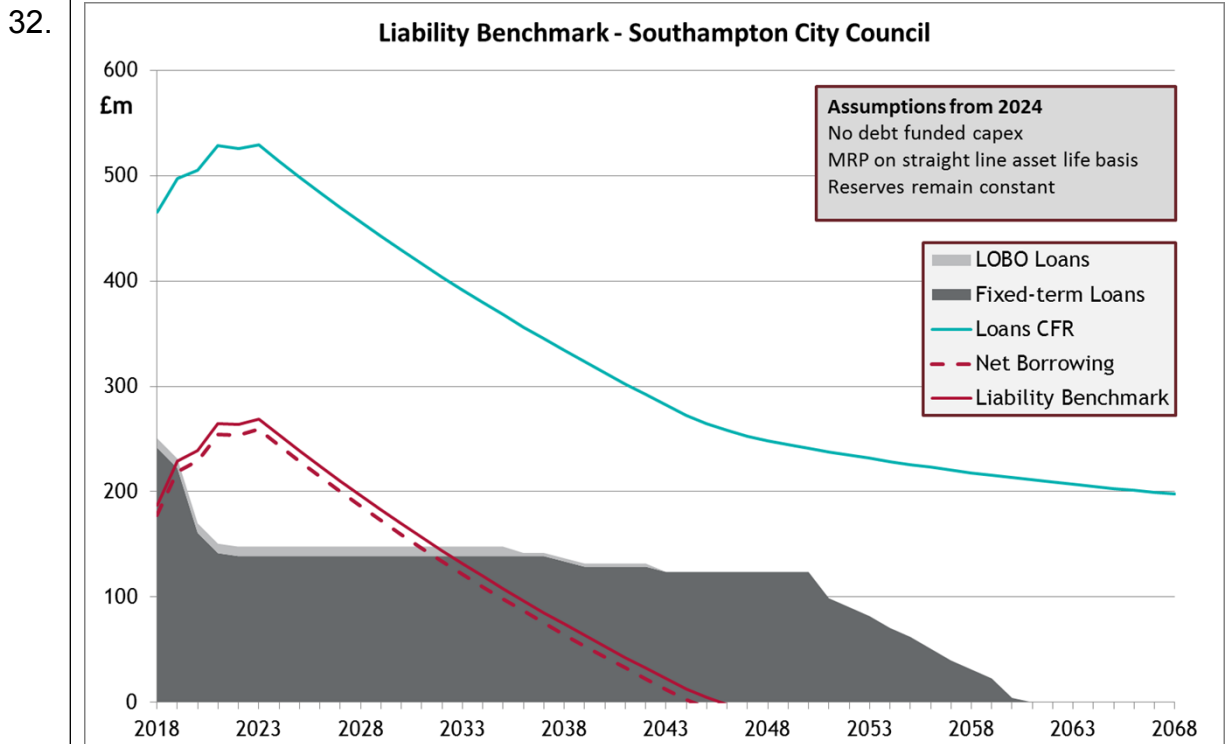
21.	A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix 3																																																																																				
22.	For the purpose of setting the budget, it has been assumed that new investments for 2019/20 will be made at an average rate of 1.12% for short term and 4.25% for long term, and that new long-term loans taken over the period of the strategy will be borrowed at an average rate of 3.25%.																																																																																				
<b>BALANCE SHEET SUMMARY AND FORECAST</b>																																																																																					
23.	At 31 December 2018 the Council held £307M of debt (£235M borrowing plus £72M other long term liabilities) and £54M investments which is set out in further detail in Appendix 2.																																																																																				
24.	Forecast changes in these sums are shown in the balance sheet analysis shown below.																																																																																				
25.	<p><b>Table 1: Balance Sheet Summary and Forecast</b></p> <table border="1"> <thead> <tr> <th></th> <th>31-Mar-18 Actual</th> <th>31-Mar-19 Forecast</th> <th>31-Mar-20 Forecast</th> <th>31-Mar-21 Forecast</th> <th>31-Mar-22 Forecast</th> <th>31-Mar-23 Forecast</th> </tr> <tr> <th></th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>General Fund CFR</td> <td>322.03</td> <td>338.93</td> <td>345.79</td> <td>347.27</td> <td>348.58</td> <td>356.23</td> </tr> <tr> <td>Housing CFR</td> <td>157.92</td> <td>171.67</td> <td>182.00</td> <td>190.54</td> <td>192.84</td> <td>199.75</td> </tr> <tr> <td><b>Total CFR</b></td> <td><b>479.95</b></td> <td><b>510.60</b></td> <td><b>527.79</b></td> <td><b>537.81</b></td> <td><b>541.42</b></td> <td><b>555.98</b></td> </tr> <tr> <td>Less Other Debt Liabilities*</td> <td>(73.39)</td> <td>(70.93)</td> <td>(67.55)</td> <td>(64.02)</td> <td>(60.08)</td> <td>(43.41)</td> </tr> <tr> <td><b>Loans CFR</b></td> <td><b>406.56</b></td> <td><b>439.67</b></td> <td><b>460.24</b></td> <td><b>473.79</b></td> <td><b>481.34</b></td> <td><b>512.57</b></td> </tr> <tr> <td>Less External Borrowing**</td> <td>(251.16)</td> <td>(231.70)</td> <td>(169.87)</td> <td>(150.59)</td> <td>(147.84)</td> <td>(147.84)</td> </tr> <tr> <td>Internal (over) Borrowing</td> <td><b>155.40</b></td> <td><b>207.97</b></td> <td><b>290.36</b></td> <td><b>323.20</b></td> <td><b>333.50</b></td> <td><b>364.73</b></td> </tr> <tr> <td>Less Usable Reserves</td> <td>(146.28)</td> <td>(136.00)</td> <td>(136.00)</td> <td>(136.00)</td> <td>(136.00)</td> <td>(136.00)</td> </tr> <tr> <td>Less Working Capital Surplus</td> <td>(84.82)</td> <td>(84.82)</td> <td>(84.82)</td> <td>(84.82)</td> <td>(84.82)</td> <td>(84.82)</td> </tr> <tr> <td><b>New Borrowing or (Investments)</b></td> <td><b>(75.70)</b></td> <td><b>(12.85)</b></td> <td><b>69.54</b></td> <td><b>102.38</b></td> <td><b>112.68</b></td> <td><b>143.91</b></td> </tr> </tbody> </table> <p>* finance leases, PFI liabilities and transferred debt which form part of the Council's total debt  ** shows only loans to which the Council is committed and excludes optional refinancing</p>		31-Mar-18 Actual	31-Mar-19 Forecast	31-Mar-20 Forecast	31-Mar-21 Forecast	31-Mar-22 Forecast	31-Mar-23 Forecast		£M	£M	£M	£M	£M	£M	General Fund CFR	322.03	338.93	345.79	347.27	348.58	356.23	Housing CFR	157.92	171.67	182.00	190.54	192.84	199.75	<b>Total CFR</b>	<b>479.95</b>	<b>510.60</b>	<b>527.79</b>	<b>537.81</b>	<b>541.42</b>	<b>555.98</b>	Less Other Debt Liabilities*	(73.39)	(70.93)	(67.55)	(64.02)	(60.08)	(43.41)	<b>Loans CFR</b>	<b>406.56</b>	<b>439.67</b>	<b>460.24</b>	<b>473.79</b>	<b>481.34</b>	<b>512.57</b>	Less External Borrowing**	(251.16)	(231.70)	(169.87)	(150.59)	(147.84)	(147.84)	Internal (over) Borrowing	<b>155.40</b>	<b>207.97</b>	<b>290.36</b>	<b>323.20</b>	<b>333.50</b>	<b>364.73</b>	Less Usable Reserves	(146.28)	(136.00)	(136.00)	(136.00)	(136.00)	(136.00)	Less Working Capital Surplus	(84.82)	(84.82)	(84.82)	(84.82)	(84.82)	(84.82)	<b>New Borrowing or (Investments)</b>	<b>(75.70)</b>	<b>(12.85)</b>	<b>69.54</b>	<b>102.38</b>	<b>112.68</b>	<b>143.91</b>
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26.	The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), which is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. Any capital expenditure which has not immediately been paid for, will increase the CFR. The CFR is reduced by the application of resources such as capital receipts, grants or charges to revenue.																																																																																				
27.	While usable reserves and working capital are the underlying resources available for investment.																																																																																				
28.	The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. <b>Table 1</b> shows that the Council has an increasing CFR due to the impact of the capital programme and a decreasing working balance surplus and will therefore need to borrow up to £145M over the forecast period.																																																																																				
29.	CIPFA's <i>Prudential Code for Capital Finance in Local Authorities</i> recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. <b>Table 1</b> shows that the Council expects to comply with this recommendation during 2019/20, using £208M of internal resources.																																																																																				
<b>Liability Benchmark</b>																																																																																					
30.	To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as <b>Table 1</b> above, but that cash																																																																																				

and investment balances are kept to a minimum level of £10M at each year-end to maintain sufficient liquidity but to further minimise credit risk.

**Table 2: Liability benchmark**

	31-Mar-18 Actual £M	31-Mar-19 Forecast £M	31-Mar-20 Forecast £M	31-Mar-21 Forecast £M	31-Mar-22 Forecast £M	31-Mar-23 Forecast £M
<b>Loans CFR</b>	<b>406.56</b>	<b>439.67</b>	<b>460.24</b>	<b>473.79</b>	<b>481.34</b>	<b>512.57</b>
Less Usable Reserves	(146.28)	(136.00)	(136.00)	(136.00)	(136.00)	(136.00)
Less Working Capital Surplus	(84.82)	(84.82)	(84.82)	(84.82)	(84.82)	(84.82)
Plus Minimum investments	10.00	10.00	10.00	10.00	10.00	10.00
<b>Liability Benchmark</b>	<b>185.46</b>	<b>228.85</b>	<b>249.42</b>	<b>262.97</b>	<b>270.52</b>	<b>301.75</b>

31. The long term liability benchmark assumes capital expenditure is in line with the forecasts shown in **Appendix 4, table 15**, minimum revenue based on the life of the asset and income, expenditure and reserves all increasing by inflation. This is shown in the chart below.



33. This demonstrates that even with lower investment balances that there is still an underlying need for the council to borrow during 2019/20 as our actual committed debt at £170M will be below the benchmark of £249M.

**BORROWING STRATEGY**

34. The Council currently holds £235M of loans a decrease of £16M since the 31 March 2018 as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in **Table 1** above shows that the Council expects the total loans CFR to increase by £33M in 2018/19 and a further £21M in 2019/20 bringing our estimated loans CFR to £460M. Our committed borrowing at the end of 2020 is £170M, a reduction £81M from the actual position at 31 March 2018. This would be unsustainable without further borrowing as shown in **Table 1**, which shows a borrowing requirement of £70M, by 31 March 2020.

	If it was cost effective the Council could also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.
	<b><u>Objectives</u></b>
35.	The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
	<b><u>Strategy</u></b>
36.	Given the significant cuts to public expenditure and in particular to local government funding, the Council'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.
37.	By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term 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 modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
38.	Alternatively, the Council may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Council may borrow further short-term loans to cover unexpected cash flow shortages.
	<b><u>Sources</u></b>
39.	The approved sources of long-term and short-term borrowing are: <ul style="list-style-type: none"> <li>• Public Works Loan Board (PWLB) and any successor body</li> <li>• any institution approved for investments (see below)</li> <li>• any other bank or building society authorised to operate in the UK</li> <li>• UK public and private sector pension funds (except HCC Pension Fund)</li> <li>• capital market bond investors</li> <li>• UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues</li> </ul>
40.	In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities: <ul style="list-style-type: none"> <li>• leasing</li> <li>• hire purchase</li> <li>• Private Finance Initiative</li> <li>• sale and leaseback</li> </ul>

41.	The Council 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 which may be available at more favourable rates.
42.	<p>UK Municipal Bonds Agency plc (MBA) 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 two 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; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable.</p> <p>A report setting out in full the details, options and risks of the MBA was considered by full Council on 10 February 2016 and any initial proposal to borrow from the Agency will therefore need be the subject of a separate report to both Governance Committee and Full Council.</p>
<b><u>Lender's Option Borrower's Option Loans (LOBOs)</u></b>	
43.	The Council holds £9M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2019/20 and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.
<b><u>Short Term and Variable Rates</u></b>	
44.	Included within the PWLB portfolio is £35M of variable rate Loans, which are currently averaging 0.77% and are helping to keep the overall cost of borrowing down. Whilst in the current climate of low interest rates this remains a sound strategy, these loans leave the Council 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 70).
<b><u>Debt Rescheduling</u></b>	
45.	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. Other lenders may also be prepared to negotiate premature redemption terms. The Council 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 cost saving or a reduction in risk.
<b>INVESTMENT STRATEGY</b>	
46.	<p>The Council invests its money for three broad purposes:</p> <ul style="list-style-type: none"> <li>• because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as <b>treasury management investments</b>),</li> <li>• to support local public services by lending to or buying shares in other organisations (<b>service investments</b>), and</li> </ul>

	<ul style="list-style-type: none"> <li>to earn investment income (known as <b>commercial investments</b> where this is the main purpose).</li> </ul>
	<b>TREASURY MANAGEMENT INVESTMENTS</b>
47.	The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.
48.	During the financial year the Council's investment balances have ranged between £53M and £99M and are currently £54M. Projected balances indicate that on present levels of spend balances will be lower than last year, but this will be dependent on any borrowing decisions taken.
49.	The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities
	<b><u>Objectives</u></b>
50.	The CIPFA Code require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested, however it should be noted that a lower rate is an acceptable offset for higher credit and less risk, for example a covered bond.
	<b><u>Negative Interest Rates</u></b>
51.	If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
	<b><u>Strategy</u></b>
52.	Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to continue to diversify into more secure and/or higher yielding asset classes during 2019/20. This is especially the case for the estimated £40M that is currently available for longer-term investment. The majority cash used for cash flow purposes is invested in money market funds. Appendix 2 shows the makeup of the Council's current investments.
	<b><u>Business Model</u></b>
53.	Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

<b>Approved Counterparties</b>						
54.	The Council may invest its surplus funds with any of the following counterparty types, subject to the cash limits (per counterparty) and time limits detailed below. This is the absolute limit and the working limit will be monitored against actual cash flows and movement on reserves together with advice from our financial advisors and will be adjusted each quarter as necessary in agreement with the CFO.					
<b>Table 2: Approved Investment counterparties and Limits</b>						
	<b>Credit Rating</b>	<b>Banks Unsecured</b>	<b>Banks Secured</b>	<b>Government &amp; Local Authorities</b>	<b>Corporates</b>	<b>Registered Providers</b>
		£M	£M	£M	£M	£M
	UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
	AAA	£5M 5 years	£20M 20 years	£20M 50 years	£5M 20 years	£10M 20 years
	AA+	£5M 5 years	£20M 10 years	£20M 25 years	£5M 10 years	£10M 10 years
	AA	£5M 4 years	£20M 5 years	£20M 15 years	£5M 5 years	£10M 10 years
	AA-	£5M 3 years	£20M 4 years	£20M 10 years	£5M 4 years	£10M 10 years
	A+	£5M 2 years	£20M 3 years	£10M 5 years	£5M 3 years	£10M 5 years
	A	£5M 13 months	£20M 2 years	£10M 5 years	£5M 2 years	£10M 5 years
	A-	£5M 6 months	£20M 13 months	£10M 5 years	£5M 13 months	£10M 5 years
	None	£1M 6 months	n/a	£5M 25 years	£0.5M 5 years	£5M 5 years
	Pooled funds	£10M per fund for MMF, other funds (e.g. CCLA or REITS) subject to specific advice				
55.	<b>Credit Rating:</b> Investment limits are set by reference to the lowest published long-term credit rating from a selection of external credit ratings. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.					
56.	<b>Banks Unsecured:</b> 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. See below for arrangements relating to operational bank accounts.					



57.	<b>Banks Secured:</b> 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.
58.	<b>Government:</b> 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 generally a lower risk of insolvency, although not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
59.	<b>Corporates:</b> 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 either following an external credit assessment or to a maximum of £1M per company as part of a diversified pool in order to spread the risk widely.
60.	<b>Registered Providers:</b> Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.
61.	<b>Pooled Funds:</b> Shares or units in diversified investment vehicles consisting of 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. Short-term Money Market Funds that offer same-day liquidity very low or no volatility 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 Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
62.	<b>Real estate investment trusts:</b> Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.
63.	<b>Operational bank accounts:</b> The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring

	<p>services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept to a minimum. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.</p>
64.	<p>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.</p>
	<p><b><u>Risk Assessment and Credit Ratings</u></b></p>
65.	<p>Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:</p> <ul style="list-style-type: none"> <li>• no new investments will be made,</li> <li>• any existing investments that can be recalled or sold at no cost will be, and</li> <li>• full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.</li> </ul> <p>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.</p>
	<p><b><u>Other Information on the Security of Investments</u></b></p>
66.	<p>The Council 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 and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.</p>
67.	<p>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 Council 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 Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office 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.</p>

<b><u>Investment Limits</u></b>																									
68.	The Council's revenue reserves and balances available to cover investment losses (excluding Schools, capital and HRA) are forecast to be £60M at 31st March 2019. 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 and specified investments such as property funds) will be £20M. 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 in <b>Table 3</b> below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.																								
<p><b>Table 3 –Investment Limits</b></p> <table border="1"> <thead> <tr> <th></th> <th><b>Cash limit</b></th> </tr> </thead> <tbody> <tr> <td>Any single organisation, except the UK Central Government and specified funds (subject to specific advice)</td> <td>£20M each*</td> </tr> <tr> <td>UK Central Government</td> <td>unlimited</td> </tr> <tr> <td>Any group of organisations under the same ownership</td> <td>£20M per group*</td> </tr> <tr> <td>Any group of pooled funds under the same management</td> <td>25% per manager unless under specific advice</td> </tr> <tr> <td>Negotiable instruments held in a broker's nominee account</td> <td>£50M per broker</td> </tr> <tr> <td>Foreign countries</td> <td>£10M per country</td> </tr> <tr> <td>Registered Providers and registered social landlords</td> <td>£10M in total</td> </tr> <tr> <td>Unsecured investments with Building Societies</td> <td>£5M in total</td> </tr> <tr> <td>Loans to unrated corporates</td> <td>£1M in total</td> </tr> <tr> <td>Real estate investment trusts (REITS)</td> <td>£20M each*</td> </tr> <tr> <td>Money Market Funds**</td> <td>£10M* per fund and no more than 0.50% of any investments fund in total for non-government funds</td> </tr> </tbody> </table> <p><i>*This is the absolute limit and the working limit will be monitored against actual cash flows and movement on reserves together with advice from our financial advisors and will be adjusted each quarter as necessary in agreement with the CFO.</i></p> <p><i>**We would not normally invest more than 50% of our overall investment portfolio in MMF on the advice of our advisors, however as part of our revised strategy to reduce short term investments and move into longer term investments, there will be occasions as bonds mature when this limit is exceeded. This advice is with regards to cash flow risk, however we feel this is mitigated by spreading over a number of funds and not just the highest yielding ones and having funds in other instant access accounts. In addition money can be borrowed short term from the market on the day.</i></p>			<b>Cash limit</b>	Any single organisation, except the UK Central Government and specified funds (subject to specific advice)	£20M each*	UK Central Government	unlimited	Any group of organisations under the same ownership	£20M per group*	Any group of pooled funds under the same management	25% per manager unless under specific advice	Negotiable instruments held in a broker's nominee account	£50M per broker	Foreign countries	£10M per country	Registered Providers and registered social landlords	£10M in total	Unsecured investments with Building Societies	£5M in total	Loans to unrated corporates	£1M in total	Real estate investment trusts (REITS)	£20M each*	Money Market Funds**	£10M* per fund and no more than 0.50% of any investments fund in total for non-government funds
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<b><u>Liquidity Management</u></b>																									

69.	The Council 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 Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.	
	<b><u>TREASURY MANAGEMENT INDICATORS</u></b>	
70.	The Council measures and manages its exposure to treasury management risks using the following indicators.	
	<b><u>Security</u></b>	
71.	The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.	
		<b>Target</b>
	Portfolio average credit rating	A
	<b><u>Liquidity</u></b>	
72.	The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments and has set a £10M minimum threshold on cash available in instant access accounts, if balances were to fall below this limit we would consider taking short term loans which are available without given prior notice and at competitive rates.	
	<b><u>Interest Rate Exposure</u></b>	
73.	This indicator is set to control the Council's exposure to interest rate risk. The upper limits is based on the one-year revenue impact of a 1% rise or fall in interest rates for existing variable rates on long term loans and assumed short term borrowing, offset by variable investments. The main risk to the authority comes through the use of short term borrowing in place of fixed term long term debt which for 2019/20 is £133M, as shown in <b>Appendix 4 Table 22</b> . A 1% increase over those forecast would equate to £1.3M, plus any ongoing impact on an increase in the long term rate.	
74.	The Authority has more exposure to an increase in interest rates than a reduction as our debt portfolio is higher than our investments. A fall in interest rates of 1% would see investment income fall by about £0.5M but this would be offset by reduction in debt charges.	
	<b>Table 4–Interest Rate Exposure</b>	
	<b>Interest rate risk indicator</b>	<b>£M</b>
	Upper limit on one-year revenue impact of a 1% <b>rise</b> in interest rates	1.5
	Upper limit on one-year revenue impact of a 1% <b>fall</b> in interest rates	0.5
	<b><u>Maturity Structure of Borrowing</u></b>	

75.	This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing as set out in <b>Table 5</b> below:																																																															
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76.	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. Although all LOBOs are now in their call options they are not expected to be called in the near future so are included within the appropriate classification above based on their maturity date.																																																															
77.	Details of our current level of debt and maturity is shown in <b>Table 6</b> below. This shows that all debt is within existing levels.																																																															
78.	<p><b><u>Table 6 – Current Debt</u></b></p> <table border="1" data-bbox="328 1077 1477 1491"> <thead> <tr> <th>Debt</th> <th>Lower Limit %</th> <th>Upper Limit %</th> <th>Actual Debt as at 31/12/2018 £M</th> <th>Average Rate as at 31/12/2018 %</th> <th>% of Debt</th> <th>Compliance with set Limits?</th> </tr> </thead> <tbody> <tr> <td>Under 12 months</td> <td>0</td> <td>45</td> <td>31.11</td> <td>1.68%</td> <td>13</td> <td>Yes</td> </tr> <tr> <td>12 months and within 24 months</td> <td>0</td> <td>45</td> <td>50.49</td> <td>2.05%</td> <td>22</td> <td>Yes</td> </tr> <tr> <td>24 months and within 5 years</td> <td>0</td> <td>50</td> <td>5.24</td> <td>3.45%</td> <td>2</td> <td>Yes</td> </tr> <tr> <td>10years and within 20 years</td> <td>0</td> <td>55</td> <td>16.00</td> <td>4.81%</td> <td>7</td> <td>Yes</td> </tr> <tr> <td>20 years and within 30 years</td> <td>0</td> <td>65</td> <td>8.00</td> <td>4.66%</td> <td>3</td> <td>Yes</td> </tr> <tr> <td>30 years and within 40 years</td> <td>0</td> <td>75</td> <td>92.60</td> <td>3.77%</td> <td>39</td> <td>Yes</td> </tr> <tr> <td>40 years and within 50 years</td> <td>0</td> <td>75</td> <td>31.25</td> <td>3.56%</td> <td>13</td> <td>Yes</td> </tr> <tr> <td></td> <td></td> <td></td> <td><b>234.69</b></td> <td><b>3.35%</b></td> <td><b>100</b></td> <td></td> </tr> </tbody> </table>	Debt	Lower Limit %	Upper Limit %	Actual Debt as at 31/12/2018 £M	Average Rate as at 31/12/2018 %	% of Debt	Compliance with set Limits?	Under 12 months	0	45	31.11	1.68%	13	Yes	12 months and within 24 months	0	45	50.49	2.05%	22	Yes	24 months and within 5 years	0	50	5.24	3.45%	2	Yes	10years and within 20 years	0	55	16.00	4.81%	7	Yes	20 years and within 30 years	0	65	8.00	4.66%	3	Yes	30 years and within 40 years	0	75	92.60	3.77%	39	Yes	40 years and within 50 years	0	75	31.25	3.56%	13	Yes				<b>234.69</b>	<b>3.35%</b>	<b>100</b>	
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79.	The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end is shown in <b>Table 7</b> .																																																															
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	<b><u>OTHER ITEMS</u></b>																																																															

80.	There are a number of related matters that the CIPFA Code requires the Council to include in its Treasury Management Strategy.
<b><u>Policy on Use of Financial Derivatives</u></b>	
81.	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).
82.	The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. 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 and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
83.	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.
<b><u>Markets in Financial Instruments Directive</u></b>	
84.	The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.
<b><u>Housing Revenue Account Self-Financing</u></b>	
85.	On 1st April 2012, the Council 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.
86.	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 Council'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.

<b><u>INVESTMENT STRATEGY (NON- TREASURY)</u></b>											
<b><u>Service Investments: Loans</u></b>											
87.	The Council is able to lend money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth.										
88.	The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as in Table 8:										
<p><b>Table 8 – Loans for service purposes</b></p> <table border="1"> <thead> <tr> <th><b>Category of Borrower</b></th> <th><b>2019/20 Approved Limit</b></th> </tr> </thead> <tbody> <tr> <td>Subsidiaries</td> <td>£2.0M</td> </tr> <tr> <td>Suppliers</td> <td>£2.0M</td> </tr> <tr> <td>Other Public Sector Bodies</td> <td>£20.0M</td> </tr> <tr> <td>Charities</td> <td>£0.5M</td> </tr> </tbody> </table>		<b>Category of Borrower</b>	<b>2019/20 Approved Limit</b>	Subsidiaries	£2.0M	Suppliers	£2.0M	Other Public Sector Bodies	£20.0M	Charities	£0.5M
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Other Public Sector Bodies	£20.0M										
Charities	£0.5M										
89.	Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.										
90.	<p>The Council does not currently have any material loans but loans to subsidiaries may be considered, as part of a wider strategy for local economic growth, even though they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity. Such loans will be considered when all of the following criteria are satisfied:</p> <ul style="list-style-type: none"> <li>• The loan is given towards expenditure which would, if incurred by the Council, be capital expenditure;</li> <li>• The purpose for which the loan is given is consistent with the Council's corporate / strategic objectives and priorities;</li> <li>• Due diligence is carried out that confirms the Council's legal powers to make the loan, and that assesses the risk of loss over the loan term;</li> <li>• A formal loan agreement is put in place which stipulates the loan period, repayment terms and loan rate (which will be set at a level that seeks to mitigate any perceived risks of a loss being charged to the General Fund, and takes appropriate account of state aid rules) and any other terms that will protect the Council from loss.</li> </ul>										
<b><u>Service Investments: Shares</u></b>											

91.	The Council is able to invest in the shares of its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth.																																									
92.	One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. The Council does not currently have any material investment in shares nor is there any intention to do so at present. If this changed the Council would undertake a risk assessment before entering purchase and would establish appropriate Prudential Indicators.																																									
	<b><u>Commercial Investments: Property</u></b>																																									
93.	The Council is able to invest in local, regional and UK commercial and residential property with the intention of making a profit that will be spent on local public services. Between 2016 and 2017, SCC implemented a strategy to invest in commercial properties with the expected return on investment being used to fund council services, known as the Property investment fund (PIF). To date the authority has purchased 3 properties; however following the latest guidance regarding property investments published by central government, SCC has halted this strategy for the foreseeable future. Details of the properties purchased are shown in <b>table 9</b> below.																																									
94.	<p><b>Table 9: Property Investment Fund</b></p> <table border="1"> <thead> <tr> <th rowspan="2">Property</th> <th>Actual</th> <th colspan="2">31.03.2018 actual</th> <th colspan="2">31.03.2019 expected</th> <th>Outstanding Debt 31.03.2019</th> </tr> <tr> <th>Purchase Cost £M</th> <th>Value in Accounts</th> <th>Gain or (Loss)</th> <th>Value in Accounts</th> <th>Gain or (Loss)</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>Property 1</td> <td>6.47</td> <td>6.03</td> <td>(0.44)</td> <td>6.27</td> <td>0.24</td> <td>5.98</td> </tr> <tr> <td>Property 2</td> <td>14.69</td> <td>13.79</td> <td>(0.90)</td> <td>13.79</td> <td>0</td> <td>13.68</td> </tr> <tr> <td>Property 3</td> <td>8.53</td> <td>8.08</td> <td>(0.45)</td> <td>8.17</td> <td>0.09</td> <td>8.01</td> </tr> <tr> <td></td> <td><b>29.69</b></td> <td><b>27.90</b></td> <td><b>(1.79)</b></td> <td><b>28.23</b></td> <td><b>0.33</b></td> <td><b>27.67</b></td> </tr> </tbody> </table>	Property	Actual	31.03.2018 actual		31.03.2019 expected		Outstanding Debt 31.03.2019	Purchase Cost £M	Value in Accounts	Gain or (Loss)	Value in Accounts	Gain or (Loss)	£M	Property 1	6.47	6.03	(0.44)	6.27	0.24	5.98	Property 2	14.69	13.79	(0.90)	13.79	0	13.68	Property 3	8.53	8.08	(0.45)	8.17	0.09	8.01		<b>29.69</b>	<b>27.90</b>	<b>(1.79)</b>	<b>28.23</b>	<b>0.33</b>	<b>27.67</b>
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95.	<b>Security:</b> In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than the amount of debt currently outstanding for the asset. As can be seen from the table above the fair value assessment of these properties at the 31 March 2018 was below the purchase price, this was primarily due to cost associated with the purchase rather than a fall in the value of the assets. In line with the MRP policy in place at the time the difference of £1.79M was charged to revenue in 2017/18. No further material reduction in fair value is expected during 2018/19. Debt repayments are now being made on the annuity basis and debt will reduce by £235k in 2018/19 and £243k in 2019/20.																																									
96.	<b>Risk assessment:</b> The council assess the risk of loss before purchasing investment property and monitors both the fair value and the return on the assets to assess the benefits of either retaining or disposing of the assets. This is reported to Capital Board on at least a quarterly basis.																																									
97.	<b>Liquidity:</b> Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice. Therefore, in order to assess liquidity, the Council monitors the income stream attached to property purchases, a much																																									



	<p>more liquid asset, comparing budgets to forecasts and actuals. For the PIF properties income for both 2017/18 and current year are in line with the budgeted figure and there are no current indicators to suggest that the forecast future income will not be achieved. If there is any change in this then this would be reported to Capital Board.</p>
98.	<p>In addition to the properties purchased under PIF, the council holds an extensive historic property portfolio.</p> <p>Information relating to purchase price and any associated debt is not held, as local authority legislation does not require this information to be held. The fair value of these properties at the 31 March 2018 was £125.1M an increase of £2.4M from the year before. The Valuation and Estates section are responsible for the ongoing management and monitoring of the portfolio (including PIF) and for 2017/18 net income was for the total portfolio was £7.5M a return of 5.96%.</p>
	<p><b><u>Capacity and Skills</u></b></p>
99.	<p><b>Elected members and statutory officers:</b> 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. Treasury training is offered to all members annually, which is undertaken by our advisors, Arlingclose. Further training is also provided if the need arises, for example there was a change in leadership and the makeup of Governance committee changed during 2018, so as part of Members induction Arlingclose provided an introduction to treasury training session. We would also arrange additional training if there was to be a material change in the Treasury Strategy, explaining the reasoning behind it, so that Members understand what they are being asked to approve.</p> <p>For Officers 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.</p>
100.	<p><b>Commercial deals:</b> As detailed in paragraph 92 above the Council has currently suspended any further purchases of Investment property. Future purchase would be subject to a detailed business plan and need approval from capital board. In addition any potential investments would be subjected to a detailed checking process which ensures that relevant checks and authorisations had been sought prior to the purchase. The process requires 11 desirable criteria, 2 of which are low risk investment properties which had a long term lease and a single let. Should a property be suitable, further financial checks are conducted on the tenants within the property to evidence their financial stability and risk level. An independent valuation would then be conducted on the property to obtain a level of assurance that the price quoted and the rent charged were in line with the expected market rate. Once all criteria is met final sign off is required by the S151 officer and the Leader of the Council.</p>
	<p><b><u>Investment Indicators</u></b></p>
101.	<p>The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.</p>
102.	<p><b>Total risk exposure:</b> This indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually</p>

	committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.																												
	<p><b>Table 10: Total investment exposure</b></p> <table border="1"> <thead> <tr> <th><i>Total Investment Exposure</i></th> <th><i>31.03.2018 Actual</i></th> <th><i>31.03.2019 Forecast</i></th> <th><i>31.03.2020 Forecast</i></th> </tr> <tr> <td></td> <td><i>£M</i></td> <td><i>£M</i></td> <td><i>£M</i></td> </tr> </thead> <tbody> <tr> <td><i>Treasury management investments</i></td> <td><i>72.4</i></td> <td><i>50.0</i></td> <td><i>50.0</i></td> </tr> <tr> <td><i>Service investments: Loans</i></td> <td><i>0.0</i></td> <td><i>0.0</i></td> <td><i>0.0</i></td> </tr> <tr> <td><i>Commercial Investments: PIF</i></td> <td><i>27.9</i></td> <td><i>27.7</i></td> <td><i>27.4</i></td> </tr> <tr> <td><b>TOTAL EXPOSURE</b></td> <td><b>100.3</b></td> <td><b>77.9</b></td> <td></td> </tr> </tbody> </table>	<i>Total Investment Exposure</i>	<i>31.03.2018 Actual</i>	<i>31.03.2019 Forecast</i>	<i>31.03.2020 Forecast</i>		<i>£M</i>	<i>£M</i>	<i>£M</i>	<i>Treasury management investments</i>	<i>72.4</i>	<i>50.0</i>	<i>50.0</i>	<i>Service investments: Loans</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>Commercial Investments: PIF</i>	<i>27.9</i>	<i>27.7</i>	<i>27.4</i>	<b>TOTAL EXPOSURE</b>	<b>100.3</b>	<b>77.9</b>					
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103.	<p><b>How investments are funded:</b> Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.</p>																												
	<p><b>Table 11: Investments funded by borrowing and loan to value ratio</b></p> <table border="1"> <thead> <tr> <th><i>Investment funded by borrowing</i></th> <th><i>31.03.2018 Actual</i></th> <th><i>Loan to Value Ratio</i></th> <th><i>31.03.2019 Forecast</i></th> <th><i>Loan to Value Ratio</i></th> <th><i>31.03.2020 Forecast</i></th> <th><i>Loan to Value Ratio</i></th> </tr> <tr> <td></td> <td><i>£M</i></td> <td><i>%</i></td> <td><i>£M</i></td> <td><i>%</i></td> <td><i>£M</i></td> <td><i>%</i></td> </tr> </thead> <tbody> <tr> <td><i>Commercial Investments: Property</i></td> <td><i>27.9</i></td> <td><i>100</i></td> <td><i>27.7</i></td> <td><i>99</i></td> <td><i>27.4</i></td> <td><i>98</i></td> </tr> <tr> <td><i>Service investments: Loans</i></td> <td><i>0.0</i></td> <td></td> <td><i>0.0</i></td> <td></td> <td><i>0.0</i></td> <td></td> </tr> </tbody> </table> <p>The maximum loan to value indicator is set at 100% if the fair value of the asset was to fall below the outstanding loan value then this would be reported to Council and the authority would look to take steps to assess the viability of holding the investment.</p>	<i>Investment funded by borrowing</i>	<i>31.03.2018 Actual</i>	<i>Loan to Value Ratio</i>	<i>31.03.2019 Forecast</i>	<i>Loan to Value Ratio</i>	<i>31.03.2020 Forecast</i>	<i>Loan to Value Ratio</i>		<i>£M</i>	<i>%</i>	<i>£M</i>	<i>%</i>	<i>£M</i>	<i>%</i>	<i>Commercial Investments: Property</i>	<i>27.9</i>	<i>100</i>	<i>27.7</i>	<i>99</i>	<i>27.4</i>	<i>98</i>	<i>Service investments: Loans</i>	<i>0.0</i>		<i>0.0</i>		<i>0.0</i>	
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104.	<p><b>Rate of return received:</b> This indicator shows the investment income received less the associated costs, including the cost of borrowing, as a proportion of the debt outstanding. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.</p> <p><b>Table 12: Investment rate of return (net of all costs)</b></p> <table border="1"> <thead> <tr> <th><i>Investment net rate of return</i></th> <th><i>2017/18 Actual*1</i></th> <th><i>2018/19 Forecast</i></th> <th><i>2019/20 Forecast</i></th> </tr> <tr> <td></td> <td><i>%</i></td> <td><i>%</i></td> <td><i>%</i></td> </tr> </thead> <tbody> <tr> <td><i>Property 1</i></td> <td><i>-4.09</i></td> <td><i>2.25</i></td> <td><i>2.27</i></td> </tr> <tr> <td><i>Property 2</i></td> <td><i>-3.55</i></td> <td><i>2.14</i></td> <td><i>2.16</i></td> </tr> <tr> <td><i>Property 3</i></td> <td><i>-3.95</i></td> <td><i>0.78</i></td> <td><i>0.79</i></td> </tr> <tr> <td><b>Total Average Rate of Return</b></td> <td><b>-3.78</b></td> <td><b>1.77</b></td> <td><b>1.79</b></td> </tr> </tbody> </table>	<i>Investment net rate of return</i>	<i>2017/18 Actual*1</i>	<i>2018/19 Forecast</i>	<i>2019/20 Forecast</i>		<i>%</i>	<i>%</i>	<i>%</i>	<i>Property 1</i>	<i>-4.09</i>	<i>2.25</i>	<i>2.27</i>	<i>Property 2</i>	<i>-3.55</i>	<i>2.14</i>	<i>2.16</i>	<i>Property 3</i>	<i>-3.95</i>	<i>0.78</i>	<i>0.79</i>	<b>Total Average Rate of Return</b>	<b>-3.78</b>	<b>1.77</b>	<b>1.79</b>				
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	<i>*1 negative rate of return is due to the cost of purchase of £1.78M being written off to reflect the Fair Value of the assets</i>
105.	<b>Voids and Maintenance:</b> Budgeted income for investment income allows for voids and maintenance costs, but in addition the council has set aside an earmarked reserve of £200k to cover unforeseen void and maintenance costs. To ensure the reserve is maintained at the correct level balances are reviewed as part of budget monitoring and individual property balances are monitored to ensure they continue to provide the correct level of risk management.
	<b><u>2019/20 MINIMUM REVENUE PROVISION (MRP) STATEMENT</u></b>
106.	Where the council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008, the council is required to make a prudent provision. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2018.
107.	The broad aim of the CLG guidance is to ensure that MRP charges on unsupported borrowing should be made over a period commensurate with the period the assets financed from borrowing continue to provide benefit. Where it is practical or appropriate to do so, the Council may make voluntary revenue provision, or apply capital receipts, to reduce debt over a shorter period.
108.	The CLG Guidance requires the Council to approve an Annual MRP Statement each year. For borrowing prior to the prudential regime we use the regulatory method (over a 50 year life) and for prudential borrowing the asset life method, this now also includes MRP for investment property, as the depreciation method which was previously used, is no longer available for Investment property following the revised guidance.
109.	We will continue to review MRP and it is proposed that delegated powers should be given to the CFO to change the proposed methods to aid good financial management whilst maintaining a prudent approach. Any changes to the original MRP Statement during the year will be reported as part of quarterly financial and performance monitoring and in revisions to the TM strategy as part of the year end and midyear reviews.
110.	Where loans are made to other bodies for their capital expenditure and are to be repaid in annual instalments, no MRP will be charged. However, the capital receipts generated by the annual repayment on those loans will be put aside to repay debt instead. MRP will be charged where there is no repayment.

111.	There is no requirement for the HRA to make debt repayments but it has opted to make voluntary repayments and provision has been made within its business plan to show that it can pay down debt over the life of the 30 year business plan.																																																																	
112.	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.																																																																	
113.	Capital expenditure incurred during 2019/20 and funded from borrowing will not be subject to a MRP charge until 2020/21.																																																																	
114.	Based on the Council's latest estimate of its Capital Financing Requirement on 31 March 2019 the budget for MRP has been set on the assumption that we will be using the regulatory method for borrowing prior to the prudential regime (over the remainder of a 50 year life) and using the asset life method for prudential borrowing where it applies. As previously reported the Council has been taking a holiday from MRP payments due to over provision in the past, the balance of which will be used during 2019/20, hence the main increase in MRP liability.																																																																	
115.	The current and estimated levels of MRP and CFR are shown in <b>Table 13</b> below:																																																																	
	<p><b>Table 13 - Current and Estimated MRP and CFR for 2019/20</b></p> <table border="1"> <thead> <tr> <th></th> <th>31/03/2018 Actual CFR</th> <th>2018/19 MRP Liability</th> <th>31/03/2019 Estimated CFR</th> <th>2019/20 Estimated MRP</th> </tr> <tr> <th></th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>Capital expenditure before 01.04.2008</td> <td>96.60</td> <td>1.84</td> <td>94.75</td> <td>1.83</td> </tr> <tr> <td>Unsupported capital expenditure after 31.03.2008</td> <td>152.03</td> <td>3.81</td> <td>173.25</td> <td>4.43</td> </tr> <tr> <td>Transferred debt</td> <td>14.55</td> <td>0.37</td> <td>14.19</td> <td>0.37</td> </tr> <tr> <td>Finance leases and Private Finance Initiative</td> <td>58.84</td> <td>2.10</td> <td>56.74</td> <td>3.01</td> </tr> <tr> <td><b>Total General Fund CFR and MRP Liability</b></td> <td><b>322.02</b></td> <td><b>8.12</b></td> <td><b>338.93</b></td> <td><b>9.64</b></td> </tr> <tr> <td>MRP Holiday</td> <td>0.00</td> <td>(0.55)</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td><b>Net General Fund CFR and MRP Liability (Table 11)</b></td> <td><b>322.02</b></td> <td><b>7.57</b></td> <td><b>338.93</b></td> <td><b>9.64</b></td> </tr> <tr> <td>Assets in the Housing Revenue Account</td> <td>61.33</td> <td>Nil</td> <td>76.91</td> <td>Nil</td> </tr> <tr> <td>HRA subsidy reform payment</td> <td>96.60</td> <td>5.50</td> <td>94.76</td> <td>Nil</td> </tr> <tr> <td><b>Total Housing Revenue Account (Table 17)</b></td> <td><b>157.93</b></td> <td><b>5.50</b></td> <td><b>171.67</b></td> <td><b>0.00</b></td> </tr> <tr> <td><b>Total</b></td> <td><b>479.95</b></td> <td><b>13.07</b></td> <td><b>510.60</b></td> <td><b>9.64</b></td> </tr> </tbody> </table>		31/03/2018 Actual CFR	2018/19 MRP Liability	31/03/2019 Estimated CFR	2019/20 Estimated MRP		£M	£M	£M	£M	Capital expenditure before 01.04.2008	96.60	1.84	94.75	1.83	Unsupported capital expenditure after 31.03.2008	152.03	3.81	173.25	4.43	Transferred debt	14.55	0.37	14.19	0.37	Finance leases and Private Finance Initiative	58.84	2.10	56.74	3.01	<b>Total General Fund CFR and MRP Liability</b>	<b>322.02</b>	<b>8.12</b>	<b>338.93</b>	<b>9.64</b>	MRP Holiday	0.00	(0.55)	0.00	0.00	<b>Net General Fund CFR and MRP Liability (Table 11)</b>	<b>322.02</b>	<b>7.57</b>	<b>338.93</b>	<b>9.64</b>	Assets in the Housing Revenue Account	61.33	Nil	76.91	Nil	HRA subsidy reform payment	96.60	5.50	94.76	Nil	<b>Total Housing Revenue Account (Table 17)</b>	<b>157.93</b>	<b>5.50</b>	<b>171.67</b>	<b>0.00</b>	<b>Total</b>	<b>479.95</b>	<b>13.07</b>	<b>510.60</b>	<b>9.64</b>
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<b>Net General Fund CFR and MRP Liability (Table 11)</b>	<b>322.02</b>	<b>7.57</b>	<b>338.93</b>	<b>9.64</b>																																																														
Assets in the Housing Revenue Account	61.33	Nil	76.91	Nil																																																														
HRA subsidy reform payment	96.60	5.50	94.76	Nil																																																														
<b>Total Housing Revenue Account (Table 17)</b>	<b>157.93</b>	<b>5.50</b>	<b>171.67</b>	<b>0.00</b>																																																														
<b>Total</b>	<b>479.95</b>	<b>13.07</b>	<b>510.60</b>	<b>9.64</b>																																																														
	<b><u>MONITORING AND REPORTING</u></b>																																																																	
116.	The Chief Financial Officer will report to the Governance Committee on TM activity / performance as follows: <ul style="list-style-type: none"> <li>(a) A mid-year review against the strategy approved for the year.</li> <li>(b) An outturn report on its treasury activity, no later than 30 September after the financial year end.</li> </ul>																																																																	
117.	In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring.																																																																	
	<b>HRA Limit on Indebtedness</b>																																																																	
118.	Following the Chancellor's announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing have been lifted. This means that the previous HRA debt cap of £199.6m has been removed, and there is now the emphasis for councils to plan their new build strategy and financing at a local level. The process for identifying priorities and sites for new build developments is now taking place and is expected to form the basis of a new delivery strategy																																																																	

	in 2019, incorporating affordability and prudence. As part of the new build strategy relevant Prudential Indicators will be agreed.																																																																						
119.	<p>The HRA Business Plan supports a number of council strategies, including the Medium Term Financial Strategy, to ensure plans are affordable and budgets are aligned to the assumptions detailed in those strategies. The specific HRA Business Plan priorities are summarised below, further details can be seen in the report being submitted to Council on 29 February 2019.</p> <ul style="list-style-type: none"> <li>All HRA debt is sustainable and can be serviced over the life of the Business Plan.</li> <li>Investment in existing HRA stock can be achieved within the Government's previously set borrowing limit of £199.6M as shown in <b>Table 14</b> below.</li> <li>Currently, large scale new stock provision is not provided for in the Business Plan, any new build development will be subject to a business case and financial appraisal to assess the financial viability of the scheme.</li> </ul>																																																																						
120.	<p><b>Table 14 - Borrowing Forecast for Existing Stock</b></p> <table border="1"> <thead> <tr> <th>HRA Borrowing Forecast for Existing Stock</th> <th>2017/18 Actual £M</th> <th>2018/19 Forecast £M</th> <th>2019/20 Forecast £M</th> <th>2020/21 Forecast £M</th> <th>2021/22 Forecast £M</th> <th>2022/23 Forecast £M</th> </tr> </thead> <tbody> <tr> <td>Brought Forward</td> <td>163.19</td> <td>157.92</td> <td>171.67</td> <td>181.99</td> <td>190.53</td> <td>192.83</td> </tr> <tr> <td>Maturing Debt</td> <td>(5.51)</td> <td>(5.50)</td> <td>0.00</td> <td>0.00</td> <td>(1.31)</td> <td>0.00</td> </tr> <tr> <td>New Borrowing Requirement</td> <td>0.81</td> <td>19.25</td> <td>10.32</td> <td>8.54</td> <td>3.61</td> <td>6.91</td> </tr> <tr> <td>Appropriations (to) from GF</td> <td>(0.57)</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td><b>Housing Capital Financing Requirement</b></td> <td><b>157.92</b></td> <td><b>171.67</b></td> <td><b>181.99</b></td> <td><b>190.53</b></td> <td><b>192.83</b></td> <td><b>199.74</b></td> </tr> <tr> <td>Less Borrowing for Regeneration Schemes*</td> <td></td> <td></td> <td>(9.51)</td> <td>(15.76)</td> <td>(17.52)</td> <td>(20.86)</td> </tr> <tr> <td><b>Carried forward</b></td> <td><b>157.92</b></td> <td><b>171.67</b></td> <td><b>172.48</b></td> <td><b>174.77</b></td> <td><b>175.31</b></td> <td><b>178.88</b></td> </tr> <tr> <td>HRA Limit on Debt for Existing Stock</td> <td>199.60</td> <td>199.60</td> <td>199.60</td> <td>199.60</td> <td>199.60</td> <td>199.60</td> </tr> <tr> <td><b>Headroom</b></td> <td><b>41.68</b></td> <td><b>27.93</b></td> <td><b>27.12</b></td> <td><b>24.83</b></td> <td><b>24.29</b></td> <td><b>20.72</b></td> </tr> </tbody> </table>	HRA Borrowing Forecast for Existing Stock	2017/18 Actual £M	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M	2021/22 Forecast £M	2022/23 Forecast £M	Brought Forward	163.19	157.92	171.67	181.99	190.53	192.83	Maturing Debt	(5.51)	(5.50)	0.00	0.00	(1.31)	0.00	New Borrowing Requirement	0.81	19.25	10.32	8.54	3.61	6.91	Appropriations (to) from GF	(0.57)	0.00	0.00	0.00	0.00	0.00	<b>Housing Capital Financing Requirement</b>	<b>157.92</b>	<b>171.67</b>	<b>181.99</b>	<b>190.53</b>	<b>192.83</b>	<b>199.74</b>	Less Borrowing for Regeneration Schemes*			(9.51)	(15.76)	(17.52)	(20.86)	<b>Carried forward</b>	<b>157.92</b>	<b>171.67</b>	<b>172.48</b>	<b>174.77</b>	<b>175.31</b>	<b>178.88</b>	HRA Limit on Debt for Existing Stock	199.60	199.60	199.60	199.60	199.60	199.60	<b>Headroom</b>	<b>41.68</b>	<b>27.93</b>	<b>27.12</b>	<b>24.83</b>	<b>24.29</b>	<b>20.72</b>
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121.	The HRA by default will underwrite any programmes that are unable to self-fund																																																																						
<b>RESOURCE IMPLICATIONS</b>																																																																							
<b><u>Capital/Revenue</u></b>																																																																							
122.	The revenue and capital implications are considered as part of ongoing monitoring which is reported to Cabinet each quarter and as part of the budget setting process.																																																																						
123.	<p>The forecast for borrowing costs in 2019/20 is £15.9M. This is made up of borrowing of £9.1M based on an average debt portfolio of £316.9M at an average interest rate of 2.76% plus MRP and other costs of £6.8M. Investment income for 2019/20 is forecast at £1.4M based on an average portfolio of £42M at an average of 3.36%.</p> <p>If actual levels of investments and borrowing, and/or interest rates differ from those forecast, performance against budget will be correspondently different</p>																																																																						
<b><u>Property/Other</u></b>																																																																							
124.	None																																																																						
<b>LEGAL IMPLICATIONS</b>																																																																							
<b><u>Statutory power to undertake proposals in the report:</u></b>																																																																							

125.	Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System.
126.	<p>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.</p> <p>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.</p> <p>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.</p>
<b><u>Other Legal Implications:</u></b>	
127.	None
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
128.	This report has been prepared having regard with the CIPFA Code of Practice on Treasury Management.

<b>KEY DECISION?</b>	No	
<b>WARDS/COMMUNITIES AFFECTED:</b>	None	
<b><u>SUPPORTING DOCUMENTATION</u></b>		
<b>Appendices</b>		
1.	Policy Statement	
2.	Existing Investment & Debt Portfolio Position and Projections	
3.	Economic and Interest Outlook	
4.	Capital Strategy – Prudential and Local Indicators	
5.	Treasury Management Practices	
6.	Glossary of Treasury Terms	
<b>Documents In Members' Rooms</b>		
1.	None	
<b>Equality Impact Assessment</b>		
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.		<b>No</b>
<b>Privacy Impact Assessment</b>		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		<b>No</b>
<b>Other Background Documents</b>		

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.	<a href="#">Prudential Limits and Treasury Management Strategy 2018/19 to 2021/22</a>	Item 64
2.	<a href="#">Prudential Limits and Treasury Management Mid Year Review 2018/19</a>	Item 15

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## **TREASURY MANAGEMENT POLICY STATEMENT**

### **1. INTRODUCTION AND BACKGROUND**

- 1.1. In accordance with CIPFA's Code of Practice for Treasury Management in the Public Services the Council has regard to the key recommendations when determining the current strategy.
- 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 the 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.

# Agenda Item 6

## Appendix 2

### EXISTING INVESTMENT & DEBT PORTFOLIO POSITION AND PROJECTIONS

	31-Mar-18 Actual £M	31-Mar-18 Average Rate %	31-Dec-18 Actual £M	Average Rate %	31-Mar-19 Forecast £M	31-Mar-19 Forecast Average %
<b>External Borrowing:</b>						
Fixed Rate – PWLB Maturity	138.85	3.83	138.85	3.83	138.85	3.90
Fixed Rate – PWLB EIP	34.97	3.23	26.48	3.23	23.50	3.39
Variable Rate – PWLB	35.00	0.44	35.00	0.78	35.00	0.77
Fixed Rate – LOBO	9.00	4.86	9.00	4.86	9.00	4.85
<b>Long Term Borrowing</b>	<b>217.81</b>	<b>3.31</b>	<b>209.33</b>	<b>3.44</b>	<b>206.34</b>	<b>3.45</b>
<b>Short Term Borrowing</b>						
Fixed Rate – Market	33.35	0.47	25.36	0.92	66.16	0.77
<b>Total Borrowing</b>	<b>251.16</b>		<b>234.69</b>	<b>3.35</b>	<b>272.51</b>	<b>2.99</b>
<b>Other Long Term Liabilities</b>						
PFI Schemes	58.84	8.59	57.79	8.83	56.74	9.04
Deferred Debt Charges (HCC)	14.37	2.74	14.28	2.60	14.19	2.70
<b>Total Gross External Debt</b>	<b>324.37</b>	<b>4.02</b>	<b>306.76</b>	<b>4.06</b>	<b>343.44</b>	<b>3.67</b>
<b>Investments:</b>						
<b><i>Managed In-House</i></b>						
Bank & Building Societies (unsecured)	(6.85)	0.50	(4.73)	0.59	(5.00)	0.75
Covered Bonds (secured)	(6.36)	1.39	(4.60)	1.13	(4.60)	1.17
Multi - National Bonds (not subject to bail in)	(3.58)	5.30	(3.02)	5.30	(3.02)	5.30
Money Market Funds	(18.62)	0.43	(14.63)	0.74	(5.00)	0.75
Government & local Authority	(10.00)	0.85	0.00	0.00	0.00	0.00
<b><i>Managed Externally</i></b>						
Pooled Funds (CCLA)	(27.00)	4.63	(27.00)	4.47	(27.00)	4.50
<b>Total Investments</b>	<b>(72.42)</b>	<b>3.98</b>	<b>(53.98)</b>	<b>4.09</b>	<b>(44.62)</b>	<b>3.37</b>
<b>Net Debt</b>	<b>251.96</b>		<b>252.78</b>		<b>298.82</b>	

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### ECONOMIC AND INTEREST OUTLOOK

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, for December 2018 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.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Ca	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>3-mth money market rate</b>													
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Arlingclose Central Ca	0.90	0.95	1.10	1.30	1.40	1.40	1.40	1.35	1.35	1.35	1.35	1.35	1.35
Downside risk	0.20	0.45	0.60	0.80	0.90	0.90	0.90	0.85	0.85	0.85	0.85	0.85	0.85
<b>1-yr money market rate</b>													
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Ca	1.15	1.25	1.35	1.50	1.70	1.60	1.50	1.40	1.35	1.35	1.35	1.35	1.35
Downside risk	0.35	0.50	0.60	0.80	0.90	0.90	0.90	0.85	0.85	0.85	0.85	0.85	0.85
<b>5-yr gilt yield</b>													
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Ca	1.15	1.25	1.35	1.50	1.50	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30
Downside risk	0.50	0.60	0.65	0.80	0.80	0.70	0.65	0.65	0.65	0.65	0.65	0.65	0.65
<b>10-yr gilt yield</b>													
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Ca	1.50	1.65	1.70	1.80	1.80	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.70
Downside risk	0.55	0.70	0.70	0.80	0.80	0.75	0.75	0.70	0.70	0.70	0.70	0.70	0.70
<b>20-yr gilt yield</b>													
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Ca	2.00	2.10	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20
Downside risk	0.60	0.70	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
<b>50-yr gilt yield</b>													
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Ca	1.90	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Downside risk	0.60	0.70	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

#### Underlying Assumptions:

- The MPC left Bank Rate unchanged at the September meeting, after voting unanimously to increase Bank Rate to 0.75% in August.
- Our central interest rate forecasts are predicated on there being a transitional period following the UK's official exit from the EU.
- Both the projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.
- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the

- Cost pressures were projected to ease but have risen more recently and are forecast to remain above the Bank's 2% target through most of the forecast period. The rising price of oil and tight labour market means inflation may remain above target for longer than expected. This means that strong real income growth is unlikely in the near future.
- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider both that: 1) ultra-low interest rates result in other economic problems, and 2) higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise and cuts are required.
- The global economy appears to be slowing, particularly the Eurozone and China, where the effects of the trade war has been keenly felt. Despite slower growth, the European Central Bank is adopting a more strident tone in conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. Meanwhile, European political issues, mostly lately with Italy, continue.
- The US economy is expanding more rapidly. The Federal Reserve has tightened monetary policy by raising interest rates to the current 2%-2.25% range; further rate hikes are likely, which will start to slow economic growth.
- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

#### **Forecast:**

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon. Our central case is for Bank Rate is to rise twice in 2019. The risks are weighted to the downside.
- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitional period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	<b><u>CAPITAL STRATEGY PRUDENTIAL INDICATORS</u></b>
	<b><u>Background</u></b>
1.	The Prudential Code requires the Council to have in place a Capital Strategy that sets out the long term context in which capital expenditure decisions are made In order to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability. The following indicators, which were previously included with the Treasury Management Strategy, now form part of the Capital Strategy report but have been included as background, as they provide the framework around which the Treasury Indicators have been set.
	<b><u>Gross Debt and the Capital Financing Requirement</u></b>
2.	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 Council 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.
3.	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 as since 2012 the Council's strategy has been to only 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.
4.	This is now being reviewed to see if an alternative Treasury Strategy could generate income that can support local services. One option being considered is further investment in external pooled funds which would require the Council to externalise some or all of debt long term. To assist with the appraisal the Council has engaged the council's financial advisers, Arlingclose, to analyse the scope within the Council's current and projected balance sheet for longer-term investment, and analyse suitable longer-term asset classes and investment options available to the Council. Any change to the strategy would require approval by full council and additional Treasury Training would be provided to assist members in understanding the risks and implications of any change to the current strategy
5.	The estimated capital financing requirement and gross debt is shown in the tables below, this is based on the existing strategy, if the decision is taken to revise this strategy then the gross debt table will need to be updated to reflect higher borrowing :

**Table 15 – Current and Estimated Movement in Capital Financing Requirement**

Capital Financing Requirement	31/03/2018 £M	31/03/2019 £M	31/03/2020 £M	31/03/2021 £M	31/03/2022 £M	31/03/2023 £M
Balance Brought forward	322.62	322.03	338.93	345.79	347.27	348.58
New Borrowing	4.41	24.47	16.50	11.63	11.96	18.59
MRP	(7.13)	(5.65)	(6.26)	(6.61)	(6.71)	(7.01)
Appropriations (to) from HRA	0.56	0.00	0.00	0.00	0.00	0.00
Movement in Other Liabilities	(3.78)	(2.47)	(3.38)	(3.54)	(3.94)	(3.93)
MRP Holiday	5.35	0.55	0.00	0.00	0.00	0.00
<b>Total General Fund Debt</b>	<b>322.03</b>	<b>338.93</b>	<b>345.79</b>	<b>347.27</b>	<b>348.58</b>	<b>356.23</b>
HRA	157.92	171.67	182.00	190.54	192.84	199.75
<b>Total CFR</b>	<b>479.95</b>	<b>510.60</b>	<b>527.79</b>	<b>537.81</b>	<b>541.42</b>	<b>555.98</b>
Estimated Debt (see below for breakdown)	324.56	343.44	370.62	380.67	384.28	399.21
<b>Under / (Over) Borrowed</b>	<b>155.39</b>	<b>167.16</b>	<b>157.17</b>	<b>157.14</b>	<b>157.14</b>	<b>156.77</b>

**Table 16 – Current and Estimated Movement in Gross Debt**

Gross Debt	31/03/2018 Actual £M	31/03/2019 Estimate £M	31/03/2020 Estimate £M	31/03/2021 Estimate £M	31/03/2022 Estimate £M	31/03/2023 Estimate £M
Borrowing (Long Term GF)	74.90	68.93	50.33	115.63	120.89	132.49
Borrowing (Long Term HRA)	142.91	137.41	119.54	190.67	192.96	199.86
Borrowing (Short Term)	33.35	66.17	133.20	10.35	10.35	10.35
<b>Total Borrowing (see Table 18)</b>	<b>251.16</b>	<b>272.51</b>	<b>303.07</b>	<b>316.65</b>	<b>324.20</b>	<b>342.70</b>
Finance leases and Private Finance Initiatives	58.84	56.74	53.73	50.55	46.98	43.41
Transferred Debt	14.55	14.19	13.83	13.46	13.10	13.10
<b>Total Other Debt</b>	<b>73.39</b>	<b>70.93</b>	<b>67.55</b>	<b>64.02</b>	<b>60.08</b>	<b>56.50</b>
<b>Total Debt</b>	<b>324.56</b>	<b>343.44</b>	<b>370.62</b>	<b>380.67</b>	<b>384.28</b>	<b>399.21</b>

**Estimates of Capital Expenditure**

6. The Council's planned capital expenditure and financing is summarised below, further detail is provided in the General Fund and HRA capital programme report.

7. **Table 17 – Capital Expenditure**

Capital Expenditure and Financing	Budget 2018/19 £M	Forecast 2018/19 £M	Forecast 2019/20 £M	Forecast 2020/21 £M	Forecast 2021/22 £M	Forecast 2022/23 £M
General Fund	85.39	71.41	50.32	31.78	11.96	18.63
HRA	58.76	53.16	54.63	39.21	35.60	38.99
<b>Total Expenditure</b>	<b>144.15</b>	<b>124.57</b>	<b>104.95</b>	<b>70.99</b>	<b>47.56</b>	<b>57.62</b>
Capital receipts	19.08	18.43	10.03	2.86	3.16	2.42
Capital Grants	28.95	24.66	21.17	19.30	0.00	0.04
Contributions	11.43	12.95	11.16	7.23	7.79	8.13
Major Repairs Allowance	19.76	14.15	29.97	20.44	21.04	21.53
Direct Revenue Financing	13.21	10.66	5.79	0.99	0.00	0.00
<b>Total Financing</b>	<b>92.44</b>	<b>80.85</b>	<b>78.12</b>	<b>50.82</b>	<b>31.99</b>	<b>32.12</b>
Council Resources - borrowing	51.71	43.72	26.83	20.17	15.57	25.50
<b>Total Funding</b>	<b>51.71</b>	<b>43.72</b>	<b>26.83</b>	<b>20.17</b>	<b>15.57</b>	<b>25.50</b>
<b>Total Financing &amp; Funding</b>	<b>144.15</b>	<b>124.57</b>	<b>104.95</b>	<b>70.99</b>	<b>47.56</b>	<b>57.62</b>



<b><u>Ratio of Financing Costs to Net Revenue Stream</u></b>																									
8.	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 the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio is currently set at 10% and will remain so for the General Fund to allow for known borrowing decisions 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.																								
9.	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, which is the main contributor for the increase in 2018/19. 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, which it has opted to do for 2019/20 & 2020/21.																								
<b>Table 18 – Ratio of Financing Costs to Net Revenue Stream</b>																									
10.	<table border="1"> <thead> <tr> <th>Ratio of Financing Costs to Net Revenue Stream</th> <th>2018/19 Forecast %</th> <th>2019/20 Forecast %</th> <th>2020/21 Forecast %</th> <th>2021/22 Forecast %</th> <th>2022/23 Forecast %</th> </tr> </thead> <tbody> <tr> <td>General Fund</td> <td>6.28</td> <td>8.56</td> <td>10.07</td> <td>10.08</td> <td>10.35</td> </tr> <tr> <td>HRA</td> <td>14.78</td> <td>6.25</td> <td>6.82</td> <td>9.96</td> <td>8.27</td> </tr> <tr> <td><b>Total</b></td> <td><b>10.52</b></td> <td><b>9.74</b></td> <td><b>10.21</b></td> <td><b>11.27</b></td> <td><b>10.89</b></td> </tr> </tbody> </table>	Ratio of Financing Costs to Net Revenue Stream	2018/19 Forecast %	2019/20 Forecast %	2020/21 Forecast %	2021/22 Forecast %	2022/23 Forecast %	General Fund	6.28	8.56	10.07	10.08	10.35	HRA	14.78	6.25	6.82	9.96	8.27	<b>Total</b>	<b>10.52</b>	<b>9.74</b>	<b>10.21</b>	<b>11.27</b>	<b>10.89</b>
Ratio of Financing Costs to Net Revenue Stream	2018/19 Forecast %	2019/20 Forecast %	2020/21 Forecast %	2021/22 Forecast %	2022/23 Forecast %																				
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HRA	14.78	6.25	6.82	9.96	8.27																				
<b>Total</b>	<b>10.52</b>	<b>9.74</b>	<b>10.21</b>	<b>11.27</b>	<b>10.89</b>																				
<b><u>Authorised Limit and Operational Boundary for External Debt</u></b>																									
11.	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.																								
12.	<p>The <b>Authorised Limit</b> 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.</p> <p>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).</p>																								

<b>Table 19 – Authorised Limit for External Debt</b>							
13.	<b>Authorised Limit for External Debt</b>	<b>Actual 31 December 2018</b>	<b>2018/19 Approved</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>
		£M	£M	£M	£M	£M	£M
	Borrowing	235	785	850	700	700	880
	Other Long-term Liabilities	77	75	75	70	70	65
	<b>Total</b>	<b>311</b>	<b>860</b>	<b>925</b>	<b>770</b>	<b>770</b>	<b>945</b>
14.	The <b>Operational Boundary</b> 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 which allows for a full debt restructure if a favourable opportunity arose.						
<b>Table 20 – Operational Boundary for External Debt</b>							
15.	<b>Operational Boundary for External Debt</b>	<b>Actual 31 December 2018</b>	<b>2018/19 Approved</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
		£M	£M	£M	£M	£M	£M
	Borrowing	235	705	800	660	660	715
	Other Long-term Liabilities	77	75	75	70	70	65
	<b>Total</b>	<b>311</b>	<b>780</b>	<b>875</b>	<b>730</b>	<b>730</b>	<b>780</b>
16.	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.						

**Other Tables**

17. **Table 21 – Estimated Movement in Borrowing Requirement**

Total Borrowing Requirement	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M	2021/22 Forecast £M	2022/23 Forecast £M
<b>GF New Borrowing Requirement</b>	<b>46.57</b>	<b>105.17</b>	<b>147.96</b>	<b>16.68</b>	<b>21.58</b>
<b>HRA New Borrowing Requirement</b>	<b>19.25</b>	<b>27.68</b>	<b>17.71</b>	<b>3.61</b>	<b>6.91</b>
<b>Total New Borrowing Requirement</b>	<b>65.82</b>	<b>132.85</b>	<b>165.67</b>	<b>20.29</b>	<b>28.49</b>

Movement on Estimated Long Term Borrowing Requirement - General Fund	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M	2021/22 Forecast £M	2022/23 Forecast £M
<b>General Fund (GF)</b>					
Capital Programme	24.47	16.50	11.63	11.96	18.59
Maturing Debt - long term	5.97	19.12	10.10	1.44	0.00
Maturing Debt - short term	21.22	65.81	132.84	10.00	10.00
Movement in Internal Borrowing	0.00	10.00	0.00	0.00	0.00
Less Repayment of Debt Principal	(5.65)	(6.26)	(6.61)	(6.72)	(7.01)
Plus MRP Holiday	0.55	0.00	0.00	0.00	0.00
<b>GF New Borrowing Requirement</b>	<b>46.57</b>	<b>105.17</b>	<b>147.96</b>	<b>16.68</b>	<b>21.58</b>

Movement on Estimated Long Term Borrowing Requirement - HRA	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M	2021/22 Forecast £M	2022/23 Forecast £M
<b>HRA</b>					
Capital Programme	19.25	10.33	8.54	3.61	6.91
Maturing Debt - long term	5.50	17.35	9.17	1.31	0.00
Movement in Internal Borrowing	0.00	0.00	0.00	0.00	0.00
Less Repayment of Debt Principal	(5.50)	0.00	0.00	(1.31)	0.00
<b>HRA New Borrowing Requirement</b>	<b>19.25</b>	<b>27.68</b>	<b>17.71</b>	<b>3.61</b>	<b>6.91</b>

18. **Table 22 - Estimated Movement in Loans**

Borrowing	31/03/2019 Forecast £M	31/03/2020 Forecast £M	31/03/2021 Forecast £M	31/03/2022 Forecast £M	31/03/2023 Forecast £M
<b>Long Term</b>					
Balance brought forward	217.81	206.34	169.87	306.30	313.85
Maturing debt	(11.47)	(36.47)	(19.27)	(2.75)	0.00
New Loans raised in year	0.00	0.00	155.70	10.30	18.50
<b>Estimated Long Term Loans</b>	<b>206.34</b>	<b>169.87</b>	<b>306.30</b>	<b>313.85</b>	<b>332.35</b>
<b>Short Term</b>					
Balance brought forward	33.35	66.17	133.20	10.35	10.35
Maturing debt	(33.35)	(66.17)	(133.20)	(10.35)	(10.35)
New Loans raised in year	66.17	133.20	10.35	10.35	10.35
<b>Estimated Short Term Loans</b>	<b>66.17</b>	<b>133.20</b>	<b>10.35</b>	<b>10.35</b>	<b>10.35</b>
<b>Total Estimated Loans</b>	<b>272.51</b>	<b>303.07</b>	<b>316.65</b>	<b>324.20</b>	<b>342.70</b>

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	<b><u>TREASURY MANAGEMENT PRACTICES</u></b>
1.	This organisation has adopted and has implemented the key principles of the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes. This, together with the other arrangements detailed in the operational manual, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.
	<b>TMP 1 - RISK MANAGEMENT GENERAL STATEMENT</b>
2.	<p>The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all external investment.</p> <p>The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP 6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the operational manual.</p>
	<b><u>Credit and counterparty risk management</u></b>
3.	The Council will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.
	<b><u>Liquidity risk management</u></b>
4.	The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.
	<b><u>Interest rate risk management</u></b>
5.	The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements. It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

	<b><u>Exchange rate risk management</u></b>
6.	The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.
	<b><u>Inflation risk management</u></b>
7.	The Council will keep under review the sensitivity of its treasury management assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of its wider exposure to inflation.
	<b><u>Refinancing risk management</u></b>
8.	The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time. It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.
	<b><u>Legal and regulatory risk management</u></b>
9.	The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged. The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Council.
	<b><u>Fraud, error and corruption and contingency management</u></b>
10.	The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.
	<b><u>Market risk management</u></b>
11.	The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sum it invests, and will accordingly seek to protect itself from the effects of such fluctuations.
	<b>TMP 2 - PERFORMANCE MEASUREMENT</b>
12.	The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement. Accordingly, the treasury management function will be the subject of ongoing

	analysis of the value it adds in support of the Council's business or service objectives and performance will be measured against relevant benchmarks.
	<b>TMP 3 - DECISION-MAKING AND ANALYSIS</b>
13.	The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.
	<b>TMP 4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES</b>
14.	The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in its annual Investments Strategy, and within the limits and parameters defined in TMP1 Risk management. The Council has reviewed its classification with financial institutions under MIFID II and will set out in its annual Investment Strategy those organisations with which it is registered as a professional client.
	<b>TMP 5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS</b>
15.	The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function. If and when it is intended, as a result of lack of resources or other circumstances, to depart from these principles, the Section 151 Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated. The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Section 151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The Section 151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The delegations to the Section 151 Officer in respect of treasury management are set out in the Council's Financial Regulations and Scheme of Delegation for Financial Management. The Section 151 Officer will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and the CIPFA Standard of Professional Practice on Treasury Management.
	<b>TMP 6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS</b>
16.	The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or

	<p>other factors affecting its treasury management activities; and on the performance of the treasury management function.</p> <p>The Chief Financial Officer will report to the Governance Committee on TM activity / performance as follows:</p> <ul style="list-style-type: none"> <li>(a) A mid-year review against the strategy approved for the year.</li> <li>(b) An outturn report on its treasury activity, no later than 30 September after the financial year end.</li> </ul> <p>In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring</p> <p>The Council's Governance Committee has responsibility for the scrutiny of treasury management policies and practices.</p>
	<b>TMP 7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS</b>
17.	<p>The Section 151 Officer will prepare, and full Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP 2 Performance Measurement, and TMP 4 Approved instruments, methods and techniques. The Section 151 Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP 6 Reporting requirements and management information arrangements. The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.</p>
	<b>TMP 8 - CASH AND CASH FLOW MANAGEMENT</b>
18.	<p>Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 Liquidity risk management.</p>
	<b>TMP 9 – MONEY LAUNDERING</b>
19.	<p>The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the Council's Anti-Money Laundering Policy.</p>
	<b>TMP 10 - TRAINING AND QUALIFICATIONS</b>
20.	<p>The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced, and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary</p>



	arrangements. The responsible officer will ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.
	<b>TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS</b>
21.	The Council recognises that responsibility for treasury management decisions remains with the Council at all times. However, the Council recognises that there may be value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will do so following a full evaluation of the costs and benefits, and will also ensure that the terms of their appointment are properly agreed and documented, and subjected to regular review. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer.
	<b>TMP 12 - CORPORATE GOVERNANCE</b>
22.	The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

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**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.

**Asset Life Method - MRP:**

As detailed under MRP, this is a charge to revenue to repay capital expenditure financed by borrowing. There are a number of options for a prudent provision for new borrowing under the Prudential system (for which no Government support is being given and is therefore self-financed) including the option to make provision over the estimated life of the asset for which the borrowing is undertaken.

**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:**

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.

**CPIH:**

Additional measure of consumer price inflation including a measure of owner occupiers' housing costs

**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 within 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.

**Regularity Method - MRP:**

As detailed under MRP, this is a charge to revenue to repay capital expenditure financed by borrowing. There are a number of options for a prudent provision and this is for debt prior to 2008 which is supported by the Government through the RSG system. Although regulation 28 is revoked by regulation 4(1) of the 2008 Regulations, authorities are able to calculate MRP as if it were still in force.

**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.

# Agenda Item 7

<b>DECISION-MAKER:</b>	FULL COUNCIL		
<b>SUBJECT:</b>	APPOINTMENT OF INTERIM S151 OFFICER		
<b>DATE OF DECISION:</b>	20 FEBRUARY 2019		
<b>REPORT OF:</b>	SERVICE DIRECTOR HR AND OD		
<b><u>CONTACT DETAILS</u></b>			
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<b>STATEMENT OF CONFIDENTIALITY</b>	
None	
<b>BRIEF SUMMARY</b>	
<p>Following the resignation of the Service Director, Finance and Commercialisation, and her departure in January 2019, the statutory role of s151 officer for the council has been held on a temporary basis by the Service Lead Corporate Planning and Commercialisation. The Service Lead postholder leaves at the end of February 2019 and confirmation of the s151 role is required following her departure.</p> <p>There are constitutional requirements which must be observed when appointing a section 151 officer and the process falls to the Chief Officer Employment Panel to appoint. Suitable candidates were interviewed for an interim position (Service Director Finance and Commercialisation) whilst the newly appointed Chief Executive can review her management team requirements on a more permanent basis.</p> <p>John Harrison was appointed to the Interim role following Chief Officer Employment Panel held on 11<sup>th</sup> December 2018 and the s151 statutory role will be part of this interim role going forward.</p>	
<b>RECOMMENDATIONS:</b>	
(i)	To confirm John Harrison as the Interim s151 officer from 21 <sup>st</sup> February 2019.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	To ensure the fulfilment of the statutory S151 role following the departure of the former Service Director Finance and Commercialisation and the Service Lead Corporate Planning and Commercialisation.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
2.	None as the role is a statutory role required of the council.
<b>DETAIL (Including consultation carried out)</b>	
3.	Interim arrangements for the s151 role were covered on a temporary basis by the Service Lead Corporate Planning and Commercialisation whilst an appointment to the Interim Service Director Finance and Commercialisation role was made at Chief Officer Employment Panel.

<b>RESOURCE IMPLICATIONS</b>	
<b>Capital/Revenue</b>	
4.	Costs are being met within existing budgets
<b>Property/Other</b>	
5.	None
<b>LEGAL IMPLICATIONS</b>	
<b>Statutory power to undertake proposals in the report:</b>	
6.	S.151 Local Government Act 1972, Local Government Act 2000 and the Local Government (Standing Orders) (England) Regulations 2001 as amended.
<b>Other Legal Implications:</b>	
7.	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
8.	None
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
9.	None

<b>KEY DECISION?</b>	No
<b>WARDS/COMMUNITIES AFFECTED:</b>	N/A
<u>SUPPORTING DOCUMENTATION</u>	
<b>Appendices</b>	
1.	None

**Documents In Members' Rooms**

1.	None
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**Equality Impact Assessment**

<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	No
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**Data Protection Impact Assessment**

<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>	No
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**Other Background Documents**

**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