Portsmouth CITY COUNCIL

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NOTICE OF MEETING

CABINET

THURSDAY, 3 MARCH 2016 AT 1.00 PM

EXECUTIVE MEETING ROOM - THE GUILDHALL (FLOOR 3)

Telephone enquiries to Joanne Wildsmith, Democratic Services Tel 9283 4057
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Membership

Councillor Donna Jones (Chair)

Councillor Luke Stubbs
Councillor Ken Ellcome
Councillor Lee Mason
Councillor Rob New
Councillor Linda Symes
Councillor Steve Wemyss
Councillor Neill Young

(NB This Agenda should be retained for future reference with the minutes of this meeting.)

Please note that the agenda, minutes and non-exempt reports are available to view online on the Portsmouth City Council website: www.portsmouth.gov.uk

Deputations by members of the public may be made on any item where a decision is going to be taken. The request should be made in writing to the contact officer (above) by 12 noon of the working day before the meeting, and must include the purpose of the deputation (for example, for or against the recommendations). Email requests are accepted.

A G E N D A

1 **Apologies for Absence**

2 **Declarations of Interests**

3 **Record of Previous Decision Meeting - 8 February 2016** (Pages 1 - 12)

A copy of the record of the previous decisions taken at Cabinet on 8 February 2016 is attached.

RECOMMENDED that the record of decisions taken at the Cabinet meeting held on 8 February 2016 is approved as a correct record and signed by the Leader.

4 **Treasury Management Policy and Strategy for 2016/17** (Pages 13 - 78)

The Director of Finance and Information Services (Section 151 Officer)'s report sets out the Council's policies on borrowing, providing for the repayment of debt and investing for 2016/17.

The Council's treasury management operation has a cash limit of £23m and therefore can have a significant effect on the revenue available to fund the Council's front line services. In addition the Council has investments with 57 institutions amounting to £385m. If an institution defaulted on one of the Council's investments the loss would have to be borne by the General Fund.

The purpose of this report is to obtain the Council’s approval for 2016/17 to the Treasury Management Policy Statement (attached) which includes:

- Annual Minimum Revenue Provision for Debt Repayment Statement
- Annual Investment Strategy

The detailed recommendations from 3.1a to 3.2(iv) are referred to Council for approval.

5 **Budget & Performance Monitoring 2015/16 (3rd Quarter) to end December 2015** (Pages 79 - 108)

The purpose of the report by the Section 151 Officer is to update members on the current Revenue Budget position of the Council as at the end of the third quarter for 2015/16 in accordance with the proposals set out in the “Portsmouth City Council - Budget & Council Tax 2016/17 & Medium Term Budget Forecast 2017/18 to 2019/20” report approved by the City Council on the 9th February 2016. This report has been prepared on the basis of the Revised Estimate 2015/16 approved by Full Council on 9th February 2016. It therefore reports on the City Council Financial position after the decisions were taken to use the £5.7m improvement reported to Council. The forecast underspend in this report therefore is in addition to the £5.7m improvement reported to Council on 9th February 2016.

RECOMMENDED to Council that:
(i) The forecast outturn position for 2015/16 be noted:
(a) An underspend of £1,727,700 before further forecast transfers from/to Specific Reserves
(b) An underspend of £1,481,000 after further forecast transfers from/to Specific Reserves.
(ii) Members note:
(a) that on 9th February 2016 City Council approved that the "clawback" requirement for overspendings be waived for 2015/16 for both the Children & Education Portfolio and the Health & Social Care Portfolio given the scale of those overspendings and also that the financial risks contained therein were fully provided for within the Council's contingency provision
(b) that on 9th February 2016 City Council approved that any underspending for 2015/16 arising at year-end outside of those made by Portfolio's (currently forecast at £1,481,000) be transferred to Capital Resources.
(c) that all other actual portfolio overspends at year end will in the first instance be deducted from any Portfolio Specific Reserve balance and

once depleted then be deducted from the 2016/17 Cash Limit.
(iii) Directors, in consultation with the appropriate Cabinet Member, consider options that seek to minimise any forecast overspend presently being reported and prepare strategies outlining how any consequent reduction to the 2016/17 Portfolio cash limit will be managed to avoid further overspending during 2016/17.

6 Childcare Early Implementer Status (Pages 109 - 120)

The report by the Director of Children's Services informs the Cabinet that Portsmouth is one of eight local authorities awarded the Early Implementer Funding Bid.

RECOMMENDED that Cabinet agrees:

(1) To note the award which will mean Portsmouth is part of the national pilot to work in partnership with its local Early Years providers to develop additional places with the flexibility that working parents need. The pilot will mean Portsmouth can develop 30 hours of free childcare for working parents in advance of the national roll out in September 2017. This childcare will meet the needs of particular communities including those in deprived neighbourhoods, children with SEND providing high quality childcare for all participating 3 and 4 year olds.

(2) The involvement in this exciting national pilot will enable the local authority to try out innovative ways of working and enable feedback from Portsmouth Early Years providers and other findings to inform national policy. The grant to support this pilot currently stands at £55,000 but may increase and funding will be paid to the LA through a Section 31 grant. In the event that this is not ring fenced it is recommended that the Cabinet agrees this grant is allocated in full to the service for the implementation of this pilot.

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CABINET

RECORD OF DECISIONS of the meeting of the Cabinet held on Monday, 8 February 2016 at 1.00 pm at the Guildhall, Portsmouth

Present

Councillor Donna Jones (in the Chair)

Councillors Luke Stubbs
Lee Mason
Robert New
Linda Symes
Steve Wemyss
Neill Young

1. Apologies for Absence (AI 1)

Councillor Ken Ellcome had sent his apologies for absence as he was on other council duties.

2. Declarations of Interests (AI 2)

There were no declarations of members' interests.

3. Record of Previous Decision Meeting - 3 December 2015 (AI 3)

The record of decisions of the previous Cabinet meeting held on 3 December 2015 were approved as a correct record to be signed by the Leader.

4. Council Tax Discounts (including Policy on Empty Dwellings) (AI 4)

Louise Wilders, Director of Community & Communication, presented her report which requests a change to the policy on empty properties from 1 April 2016. This policy had had staffing implications and it was hoped that properties would become empty for shorter periods of time. Councillor Lee Mason, as the Cabinet Member for Resources, supported this move towards 12 month rather than 11 month rental contracts.

RECOMMENDED TO COUNCIL

(1) To continue the current policy of 0% council tax discounts on second homes

(2) To continue the current policy of giving 40% council tax discounts for 12 months for empty and unfurnished properties undergoing major repair

(3) To amend the first phase of the empty homes period to reduce the council tax discount from 100% to 0% with effect from 1 April 2016.

5. Portsmouth City Council Budget & Council Tax 2016/17 & Medium Term Budget Forecast 2017/18 to 2019/20 (AI 5)

A deputation was made by Hilary Reed setting out her questions relating to the report's Equality Impact Assessment (EIA), which included the training of members and officers on equalities issues and the monitoring and responsibility of the impact and engagement of the proposals on protected groups.

In response the Leader of the Council explained the procedures for formal public questions related to full Council meetings rather than Cabinet meetings, but as important issues were being raised she gave a statement on the council's equalities procedures as well as explaining the budget procedure of the full Council agreeing in December the total amount to be saved by each of the portfolios but not the detail of the proposed savings (which can be amended or substituted with an alternative proposal). Some of the individual service savings lines in the revenue budget would need consultation and the appropriate Equality Impact Assessment (EIA) being undertaken before changes are implemented. Councillor Jones outlined the public consultation which had taken place with residents and businesses in September and October, which had resulted in 2,466 responses, as well as public meetings being held.

The Leader explained that as part of the budget process as the potential savings had to be assessed to see if these could potentially impact on any of the protected characteristics within the Equality Act 2010, which along with the appropriate consultations inform the EIAs. The member training programme included equalities and members of both the Cabinet and the Governance & Audit & Standards committee had attended, so Cabinet members were mindful of the legislation relating to equalities issues.

Chris Ward as the Director of Finance and Section 151 Officer then presented his report which would be submitted to the Council meeting the following day.

RECOMMENDED to Council

(1) That the following be approved in respect of the Council's Budget:

 (a) The revised Revenue Estimates for the financial year 2015/16 and the Revenue Estimates for the financial year 2016/17 as set out in the General Fund Summary (Appendix A)

 (b) The Portfolio Cash Limits for the Revised Budget for 2015/16 and Budget for 2016/17 as set out in Sections 7 and 9, respectively

 (c) That the "clawback" requirement for overspendings be waived for 2015/16 for both the Education & Children's Portfolio and the Health & Social Care Portfolio given the scale of those overspendings and also that their Portfolio Cash Limits were set in the knowledge of the financial risks contained therein which were fully provided for within the Council's contingency provision

(d) That £1.5m be transferred to the Revenue Reserve for Capital to supplement the resources available for the Capital Programme in order to ensure the Council can properly meet its statutory responsibilities including School Places, Sea Defences and Roads Maintenance

(e) That £1.5m be transferred to the MTRS Reserve to restore it to a level sufficient to enable the Council to pursue both Spend to Save schemes, Invest to Save schemes and fund redundancy costs, all aimed at facilitating the Council's savings strategy

(f) That £1,686,600 is carried forward from 2015/16 to 2016/17 in respect of contingent items that were expected to arise in 2015/16 but are now expected to occur in 2016/17

(g) Any further underspendings for 2015/16 arising at the year-end outside of those made by Portfolios be transferred to Capital Resources in order to provide funding for known future commitments such as Secondary School Places, Sea Defences and the enabling transport infrastructure necessary for the City's development and growth which have, as yet, insufficient funding

(h) The S.151 Officer be given delegated authority to make any necessary adjustments to Cash Limits within the overall approved Budget and Budget Forecasts

(i) That the level of Council Tax be increased by 1.99% for general purposes in accordance with the referendum threshold[1] for 2016/17 announced by Government (as calculated in recommendation 3.4 (d))

(j) That the level of Council Tax be increased by a further 2.0% beyond the referendum threshold (as calculated in recommendation (4)d) to take advantage of the flexibility offered by Government to implement a "Social Care Precept"; and that in accordance with the conditions of that flexibility, the full amount of the associated sum generated of £1,254,400 is passported direct to Adult Social Care

(k) Managers be authorised to incur routine expenditure against the Cash Limits for 2016/17 as set out in Section 9

(l) That the savings requirement for 2017/18 be set at a minimum on-going sum of £9.0m

(m) That the S.151 Officer be given delegated authority to make transfers to and from reserves in order to ensure that they are

[1] Council Tax increases beyond the referendum threshold can only be implemented following a "Yes" vote in a local referendum

maintained as necessary and in particular, adjusted when reserves are no longer required or need to be replenished

(n) Directors be instructed to start planning how the City Council will achieve the savings requirements shown in Section 11 and that this be incorporated into Service Business Plans

(o) The minimum level of Revenue Balances as at 31 March 2017 be set at £7.0m (£6.5m in 2015/16) to reflect the known and expected budget and financial risks to the Council

(p) Members have had regard for the Statement of the Section 151 Officer in accordance with the Local Government Act 2003 as set out in Section 17.

(2) That the following be noted in respect of the Council's Budget:

(a) The Revenue Estimates 2016/17 as set out in Appendix A provide full funding for the Domestic Violence Service in 2016/17 ensuring that the service remains intact. A sum of £50,000 funded from additional income arising from the Council's Property Investment Portfolio has been identified to mitigate the overall reduction of £180,000 to the Service in future years. Discussions with Hampshire Police & Crime Commissioner's Office will take place after the May elections with the intent to secure a contribution for the remaining £130,000

(b) The Revenue Estimates 2016/17 as set out in Appendix A have been prepared on the basis that the 2% tax increase for the "Social Care Precept" (amounting to £1,254,400) is passported to Adult Social Care in order to provide for otherwise unfunded budget pressures including the cost of the new National Living Wage

(c) In the event that the additional flexibility of the "Social Care Precept" and associated 2% tax increase (amounting to £1,254,400) is not taken, then equivalent savings will need to be identified

(d) In general, any reduction from the 3.99% Council Tax increase proposed will require additional savings of £627,200 for each 1% reduction in order for the Budget 2016/17 to be approved

(e) The Revenue Forecast and the associated provisional Portfolio Cash Limits for 2017/18 onwards as set out in Section 10 and Appendix B

(f) The estimated Savings Requirement of £24m for the three year period 2017/18 to 2019/20, for financial and service planning purposes, be phased as follows:

Financial Year	In Year Savings Requirement £m	Cumulative Saving £m
2017/18	9.0	9.0
2018/19	8.0	17.0
2019/20	7.0	24.0

(g) The MTRS Reserve held to fund the upfront costs associated with Spend to Save Schemes, Invest to Save Schemes and redundancies will hold a relatively modest uncommitted balance of £2.4m [2] and will only be replenished from an approval to the transfer of any underspends, contributions from the Revenue Budget or transfers from other reserves which may no longer be required

(h) The Council Tax element of the Collection Fund for 2015/16 is estimated to be a deficit of £269,000 which is shared between the City Council (84%), Police & Crime Commissioner (11%) and the Hampshire Fire & Rescue Authority (4%)

(i) The Business Rate element of the Collection Fund for 2015/16 is estimated to be a deficit of £635,828 which is shared between the City Council (49%), the Government (50%) and the Hampshire Fire & Rescue Authority (1%)

(j) The Non Domestic Rates poundage for 2016/17 will be 49.7p, and 48.4p for small businesses

(k) The Business Rate income[3] for 2016/17 (excluding "Top Up") based on the estimated Business Rate element of the Collection Fund deficit as at March 2016, the Non Domestic Rates poundage for 2016/17 and estimated rateable values for 2016/17 has been set at £39,581,127

(3) That the S.151 Officer has determined that the Council Tax base for the financial year 2016/17 will be **53,538.8** [item T in the formula in Section 31 B(1) of the Local Government Finance Act 1992, as amended (the “Act”)].

(4) That the following amounts be now calculated by the Council for the financial year 2016/17 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992:

(a) £478,280,306 Being the aggregate of the amounts which the Council estimates for the items set out in

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[2] Including the transfer into the reserve of £1.5m contained with the recommendations in this report and the transfer out of the reserve of £0.3m as described in the Capital Programme 2015/16 to 2020/21 report contained elsewhere on this agenda

[3] Including the Collection Fund deficit of £311,600 and excluding the "Top Up" grant from Government of £4,503,001.

Section 31A(2) of the Act.

(b) £413,052,380 Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.

(c) £65,227,926 Being the amount by which the aggregate at 3.4 (a) above exceeds the aggregate at 3.4(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year. (Item R in the formula in Section 31B(1) of the Act.

(d) £1,218.33 Being the amount at 3.4(c) above (Item R), all divided by Item 3.3 above (Item T), calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year.

(e) Valuation Bands (Portsmouth City Council)

A **£**	**B** **£**	**C** **£**	**D** **£**	**E** **£**	**F** **£**	**G** **£**	**H** **£**
812.22	947.59	1,082.96	1,218.33	1,489.07	1,759.81	2,030.55	2,436.66

Being the amounts given by multiplying the amount at (4)(d) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in Valuation Band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings in different valuation bands.

(5) That it be noted that for the financial year 2016/17 the Hampshire Police & Crime Commissioner is consulting upon the following amounts for the precept to be issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Valuation Bands (Hampshire Police & Crime Commissioner)

A **£**	**B** **£**	**C** **£**	**D** **£**	**E** **£**	**F** **£**	**G** **£**	**H** **£**
106.97	124.80	142.63	160.46	196.12	231.78	267.43	320.92

(6) That it be noted that for the financial year 2016/17 Hampshire Fire and Rescue Authority are recommending the following amounts for the precept issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Valuation Bands (Hampshire Fire & Rescue Authority)

A £	B £	C £	D £	E £	F £	G £	H £
41.73	48.69	55.64	62.60	76.51	90.42	104.33	125.20

(7) That having calculated the aggregate in each case of the amounts at (4)e, (5) and (6) above, the Council, in accordance with Sections 31A, 31B and 34 to 36 of the Local Government Finance Act 1992 as amended, hereby sets the following amounts as the amounts of Council Tax for the financial year 2016/17 for each of the categories of dwellings shown below:

Valuation Bands (Total Council Tax)

A £	B £	C £	D £	E £	F £	G £	H £
960.92	1,121.08	1,281.23	1,441.39	1,761.70	2,082.01	2,402.31	2,882.7

(8) The S.151 Officer be given delegated authority to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire Police & Crime Commissioner and Hampshire Fire and Rescue Authority precepts.

6. Capital Programme 2015/16 to 2020/21 (AI 6)

Chris Ward, Director of Finance and Section 151 Officer, presented his report which was also being submitted to Council the following day which sought £173.2 additional capital investment.

Councillor Stubbs asked the S151 Officer to comment on a recent press story relating the property investment fund and it was clarified that this needs to be sent on capital schemes and not for revenue purposes (such as the helping the homeless as suggested within the article) and must be affordable; where there are deficits there is the authority can only borrow where the identified opportunities will more than offset the borrowing. The Leader asked if such borrowing would be illegal; the Section 151 Officer confirmed it would be if the authority could not pay this back and it would not meet the prudential borrowing criteria.

Councillor Neill Young, as Cabinet Member for Children & Education, placed on record his gratitude for the strong investment in schools within the capital programme, showing the Administration's commitment to education in the city. He looked forward to seeing the improvements in schools through the necessary repair works.

RECOMMENDED to Council

(1) That the following be approved in respect of the Council's Capital Programme:

1) The Revised Capital Programme 2015/16 to 2020/21 attached as Appendix 1 which includes all additions, deletions and amendments for slippage and rephrasing described in Sections 6 and 8 be approved

2) The S.151 Officer be given delegated authority to determine how each source of finance is used to fund the overall Capital Programme and to alter the overall mix of financing, as necessary, to maximise the flexibility of capital resources used and minimise the ongoing costs of borrowing to the Council

3) That the S.151 Officer in consultation with the Leader of the Council be given delegated authority to release capital resources held back for any contingent items that might arise, and also for any match funding requirements that may be required of the City Council in order to secure additional external capital funding (e.g. bids for funding from Government or the Solent Local Enterprise Partnership)

4) The following schemes as described in Section 9 and Appendix 2 be reflected within the recommended Capital Programme 2015/16 to 2020/21 and be financed from the available corporate capital resources:

Recommended New Capital Schemes		**Corporate Resources Required £**	**Total Scheme Value £**
Children & Education			
	School Conditions Project	725,000	750,000
	Special Education Needs - Building Alterations	1,200,000	3,200,000
	Secondary School Places Expansion 2016/17 - 2018/19 (Phase 1)	1,500,000	1,500,000
	Secondary School Places Expansion 2019/20 - 20/21 (Phase 2)	1,800,000	1,800,000
Culture & Leisure			
	Round Tower Improvement Works	80,000	80,000
Environment & Community Safety			
	Southsea Coastal Flood Defence	1,250,000	82,063,000
Health & Social Care			
	Refurbishment of Hilsea Lodge Annexe	140,000	140,000
	Reconfiguration of Corben Lodge	1,150,000	1,150,000
Housing			
	New Green & Clean Rest Areas	67,000	67,000
PRED			
	Public Realm Improvement By The Hard	300,000	300,000
	Guildhall Investment (Match funding)	300,000	300,000
Resources			

	Landlord's Maintenance	1,100,000	1,100,000
	Utilities' Management	983,000	1,233,000
Traffic & Transportation			
	LTP3	353,000	353,000
	Traffic Signal Upgrade Packages	910,000	910,000
	Eastern Road Waterbridge	1,060,000	1,800,000
Total Recommended Sum to be Approved		**12,918,000**	**96,746,000**

5) The following schemes as described in Section 10 and Appendix 2 be approved as Invest To Save Schemes and funded from Prudential Borrowing (subject to the approval of a detailed financial appraisal by the S.151 Officer) up to the limit shown:

	Prudential Borrowing Required £
Eastern Road New Build	1,723,000
Purchase of New Depot	2,200,000
Commercial Property Acquisition	60,000,000
Purchase of Linkspans Berths 3 and 4	8,700,000
Utilities' Management	250,000
Photovoltaic Cell Investment Fund	1,950,000
Total Recommended Sum to be Approved	**74,823,000**

6) As described in Section 10, early years borrowing costs relating to the above schemes totalling £73,900 in 2016/17 and £179,900 in 2017/18 be funded from the MTRS reserve

7) The following Schemes as described in Section 13 be included within the “Reserve List” of Capital Schemes to be considered once additional capital resources are identified

Future Priority Capital Schemes – Not in Priority Order
Secondary School Places 2018/19 to 2020/21
Special Educational Needs Re-modelling
School Condition (roofs, boilers, electrics, windows etc.)
Sea Defences
Enabling Transport Infrastructure match funding - City development
City Promotion & Inward Investment schemes
Landlords Repairs & Maintenance
Local Transport Plan - Road safety and traffic improvement schemes

8) The Prudential Indicators described in Section 14 and set out in Appendix 3 be approved.

(2) That the following be noted in respect of the Council's Capital Programme:

1) That the capital resources proposed to be allocated include £1.5m of funding from Revenue as recommended in the "Budget and Council Tax 2016/17 & Medium Term Budget Forecast 2017/18 to 2019/20" report contained elsewhere on the agenda. In the event that this funding is not approved, schemes with Corporate Capital Resources amounting to £1.5m will be required to be removed from the new schemes starting in 2016/17 detailed in Appendix 2

2) The passported Capital Allocations (Ring-fenced Grants) as set out in Section 7

3) As outlined in Section 12 and Appendix 2 the use of The Parking Reserve to fund the refurbishment of Isambard Brunel Car Park at a cost of £450,000

4) The City Council note that Prudential Borrowing can only be used as a source of capital finance for Invest to Save Schemes as described in Section 14

4[1] Council Tax increases beyond the referendum threshold can only be implemented following a "Yes" vote in a local referendum

5[2] Including the transfer into the reserve of £1.5m contained with the recommendations in this report and the transfer out of the reserve of £0.3m as described in the Capital Programme 2015/16 to 2020/21 report contained elsewhere on this agenda

6[3] Including the Collection Fund deficit of £311,600 and excluding the "Top Up" grant from Government of £4,503,001.

7. Special Educational Needs and Disabilities (SEND) Implementation Grant (New Burdens) 2016-17 allocation (Supplementary Item) (AI 7)

Dr Julia Katherine presented the report for the Director of Children's Services, which had been sent out as a supplementary item, regarding the employment of additional staff on a temporary basis to transfer existing statements and learning disability assessments to education health and care plans. Councillor Neill Young as the Cabinet Member for Children & Education endorsed the hard work of the team in undertaking this transfer process and Portsmouth was leading the way for the region on the SEND reforms, for which he thanked Julia Katherine and her team. Chris Ward, Director of Finance, clarified that whilst this funding was not ring-fenced it was not relied upon within the Council budget. The Leader was pleased by the progress being made with the implementation.

DECISION the Cabinet:

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(1) Approved the full allocation of the Special Educational Needs Implementation Grant of £131,559 in 2016-17.

(2) Approve the proposals for utilising the grant to continue to fund the staff who have been employed on a fixed term basis to enable successful transfer of existing statements and learning disability assessments to education health and care plans.

The meeting concluded at 1.20 pm.

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Councillor Donna Jones
Leader of the Council

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Decision maker: Cabinet
City Council

Subject: Treasury Management Policy for 2016/17

Date of decision: 3 March 2016 (Cabinet)
11 March 2016 (Governance and Audit and Standards Committee – information only)
22 March 2016 (City Council)

Report by: Chris Ward, Director of Finance and Information Services (Section 151 Officer)

Wards affected: All

Key decision: Yes
Full Council Meeting: Yes

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1. Summary

This report sets out the Council's policies on borrowing, providing for the repayment of debt and investing for 2016/17.

The Council's treasury management operation has a cash limit of £23m and therefore can have a significant effect on the revenue available to fund the Council's front line services. In addition the Council has investments with 57 institutions amounting to £385m. If an institution defaulted on one of the Council's investments the loss would have to be borne by the General Fund.

2. Purpose of report

The purpose of this report is to obtain the Council's approval for 2016/17 to the Treasury Management Policy Statement (attached) which includes:

- Annual Minimum Revenue Provision for Debt Repayment Statement
- Annual Investment Strategy

3. Recommendations

3.1a the Head of Financial Services and Section 151 Officer and officers nominated by him be given authority to lend surplus funds as necessary in accordance with the Treasury Management Policy;

3.1b the Council adopts a risk appetite statement that permits investments to be made in instruments that do not guarantee that the capital sum will not be diminished through movements in prices;

3.1c the Director of Finance and Information Services (Section 151 Officer) is given delegated authority to either replace maturing debt or repay it depending on the outlook for long term interest rates that exists at the time

3.1d the upper limits for fixed interest exposures are set as follows:

2015/16 £195m

2016/17 £358m

2017/18 £446m

2018/19 £482m

3.1e the upper limits for variable interest exposure are set as follows:

2015/16 (£265m) – Investments up to £265m

2016/17 (£444m) – Investments up to £444m

2017/18 (£526m) – Investments up to £526m

2018/19 (£555m) – Investments up to £555m

3.1f the following limits be placed on principal sums invested for periods longer than 364 days:

31/3/2016	**£286m**
31/3/2017	**£196m**
31/3/2018	**£123m**
31/3/2019	**£90m**

3.1g the City Council set upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Upper Limit	Lower Limit
Under 12 Months	**10%**	**0%**
12 months & within 24 months	**10%**	**0%**
24 months & within 5 years	**10%**	**0%**
5 years & within 10 years	**20%**	**0%**
10 years & within 20 years	**30%**	**0%**
20 years & within 30 years	**30%**	**0%**
30 years & within 40 years	**30%**	**0%**
40 years & within 50 years	**40%**	**0%**

3.1h authority to reschedule debt during the year is delegated to the Director of Finance and Information Services (Section 151 Officer) subject to conditions being beneficial to the City Council;

3.1i no restriction be placed on the amount that can be borrowed in sterling from an individual lender provided it is from a reputable source and within the authorised limit for external debt approved by the City Council;

3.1j the principals upon which the apportionment of borrowing costs to the Housing Revenue Account (HRA) should be based are as follows:

- **The apportionment is broadly equitable between the HRA and the General Fund, and is detrimental to neither;**
- **The loans portfolio is managed in the best interests of the whole authority;**
- **The costs and benefits of over and under borrowing above or below the capital financing requirement (CFR) are equitably shared between the General Fund and the HRA;**

3.1k **the Council adopts a Minimum Revenue Provision (MRP) policy based on a straight 2% for pre 1 April 2008 debt and government supported debt excluding finance leases and service concessions (including Private Finance Initiative schemes);**

3.1l **the MRP on finance leases and service concessions including Private Finance Initiative (PFI) arrangements equals the charge that goes to write down the balance sheet liability;**

3.1m **the asset life (annuity) method of calculating MRP is applied to post 1 April 2008 self-financed borrowing but excluding:**

- **Finance leases**
- **Service concessions (including Private Finance Initiative schemes)**
- **Borrowing to fund long term debtors (including finance leases)**
- **Borrowing to fund investment properties**
- **Borrowing to fund equity shares purchased in pursuit of policy objectives;**

3.1n **the principal element of the income receivable from long term debtors be set aside to repay debt if the asset was financed through self-financed borrowing in order that the repayment of the debt is financed from the capital receipt;**

3.1o **the principal element of the rent receivable from finance leases be set aside to repay debt if the asset was financed through self-financed borrowing in order that the repayment of the debt is financed from the capital receipt;**

3.1p **that debt resulting from self-financed borrowing to fund investment properties be provided for by setting aside the capital receipt on disposal**

3.1q **the Council sets aside the capital receipt to provide for the repayment of the self-financed borrowing in the event of it selling its shares in the Municipal Bonds Agency or Hampshire Community Bank**

3.1r **the Housing Revenue Account (HRA) provide for the repayment of the Self Financing Payment over 30 years;**

3.1s **that specified investments should only be placed with institutions that have a long term credit rating of at least A- from at least two credit rating agencies except registered social landlords for which a single credit rating will be required;**

3.1t investments should only be placed with institutions based in either the United Kingdom or sovereign states with an AA+ credit rating;

3.1u the Council's investments are limited to senior debt;

3.1v the Director of Finance and Information Services (Section 151 Officer) be given delegated authority to invest the Councils funds in structured investment products which follow the developed stock markets but do not fully protect the Council's capital invested;

3.1w the bodies meeting the criteria of categories 1 to 8 in paragraph 18.17 are approved as repositories of specified investments of the City Council's surplus funds;

3.1x that credit ratings be reviewed weekly and that any institution whose credit rating falls below the minimum level stated in paragraph 18.17 of the Treasury Management Policy be removed from the list of specified investments;

3.1y that institutions that are placed on negative watch or negative outlook by the credit rating agencies be reassigned to a lower category;

3.1z that non-specified investments in aggregate are limited to the following:

	£
Building societies with a BBB credit rating and unrated building societies	81m
Investments in MMD (Shipping Services) Ltd including funds lodged to guarantee the company's banking limits. MMD is a wholly owned subsidiary of the City Council.	2m
Long term investments	286m
Investments denominated in foreign currencies to hedge against contracts priced or indexed against foreign currencies	5m
Total	**374m**

3.1aa the total amount that can be directly invested with any organisation at any time should be limited as follows (see paragraph 20.1):

	Maximum Investment in Single Organisation
Category 1	Unlimited for up to 6 years
Category 2	£30m for up to 6 years
Category 3	£30m for up to 10 years
Category 4	£26m for up to 6 years
Category 5	£20m for up to 10 years
Category 6	£20m for up to 6 years
Category 7	£13m for up to 6 years
Category 8	£10m for up to 6 years
Category 9	£10m for up to 2 years
Category 10	£6m for up to 2 years
Category 11	£6m for up to 364 days
MMD (Shipping Services) Ltd including sums lodged to guarantee the company's banking limits	£2m for up to 364 days

3.1ab the Director of Finance and Information Services (Section 151 Officer) in consultation with the Leader of the Council is given delegated authority to revise the total amount that can be directly invested with any organisation at any time

3.1ac the following investment limits be applied to sectors:

Money market funds	**£80m**
Building societies	**£107m**
Registered social landlords	**£80m**
Investments tracking the equity markets	**£70m**

3.1ad the following investment limits be applied to regions outside the United Kingdom:

Asia & Australia	**£60m**
Americas	**£60m**
Eurozone	**£30m**
Continental Europe outside the Eurozone	**£30m**

3.2 the Director of Finance and Information Services (Section 151 Officer submits the following:

(i) an annual report on the Treasury Management outturn to the Cabinet by 30 September of the succeeding financial year;

(ii) A Mid-Year Review Report to the Cabinet and Council;

(iii) the Annual Strategy Report to the Cabinet in March 2017;

(iv) quarterly Treasury Management monitoring reports to the Governance and Audit and Standards Committee.

3. Background

The City Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice. The Code of Practice requires the City Council to approve a Treasury Management Strategy before the start of the financial year.

In addition the Government has issued statutory guidance that requires the Council to approve an Annual Minimum Revenue Provision for Debt Repayment Statement and an Annual Investment Strategy before the start of the financial year.

The Treasury Management Strategy, the Annual Minimum Revenue Provision for Debt Repayment Statement and the Annual Investment Strategy are all contained within the attached Treasury Management Policy Statement.

4. Reasons for recommendations

The recommendations within the attached Treasury Management Policy Statement reflect the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice and have regard to statutory guidance issued by the Government. These are designed to:

- Enable the Council to borrow funds as part of managing its cash flow or to fund capital expenditure in a way that minimises risk and costs
- Provide for the repayment of borrowing
- Ensure that the Council's investments are secure
- Ensure that the Council maintains sufficient liquidity
- Maximise the yield on investments in a way that is commensurate with maintaining the security and liquidity of the investment portfolio

It is recommended that the risk appetite statement in paragraph 4.2 of the Treasury Management Policy be amended so that the Council invests in a range of instruments consistent with a *low risk* of the capital sum being diminished through movements in prices rather than *avoiding the risk* of the capital sum being diminished through movements in prices. This is to enable the Council to invest in low risk structured investment products with returns that follow the developed stock markets but do not fully protect the Council's capital invested **(recommendation 3.1b)**. It is also recommended that the maximum duration of investments with most organisations offering high credit quality be increased from 5 years to 6 years **(recommendation 2.1aa)**. Investing in low risk structured investment products with returns that follow the developed stock markets with a maximum duration of 6 years can reduce the risk of the capital sum being diminished through price movements as there is more time for the product to lock into a stock market gain, although it also allows more time for the credit quality of the institution holding the investment to deteriorate.

There are also a number of recommended changes to the Minimum Revenue Provision (MRP) for debt repayment policy **(recommendations 3.1k, p and q)**. 62% of the Council's borrowings mature in over 30 years' time. All but £11m of the Council's borrowing is Public Works Loans Board (PWLB) debt. The PWLB introduced new lower discount rates to calculate premiums on the early repayment of debt in 2010. The increased premiums resulting from this means that the existing debt is unlikely to be repaid early or rescheduled. These changes to the MRP policy are intended to defer making provision for the repayment of debt to help prevent large cash balances building up prior to being able to actually repay the debt. The need to invest such high cash balances exposes the Council to credit risk in the event that one of the Council's investment counterparties gets into financial difficulties.

5. Equality impact assessment (EIA)

The contents of this report do not have any relevant equalities impact and therefore an equalities assessment is not required.

6. Legal Implications

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

7. Head of Finance's comments

All financial considerations are contained within the body of the report and the attached appendices

……………………………………………
Signed by Director of Finance and Information Services (Section 151 Officer)

Appendix: Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy 2016/17

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1 Information pertaining to the treasury management strategy	Financial Services
2	

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TREASURY MANAGEMENT POLICY STATEMENT INCLUDING:

- **TREASURY MANAGEMENT STRATEGY**
- **ANNUAL MINIMUM REVENUE PROVISION FOR DEBT REPAYMENT STATEMENT**
- **ANNUAL INVESTMENT STRATEGY 2016/17**

Portsmouth City Council
Director of Finance and Information Services (Section 151 Officer)

TREASURY MANAGEMENT POLICY STATEMENT 2016/17

CONTENTS

1 BACKGROUND

1.1 This Council defines its Treasury Management activities as “the management of the organisation’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.”

1.2 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.

1.3 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 comprehensive performance management techniques, within the context of effective risk management.

1.4 The City Council’s treasury management activities are governed by various codes of practice and guidance that the Council must have regard to under Local Government Act 2003. The main codes and guidance that the Council must have regard to are:

- Treasury Management in the Public Services Code of Practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA) which sets out the key principles and practices to be followed.

- The Prudential Code for Capital Finance in Local Authorities published by CIPFA which governs borrowing by local authorities.

- The Guidance on Local Government Investments published by the Department for Communities and Local Government which governs local authorities investment activities and stipulates that investment priorities should be security (protecting the capital sum from loss) and liquidity (keeping money readily available for expenditure when needed), rather than yield.

2 BORROWING LIMITS AND THE PRUDENTIAL CODE

2.1 The Prudential Code requires the City Council to approve an authorised limit and an operational boundary for external debt together with other prudential indicators designed to ensure that the capital investment plans are affordable, prudent and sustainable. These were approved by the City Council on 9th February 2016.

i) Authorised Limit

The authorised limit for external debt is the maximum amount of debt which the authority may legally have outstanding at any time. The Authorised Limit includes headroom to enable the Council to take advantage of unexpected movements in interest rates and to accommodate any short-term debt or unusual cash movements that could arise during the year

	£m
Borrowing	487
Other Long Term Credit Liabilities	81
	568

ii) Operational Boundary

The Operational Boundary is based on the probable external debt during the course of the year. It is not a limit, but acts as a warning mechanism to prevent the authorised limit (above) being breached.

	£m
Borrowing	468
Other Long Term Credit Liabilities	81
	549

iii) Other Prudential Indicators contained in the Prudential Code

The following indicators are also included in the Prudential Code:

- Capital expenditure
- Ratio of financing costs to net revenue stream
- Capital financing requirement
- Housing Revenue Account (HRA) limit on indebtedness
- Incremental effect of capital investment decisions on council tax at band D
- Incremental effect of capital investment decisions on housing rents

These are contained in Appendix A.

The Prudential Code also requires local authorities to adopt the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. These are guides to good practice that the City Council has adopted and followed for several years.

3 TREASURY MANAGEMENT POLICY STATEMENT

3.1 The prime objective of the Treasury Management function is the effective management and control of risk associated with the activities described in paragraph 1.1. The Code identifies the main Treasury Management risks, some of which may not apply to the City Council, as:

- Credit risk – ie. that the local authority is not repaid, with due interest in full, on the day repayment is due.

- Liquidity risk – ie. that cash will not be available when it is needed, or that the ineffective management of liquidity creates additional, unbudgeted costs.

- Interest rate risk – ie. that the authority fails to get good value for its cash dealings (both when borrowing and investing) and the risk that interest costs incurred are in excess of those for which the authority has budgeted.

- Exchange rate risk – This is the risk that the authority enters into a contract priced in a foreign currency and the exchange rate fluctuates adversely between entering the contract and settling the contract.

- Maturity (or refinancing risk) – This relates to the authority's borrowing or capital financing activities, and is the risk that the authority is unable to repay or replace its maturing funding arrangements on appropriate terms.

- Legal risk – ie. that one or other party to an agreement will be unable to honour its legal obligations.

- Procedures (or systems) risk – ie. that a treasury process, human or otherwise, will fail and planned actions are not carried out through fraud, error or corruption.

- Market risk – This is the risk of adverse market fluctuations in the value of the principal sums of tradable investments such as Government gilts.

3.2 The approved activities of the Treasury Management operation are as follows: -

(a) Cash flow (daily balance and longer term forecasting);

(b) Investing surplus funds in approved investments;

(c) Borrowing to finance cash deficits;

(d) Funding of capital payments through borrowing, capital receipts, grants or leasing;

(e) Management of debt (including rescheduling and ensuring an even maturity profile);

(f) Interest rate exposure management;

(g) Dealing procedures;

(h) Use of external managers for temporary investment of funds.

3.3 It is proposed that the Director of Finance and Information Services (Section 151 Officer) and officers nominated by him be given authority to lend surplus funds as necessary in accordance with the Treasury Management Policy **(Recommendation 2.1(a))**.

4 TREASURY MANAGEMENT STRATEGY FOR 2016/17

4.1 Objectives

It is estimated that the net interest and debt repayment costs for 2016/17 will amount to approximately £32.3m. The Treasury Management policy will therefore form a cornerstone of the Medium Term Resource Strategy. Specific objectives to be achieved in 2016/17 are:

(a) Borrowing

- To minimise the revenue costs of debt
- To manage the City Council's debt maturity profile to ensure that no single financial year exposes the authority to a substantial borrowing requirement when interest rates may be relatively high
- To match the City Council's debt maturity profile to the provision of funds to repay debt if this can be achieved without significant cost
- To effect funding in any one year at the cheapest long term cost commensurate with future risk
- To forecast future interest rates and borrow accordingly (i.e. short term and/or variable when rates are 'high', long term and fixed when rates are 'low').
- To monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements
- To reschedule debt in order to take advantage of potential savings as interest rates change or to even the maturity profile.

(b) Lending

- To ensure the security of lending (the maximisation of returns remains a secondary consideration) by investing in:
  - the United Kingdom Government and institutions or projects guaranteed by the United Kingdom Government;
  - Other local authorities in England, Scotland and Wales
  - Aa rated money market funds including enhanced money market funds;
  - British institutions including commercial companies and registered social landlords (RSLs) that meet the City Council's investment criteria
  - Foreign institutions including commercial companies that meet the City Council's investment criteria within the jurisdiction of a AA+ government
- To maintain £10m in instant access accounts
- To make funds available to Council's subsidiaries
- To make funds available for the regeneration of Hampshire
- To optimise the return on surplus funds
- To manage the Council's investment maturity profile to ensure that no single month exposes the authority to a substantial re-investment requirement when interest rates may be relatively low to the extent that this can be managed without compromising the security of lending

4.2 Risk Appetite Statement

The Council attaches a high priority to a stable and predictable revenue cost from treasury management activities in the long term. This reflects the fact that debt servicing represents a significant cost to the Council's net revenue budget. The Council's objectives in relation to debt and investment can accordingly be stated as follows:

To assist the achievement of the council's service objectives by obtaining funding and managing the debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of long term interest cost stability. Sums are invested with a diversified range of counter parties using the maximum range of instruments consistent with a low risk of the capital sum being diminished through movements in prices.

This means that the Council is not totally risk averse. Treasury management staff have the capability to actively manage treasury risks within the scope of the Council's treasury management policy and strategy.

In particular when investing surplus cash, the Council will not necessarily limit itself to making deposits with the UK Government and local authorities, but may invest in other bodies including unrated building societies, RSLs and corporate bonds. The Council may invest surplus funds through tradable instruments such as treasury bills, gilts, certificates of deposit and corporate bonds. The duration of such investments will be limited so that they do not have to be sold (although they may be) prior to maturity thus avoiding the risk of the capital sum being diminished through movements in prices. The Council may invest in low risk structured investment products that follow the developed equity markets where movements in prices may diminish the capital sum invested.

It is recommended that the Council adopts a risk appetite statement that permits investments to be made in instruments that do not guarantee that the capital sum will not be diminished through movements in prices **(Recommendation 3.1(b))**. These investments, and indeed any other investment, could also be diminished if the counter party defaults. Although the Council only invests in counter parties offering good credit quality, the credit quality of an investment counter party can decline during the life of the investment. This is particularly the case with long term investments.

4.3 Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term, debt will only be for a capital purpose, CIPFA's Prudential Code which the City Council is legally obliged to have regard to requires the City Council to ensure that debt does not, except in the short term, exceed the total of capital financing requirement (CFR). The CFR measures the Council's underlying need to borrow. If in any year there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for the comparison with gross external debt. The Council's forecast gross debt is shown in the table below.

	2015/16 £'000	**2016/17** £'000	**2017/18** £'000	**2018/19** £'000
Borrowing	391,120	387,769	384,417	381,066
Finance leases	4,100	3,479	2,828	2,171
Service Concessions (including Private Finance Initiative schemes)	82,109	79,639	76,456	73,769
Total Gross debt	**477,329**	**470,887**	**463,701**	**457,006**
Capital Financing Requirement (CFR):				
Opening CFR in 2015/16	403,990			
Change in CFR in 2015/16	56,142			
Closing CFR in 2015/16	460,132	460,132	460,132	460,132
Cumulative increase in CFR in future years		89,407	98,304	-
Closing CFR	**460,132**	**549,539**	**558,436**	**558,436**
Under / (Over) Borrowing	**(17,197)**	**78,652**	**94,735**	**101,430**

The Council's gross debt exceeds its estimated CFR, ie. it is over borrowed, in 2015/16 because £18m was borrowed from the Public Works Loans Board (PWLB) at the project rate which is 0.20% below the certainty rate at which the PWLB normally lends to local authorities. The Council had an £18m allocation of project rate funding for 2015/16 to finance the development of Dunsbury Hill Farm, Tipner and Horsea Island.

The capital programme approved by the City Council on 9th February 2016 includes £99.3m of capital expenditure financed by borrowing in 2016/17. This includes £66.0m of expenditure on the acquisition of commercial properties to provide an income stream to support the Council's services. This is expected to cause the Council's CFR to rise above its gross debt, ie. it is expected to become under borrowed in 2016/17.

4.4 Gross and Net Debt

4.4.1 The borrowing and investment projections for the Council are as follows:

	2015/16 £'000	**2016/17** £'000	**2017/18** £'000	**2018/19** £'000
Gross Debt at 31 March	477,329	470,887	463,701	457,006
Investments at 31 March	(324,659)	(117,000)	(89,000)	(75,000)
Estimated Net Debt	**152,670**	**353,887**	**374,701**	**382,006**

4.4.2 The Council currently has a high level of investments relative to its gross debt due to having a high level of reserves and provisions, mainly built up to meet future commitments under the Private Finance Initiative schemes and future capital expenditure. However the Council's treasury management investments are expected to decline in 2016/17 as funds are used to invest in commercial properties.

4.5 Interest Rates

4.5.1 Interest Rate Forecasts for 2016/17

No treasury consultants are currently employed by the City Council to advise on the borrowing strategy. However, the City Council does employ Capita Asset Services to provide an economic and interest rate forecasting service and maintains daily contact with the London Money Market.

4.5.2 Long Term Borrowing Interest Rates

The following table gives Capital Asset Services central view.

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
25yr PWLB rate	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
50yr PWLB rate	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. Quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before weakening again to +0.4% (2.1% y/y) in quarter 3. The August Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK.

The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and commodity prices will delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% by the end of 2016 and not get to near 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase. However, more falls in the price of oil and imports from emerging countries in early 2016 will further delay the pick up in inflation. There is therefore considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in Bank Rate would occur being pushed back to quarter 4 of 2016. There is downside risk to this forecast i.e. it could be pushed further back.

Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 2015.

There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

4.5.3 Short Term Investment Interest Rates

Investment returns are likely to remain relatively low during 2016/17 and beyond.

4.6 Borrowing / Lending Requirements

Over the last few years the Council has had an overall net lending requirement. However the considerable amount of estimated capital expenditure in 2016/17 financed from borrowing is expected to turn this into an overall net borrowing requirement from 2016/17 onwards.

The Council does not expect to run out of cash until 2021/22. This will enable the Council to delay actually undertaking further borrowing until 2021/22, ie. the Council will be able to borrow internally from its own reserves. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when the Council will not be able to avoid new borrowing to finance new capital expenditure and / or to refinance maturing debt.

It has been assumed that existing maturing debt of £3.4m in 2016/17 will not be replaced. Instead this debt will be repaid using internal funds (see paragraph 6.1(g)). It is recommended however, that the Director of Finance and Information Services (Section 151 Officer) be given delegated authority to either replace maturing debt or repay it depending on the outlook for long term interest rates that exists at the time **(Recommendation 3.1(c)).**

4.7 Volatility of Budgets

The budget for interest payments and receipts is based on both the level of cash balances available and the interest rate forecasts contained in paragraph 4.5. Any deviation of interest rates from these forecasts will give rise to budget variances.

The Council is exposed to interest rate fluctuations through the need to invest up to £325m of surplus cash in the short term.

The Council currently has substantial sums of cash invested in the short term, and if interest rates fall below the budget forecast, investment income will be less than that budgeted. For example, if short-term interest rates fall to 0.5% below the budget forecast, the income from the Council's investments will be £1,625k below budget in 2016/17. Conversely, if short-term interest rates rise to 0.5% above the budget forecast, income from the Council's investments will exceed the budget by £1,625k in 2016/17.

4.8 Upper limits for fixed interest rate exposures

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper limits for fixed interest rate exposures.

The City Council’s maximum fixed interest rate exposure throughout each year is anticipated to be as follows:

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Maximum Projected Gross Borrowing – Fixed Rate	391	464	479	482
Minimum Projected Gross Investments – Fixed Rate	(196)	(106)	(33)	-

It is recommended that the upper limits for fixed interest rate exposures be set as follows **(Recommendation 3.1(d)**):

2015/16 £195m

2016/17 £358m

2017/18 £446m

2018/19 £482m

The recommended upper limits for fixed interest rate exposure are set to provide sufficient flexibility for the Head of Financial Services and Section 151 Officer to take out fixed rate loans to finance capital expenditure if interest rates fall or are expected to rise significantly.

4.9 Upper limits for variable interest rate exposures

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper limits for variable interest rate exposures.

The City Council's maximum variable interest rate exposure throughout each year is anticipated to be as follows:

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Minimum Projected Gross Borrowing – Variable Rate	-	-	-	-
Maximum Projected Gross Investments – Variable Rate	(265)	(444)	(526)	(555)

The Council's variable interest rate exposure is negative because it has no variable rate loans and a high proportion of its investments are either variable rate or will need to be reinvested within a year. The Council's requirement for cash varies considerably through the year. Therefore the Council needs to invest a proportion of its surplus cash either in instant access accounts or short term investments to avoid becoming overdrawn. The Council is exposed to an interest rate risk in that its investment income will fall if interest rates fall, whilst its borrowing costs will remain the same as all its loans are fixed at rates that will not fall with investment rates. Investment rates are currently very low and the scope for further reductions is very limited. The Council's maximum projected gross variable interest rate investments increases as existing long term fixed interest rate investments mature. Some of this risk may be mitigated through making further long term fixed rate investments. However, this will increase credit risk. It would also be prudent to maintain an even maturity profile so that the Council can benefit from rising interest rates in the future.

It is recommended that the upper limits for variable interest rate exposures be set as follows **(Recommendation 3.1(e))**:

2015/16 (£265m) – Investments up to £265m

2016/17 (£444m) – Investments up to £444m

2017/18 (£526m) – Investments up to £526m

2018/19 (£555m) – Investments up to £555m

4.10 Limits on total principal sums invested for periods longer than 364 days

Under the Treasury Management Code it is necessary to specify limits on the amount of long term investments, ie. investments exceeding 364 days that have maturities beyond year end.

Investing long term at fixed rates provides certainty of income and reduces the risk of interest rates falling. However this benefit is significantly reduced at the moment as the interest rates on new investments are low, typically less than 2% which restricts how much further returns can fall. At the current time, investing long term allows higher yields to be obtained, although it would be prudent to maintain opportunities to invest when interest rates are higher. There are regular fluctuations in the Council's cash balances which can amount to £110m. In addition cash balances are expected to be at their lowest at the end of the financial year as tax receipts are lower in March. On this basis it is recommended that the following limits be placed on total principal sums invested for periods longer than 364 days to **(Recommendation 3.1(f))**:

31/3/2016 = £286m
31/3/2017 = £196m
31/3/2018 = £123m
31/3/2019 = £90m

4.11 Limits for the maturity structure of borrowing

The Government has issued guidance on making provision for the repayment of General Fund debt (see paragraph 8) which the Council is legally obliged to have regard to. The City Council is required to begin to make provision for the repayment of debt in advance of most of the Council's debt falling due for repayment. Therefore the City Council is required to provide for the repayment of debt well in advance of it becoming due. This is illustrated in the table below. This means that it is necessary to invest the funds set aside for the repayment of debt with its attendant credit and interest rate risks (see paragraph 3.1). The City Council could reschedule its debt, but unless certain market conditions exist at the time, premium payments have to be made to lenders (see paragraph 4.12).

CIPFA's Treasury Management in the Public Services Code of Practice which the City Council is legally obliged to have regard to requires local authorities to set upper and lower limits for the maturity structure of their borrowing.

It is recommended that the upper limit should be set high enough to allow for debt to be rescheduled into earlier years and for any new borrowing to mature over a shorter period than that taken out in the past. The high upper limit for debt maturing in over 40 years time reflects existing borrowing as the upper limit cannot be set lower than the existing maturity profile and is also necessary because no provision is being made for the repayment of debt incurred by the Housing Revenue Account apart from the Self Financing payment.

It is recommended that the lower limit be set at 0%.

In order to ensure a reasonably even maturity profile (paragraph 4.1(a)), it is recommended that the council set upper and lower limits for the maturity structure of its borrowings as follows **(Recommendation 3.1(g)).**

Amount of fixed rate borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Loan Debt Maturity	Loans Minimum Revenue Provision (MRP)	% Over / (Under) Loans MRP	Upper limit	Lower limit
Under 12 months	4%	3%	1%	10%	0%
12 months and within 24 months	1%	3%	(2)%	10%	0%
24 months and within 5 years	3%	8%	(5%)	10%	0%
5 years and within 10 years	4%	14%	(10%)	20%	0%
10 years and within 20 years	19%	27%	(8%)	30%	0%
20 years and within 30 years	10%	22%	(12%)	30%	0%
30 years and within 40 years	23%	16%	7%	30%	0%
40 years and within 50 years	36%	7%	29%	40%	0%

The current maturity pattern contained in Appendix B is well within these limits.

4.12 <u>Debt Rescheduling</u>

4.12.1 At the present time, all the City Council's long term external debt has been borrowed at fixed interest rates ranging from 2.73% to 5.01%. 59% of the Council's debt matures in over 30 years' time. Appendix B shows the long term loans maturity pattern. Therefore debt rescheduling could be beneficial in evening out the debt maturity profile.

4.12.2 In the event that it was decided to further reschedule debt, account will need to be taken of premium payments to the PWLB. These are payments to compensate the PWLB for any losses that they may incur.

4.12.3 The HRA will be responsible for its proportion of the premium due for early redemption of debt, based on the percentage of debt attributable to the HRA at the start of the financial year. The premiums would be charged to the General Fund and the HRA. Regulations allow the City Council to spread the cost of the premiums over a number of years, during which the accounts would benefit from reduced external interest rates.

4.12.4 The Director of Finance and Information Services (Section 151 Officer) will continue to monitor the Council's debt and will undertake further rescheduling if it would be beneficial.

4.12.5 It is recommended that authority to reschedule debt during the year be delegated to the Director of Finance and Information Services (Section 151 Officer) subject to conditions being beneficial to the City Council **(Recommendation 3.1(h))**.

5 APPROVED METHODS OF RAISING CAPITAL FINANCE

5.1 The following list specifies the various types of borrowing instruments which are available: -

	Variable	Fixed
PWLB	Y	Y
Market Long-term	Y	Y
Municipal Bonds Agency		Y
Market Temporary	Y	Y
Overdraft	Y	
Negotiable Bonds	Y	
Internal (capital receipts & revenue balances)	Y	Y
Commercial Paper	Y	Y
Medium Term Notes	Y	Y
Leasing	Y	Y
Bills & Local Bonds	Y	Y

5.2 The main methods of raising capital finance used by the City Council are discussed in greater detail within Section 6 of this policy. Other methods are not generally used because of the perceived risk or because administrative costs are high, such as in the case of Local Bonds.

5.3 Local authorities are not required to conform to the Money Laundering Regulations stipulated in the Financial Services Acts. However, these principles where practical will be applied when arranging future money market borrowing to ensure that funds are not obtained from potentially unscrupulous sources.

6 APPROVED SOURCES OF BORROWING

6.1 Further information on some of the main borrowing instruments used by the City Council is set out below: -

(a) Public Works Loans Board (PWLB)

The main source of longer term borrowing for the City Council for many years has been from the Government through the Public Works Loans Board. The PWLB offers fixed rate loans from 1 year to 50 years at varying rates with different methods of repayment.

Alternatively the PWLB offers variable rate loans for 1 to 10 years, where the interest rate varies at 1, 3 or 6 month intervals. These loans can be replaced by fixed rate loans before maturity at an opportune time to the authority.

(b) Money Market Loans – Long Term

Loans for 1 to 70 years are available through the London Money Market although, depending of the type of loan being arranged, the rates of interest offered may not match those available from the PWLB, especially for Equal Instalment of Principal loans (E.I.P. loans). Any loans to be taken are evaluated to ensure that the interest rate is the lowest the City Council could obtain.

Loans offered by the money market are often LOBO (Lenders Option, Borrowers Option) loans. This enables the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force. At the time when the interest rate becomes variable, the lender has the option to increase the rate charged every 6 months (or any other agreed review period). The borrower has the option to repay the loan with no penalties if the interest rate is increased on any of the review dates.

(c) Bonds

Bonds may be suitable for raising sums in excess of around £150m. The interest payable on bonds may be less than that charged by the PWLB, but considerable upfront fees would be incurred. To obtain the best interest rate, the Council would need to obtain a credit rating which would need to be maintained. This would incur a further upfront fee and an annual maintenance fee.

Because such a large amount needs to be borrowed to attract investors and also to reduce the upfront fees and negate the need for an individual credit rating a pooled issuance with other local authorities may be more viable.

(d) Municipal Bonds Agency (MBA)

A municipal bonds agency has been established by the Local Government Association (LGA) to enable local authorities to undertake long term borrowing at lower rates than those offered by the PWLB. The MBA is expected to issue its first bond and advance its first loans to local authorities in 2016/17. Loans will be advanced on fixed dates determined by the municipal bonds agency. Loans will be repayable at maturity with the duration of the loan being fixed by the MBA.

(e) Money Market Loans – Temporary (Loans up to 364 days)

The use of temporary borrowing through the London Money Market forms an important part of the strategy. The authorised limit for external debt in 2016/17 of £568m set by the City Council on 9 February 2016 must not be exceeded. It is anticipated that the City Council will not need to use the temporary borrowing facility in 2016/17.

(f) Overdraft

An overdraft limit of £2m has been agreed with the Barclays Bank plc. Interest on the overdraft is charged at 1% above base rate. The City Council does not anticipate that short-term borrowing will generally be necessary during 2016/17 as it currently holds sufficient funds to enable the authority's cash flow to be managed without the need to borrow. However, the overdraft facility may be used when there are unforeseen payments and funds placed on temporary deposit cannot be called back in time.

(g) Internal Funds

Internal funds include all revenue reserves and other specific reserves maintained by the City Council, including the minimum revenue provision which is available to either repay debt or to be used instead of new borrowing. The cash held in internal funds such as earmarked reserves can be borrowed in the short term to finance capital expenditure or the repayment of debt, thus delaying the need to borrow externally.

6.2 It is recommended that no restriction be placed on the amount that can be borrowed in sterling from an individual lender provided it is from a reputable source and within the authorised limit for external debt approved by the City Council **(Recommendation 3.1(i)).**

7. APPORTIONMENT OF BORROWING COSTS TO THE HOUSING REVENUE ACCOUNT (HRA)

7.1 The Localism Act 2011 requires local authorities to allocate existing and future borrowing costs between council housing (the HRA) and the General Fund. It is for local authorities to choose an allocation method that achieves the principles detailed in their treasury management strategies.

7.2 In 2011/12 the Council was required to make an £88.6m payment to the Government under the HRA Self Financing scheme. The expected direction of gilt yields at that time was upwards and the Council borrowed £84m. Subsequently the Government announced that they would allow local authorities to borrow this sum from the Public Works Loans Board at National Loans Fund (NLF) rates. NLF rates are typically 1.13% below the rates the PWLB normally offers to local authorities. The Council therefore took advantage of this and borrowed a further £88.6m. The Council then switched the original PWLB borrowing of £84m taken earlier in the year and applied that to fund existing and future General Fund capital expenditure.

7.3 The approved Treasury Management Strategy for 2012/13 provided for a single loans pool to be maintained for both HRA and General Fund. This reflects the previous co-operation between the General Fund and the HRA and provides for the loans portfolio to be managed in the best interests of the whole authority. If the HRA had its own loans pool, having already borrowed £84m at an average rate of 4.51% to fund the Self Financing payment, it would not have been able to borrow much at the NLF rates that were subsequently offered. A single loans pool means that the HRA gets more of the long term benefits of the 3.49% NLF rate loans than it could have done on its own. Although a single loans pool does not allow the HRA to directly benefit from the NLF rate loans, it is felt that a single loans pool is broadly equitable between the HRA and the General Fund in the Council's circumstances.

7.4 It is proposed to continue to operate with a single loans pool and apportion costs according to locally established principles. It is recommended that the principles upon which the apportionment of borrowing costs should be based are as follows **(recommendation 3.1(j))**:

- The apportionment is broadly equitable between the HRA and the General Fund, and is detrimental to neither;
- The loans portfolio is managed in the best interests of the whole authority;
- The costs and benefits of over and under borrowing above or below the capital financing requirement (CFR) are equitably shared between the General Fund and the HRA.

7.5 For the purpose of apportioning borrowing costs it will be assumed that the HRA is under or over financed in the same proportion as the Council as a whole. The HRA will be charged interest at the Council's average cost of borrowing adjusted to take account of any under or over financing which will be charged at the average return on the Council's investments.

8 ANNUAL MINIMUM REVENUE PROVISION FOR DEBT REPAYMENT STATEMENT

8.1 The Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2012 require the Council to make "prudent provision" for the repayment of General Fund debt from 2008/09 onwards. There is no requirement to make "prudent provision" for the repayment of Housing Revenue Account (Council Housing) debt. The Government has provided a definition of "prudent provision" which the Council is legally obliged to "have regard" to. The guidance aims to ensure that the provision for the repayment of borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service.

8.2 The guidance also requires the Council to adopt an Annual Minimum Revenue Provision (MRP) for Debt Repayment Statement. This is contained within paragraphs 9 to 15 below.

9 GOVERNMENT- SUPPORTED BORROWING OTHER THAN FINANCE LEASES AND SERVICE CONCESSIONS INCLUDING PRIVATE FINANCE INITIATIVE SCHEMES

9.1 The Government has supported some local authority borrowing through the Formula Grant. Provision may be made for the repayment of existing and new government supported borrowing through the Capital Financing Requirement Method or the Regulatory Method.

9.2 For debt that is supported by Formula Grant, authorities are able to make revenue provision for the repayment by setting aside 4% of their Adjusted Non-Housing Capital Financing Requirement (CFR). The CFR represents the underlying requirement to borrow for capital expenditure. It takes the total value of the City Council's fixed assets and determines the amount that has yet to be repaid or provided for within the Council's accounts. The CFR is adjusted so that it excludes self-financed debt incurred after 1 April 2008. This is known as the CFR Method.

9.3 Alternatively, for debt that is supported by Formula Grant, it is suggested that authorities could continue to use the formulae in the previous regulations, since Formula Grant is calculated on that basis. This is known as the Regulatory Method. This method is also based on the CFR but is adjusted by the effect of the previous regulations. This method is more complex than the CFR method. However it is estimated that the MRP under this method would be £320k less per annum than under the CFR method. The Council has previously adopted the Regulatory Method of calculating MRP to be applied to pre 1 April 2008 debt and new government supported debt.

9.4 However, 62% of the Council's borrowings mature in over 30 years' time. All but £11m of the Council's borrowing is PWLB debt. The PWLB introduced new lower discount rates to calculate premiums on the early repayment of debt in 2010. The increased premiums resulting from this means that the existing debt is unlikely to be repaid early or rescheduled. In the meantime providing MRP on the basis of a 4% reducing balance is contributing to the Council's high cash balances. The need to invest such high cash balances exposes the Council to credit risk in the event that one of the Council's investment counterparties gets into financial difficulties. In addition an MRP policy based on a reducing balance will never fully provide for the repayment of the debt.

9.5 Authorities must always have regard to the guidance, but having done so, may consider that a more individually designed MRP approach is justified. It is therefore recommended that the Council adopts a MRP policy for supported borrowing based on a straight 2% **(Recommendation 3.1(k))**. This will ensure that provision was made for the repayment of all unsupported borrowing in a way that better reflects the maturity pattern of the Council's borrowing and avoids the credit risk associated with providing for the repayment of debt long before there is any realistic chance of the debt actually being repaid. The graph in Appendix C illustrates these points. It should also be borne in mind that the real value of the Council's long term borrowing will be considerably eroded by inflation prior to it becoming due for repayment which is a further argument for not providing for its repayment excessively early.

10. FINANCE LEASES AND SERVICE CONCESSIONS INCLUDING PRIVATE FINANCE INITIATIVE SCHEMES

10.1 It is recommended that MRP continues to be provided for finance leases and service concessions (including Private Finance Initiative schemes) as principal repayments are made to the lessor or the PFI operator **(Recommendation 3.1 (i))**. The principal repayments made to lessors and PFI operators are already calculated on an annuity basis.

11. SELF- FINANCED BORROWING EXCLUDING BORROWING TO FUND LONG TERM DEBTORS (INCLUDING FINANCE LEASES), INVESTMENT PROPERTIES AND EQUITY SHARES PURCHASED IN PURSUIT OF POLICY OBJECTIVES

11.1 For new borrowing under the prudential system for which no Government support is being given and is therefore self-financed, there are three options suggested by the guidance, the Asset Life (Equal Instalment) Method, the Asset Life (Annuity) Method and the Depreciation Method. The guidance suggests that the Asset Life (Annuity) Method is only appropriate for projects where income or savings will increase over time. In 2014/15 and prior years the Council adopted the Asset Life (Equal Instalment) Method with MRP being made from the year following completion of the asset with the exception of:

- Finance Leases
- Service concessions (including Private Finance Initiative schemes)
- Borrowing to fund long term debtors (including finance leases)

11.2 Providing MRP using the asset life equal instalment method contributed to the Council's high cash balances. The need to invest such high cash balances exposes the Council to credit risk in the event that one of the Council's investment counterparties gets into financial difficulties.

11.3 Authorities must always have regard to the guidance, but having done so, may consider that a more individually designed MRP approach is justified. It is recommended that the annuity method of calculating the minimum revenue provision (MRP) for the repayment of debt is applied to General Fund post 1 April 2008 self-financed borrowing with MRP being made from the year after practical completion of the scheme **(Recommendation 3.1(m))**. This will still ensure that provision is made for the repayment of unsupported borrowing within the life of the assets that it is used to finance, but in a way that better reflects the maturity pattern of the Council's borrowing and avoids the credit risk associated with providing for the repayment of debt long before there is any realistic chance of the debt actually being repaid. The graph in Appendix D illustrates this point. It should also be borne in mind that the real value of the Council's long term borrowing will be considerably eroded by inflation prior to it becoming due for repayment which is a further argument for not providing for its repayment excessively early.

12 SELF FINANCED BORROWING TO FUND LONG TERM DEBTORS INCLUDING FINANCE LEASES

12.1 The income received from long term debtors has an interest and a principal element. The interest element is credited to the revenue account. The principal part of the income receivable will be taken to reduce the loan asset on the balance sheet rather than being credited to the revenue account. This part of the rent receivable generates a capital receipt. Capital receipts can principally be used to finance new capital expenditure or repay debt. It is recommended that the principal element of the rent receivable be set aside to repay the borrowing that financed these assets **(recommendation 3.1(n))**. This is in line with the MRP policy adopted for 2015/16 for long term debtors funded by unsupported borrowing.

12.2 Under finance leases the risks and rewards of asset ownership rest with the lessee and the assets are not shown on the City Council's balance sheet. These leases are therefore in effect a form of lending. A part of the rent receivable will be taken to reduce the loan asset value on the balance sheet rather than being credited to the revenue account. This part of the rent receivable generates a capital receipt which can principally be used to finance new capital expenditure or repay debt. It is recommended that the principal element of the rent receivable be set aside to repay the borrowing that financed these assets **(recommendation 3.1(o))**. This is in line with the MRP policy adopted for 2015/16 for finance leases funded by unsupported borrowing.

13 SELF FINANCED BORROWING TO FUND INVESTMENT PROPERTIES

13.1 The Council has purchased investment properties in 2015/16 with a view to generating long term rental income streams to support the delivery of Council services in the future and reduce dependence on Government grant. The Council plans to purchase more investment properties in 2016/17. The Property Investment Strategy approved by the Council on 7 July 2015 provides for an investment "holding period" before sale to be defined from purchase with a view to preventing significant depreciation eroding the value of the property or the need for re-development arising. As the investment properties will be sold before there is significant consumption of the assets, it is recommended that the Council provides for the repayment of the unsupported borrowing by setting aside the capital receipt on disposal rather than providing a revenue provision **(recommendation 3.1(p))**.

14 SELF FINANCED BORROWING TO FUND EQUITY SHARES PURCHASED IN PURSUIT OF POLICY OBJECTIVES

14.1 The Council has purchased £150k of ordinary shares in the Municipal Bonds Agency (MBA). The establishment of the MBA will offer a number of long term benefits including:

- Cheaper access to borrowing for local authorities - expected to be between 20 to 25 basis points (or £20,000 p.a. to £25,000 p.a. per £10m borrowed or £600,00 to £750,000 over the life of a 30 year loan;
- Loans from the MBA should be cheaper to reschedule;
- Increased opportunities for local authorities to lend to each other;
- The ordinary shares purchased may provide a dividend in future years
- Insulate local authorities from future policy changes by the PWLB regarding interest rates.

14.2 The Council has also purchased ordinary share capital in Hampshire Community Bank (HCB) and plans to increase its shareholding to £5m in 2016/17. The primary purpose of this capital expenditure is to create a local bank that will focus on lending to small and medium sized enterprises and thus be a powerful force in achieving the following:

- Securing a strong and sustainable local economy in Hampshire
- Working with businesses, councils and charities to deliver sustainable economic growth
- Retaining wealth in the local area

Creation of the HCB will be line with the following strategies:

- the LEP Strategy for Growth
- PCC's Regeneration Strategy
- the Medium Term Financial Strategy that aims to drive regeneration, and reduce the demand for council services.

The bank is expected to generate a 6% return for its founding investors. On this basis we expect the value of shares in the bank to increase rather than decrease in value.

14.3 The Government's statutory guidance suggests that MRP for the acquisition of share capital should be made over 20 years to discourage the use of this form of investment (paragraph 45 of Part 1 of the Guidance). The Council see the MBA and HCB as important policy tools rather than primarily as an investment. The guidance aims to ensure that the provision for the repayment of borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service. However, the MBA and HCB will have indeterminate lives and therefore it is not recommended that the Council makes MRP in relation to its unsupported borrowing in respect of the MBA and HCB. Instead it is recommended that the Council sets aside the capital receipt to provide for the repayment of the unsupported borrowing in the event of it selling its shares in the MBA or HCB **(recommendation 3.1(q))**.

15 HOUSING REVENUE ACCOUNT (HRA) BORROWING

15.1 There is no statutory requirement for the HRA to provide for the repayment of its debt. On 28 March 2012 the HRA was required to make a self financing payment to the Government of £88.619m. It is recommended that the HRA provide for the repayment of this debt over 30 years in line with the HRA Business Plan **(recommendation 3.1(r))**. The HRA will continue its practice of not providing for the repayment of its other debts.

16 ANNUAL INVESTMENT STRATEGY

16.1 The Government has also issued guidance on investments. The guidance requires the City Council to adopt an Annual Investment Strategy. This is contained within paragraphs 16 to 22 below. The requirements of the Department for Communities and Local Government are in addition to the requirements of the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice.

16.2 During the year the Council may be asked to approve a revised strategy if there are investment issues which the full Council might wish to have brought to their attention.

16.3 The guidance defines a prudent policy as having two objectives:

- achieving first of all security (protecting the capital sum from loss);
- liquidity (keeping the money readily available for expenditure when needed).

Only when proper levels of security and liquidity have been secured should yield be taken into account.

16.4 Investment strategies usually rely on credit ratings and both the current and recommended Investment Strategies are based on credit ratings. Although the recommended Investment Strategy is based on credit ratings other sources of information will be taken into account prior to placing deposits such as information in the quality financial press and credit default swaps (CDS) prices.

16.5 CDS are a financial instrument for swapping the risk of debt default. The buyer of a credit default swap pays a premium for effectively insuring against a debt default. He receives a lump sum payment if the debt instrument is defaulted. The seller of a credit default swap receives monthly payments from the buyer. If the debt instrument defaults they have to pay an agreed amount to the buyer of the credit default swap.

17. INVESTMENT CONSULTANTS

17.1 The City Council currently employs consultants to provide the following information:

- Interest rate forecasts
- Credit ratings
- CDS prices

17.2 The City Council does not employ consultants to provide strategic advice.

18. SPECIFIED INVESTMENTS

18.1 The Government requires the Council to identify investments offering high security and high liquidity. These are known as specified investments. Specified investments will be made with the minimum of procedural formalities. They must be made in sterling with a maturity of no more than one year and must not involve the acquisition of share capital in any corporate body.

18.2 Credit rating information is available to the financial market through three main credit rating bodies ie. Moody's, Fitch, and Standard and Poor. The credit ratings provided are as follows:

- Short Term Rating (measures an institution's suitability for short term investment)
- Long Term Rating (measures an institution's suitability for long term investment). These ratings are explained in Appendix E.
- Viability Rating (where available measures the likelihood that an organisation will require assistance from third parties such as its owners or official institutions)
- Support Rating (where available measures a potential supporter's (either a sovereign state's or an individual owner's) propensity to support a bank and its ability to support it)

18.3 The grades of short and long term credit rating are as follows with the best credit ratings at the top. The credit ratings that meet the City Council's investment criteria for specified investments are shaded.

Fitch		Moody's		Standard & Poor's	
Short Term	Long Term	Short Term	Long Term	Short Term	Long Term
F1+	AAA	P-1	Aaa	A-1+	AAA
	AA+		Aa1		AA+
	AA		Aa2		AA
	AA-		Aa3		AA-
F1	A+		A1	A-1	A+
	A	P-2	A2		A
	A-		A3	A-2	A-
F2	BBB+	P-3	Baa1	A3	BBB+
	BBB		Baa2		BBB
F3	BBB-		Baa3		BBB-

Support ratings are graded 1 to 5, with 1 being the highest rating.

18.4 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

18.5 In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) prices have not been changed.

18.6 It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the “support” phase of the financial crisis.

18.7 It is recommended that specified investments should only be placed with institutions that have a long term credit rating of at least A- from at least two rating agencies except registered social landlords for which a single credit rating will be required **(Recommendation 3.1s).** Registered social landlords (RSLs) are regulated by the Government and their debts can be secured on their housing stock. However, most RSLs are only rated by a single agency.

18.8 In addition to rating financial institutions the rating agencies also rate governments. These are known as sovereign credit ratings. The evolving regulatory environment, in tandem with the rating agencies’ new methodologies also means that sovereign ratings are now of lesser importance in the assessment process with the new regulatory environment attempting to break the link between sovereign support and domestic financial institutions. However ssovereign credit ratings are also dependent on a government’s ability to raise taxes and thus also give an indication of the state of a nation’s general economy. It is recommended that investments should only be placed with institutions based in either the United Kingdom or states with an AA+ credit rating **(Recommendation 3.1t).**

18.9 When an institution or state has differing ratings from different agencies, the average rating will be used to assess its suitability. Those institutions that have not been rated by a particular agency will not be discarded because of the lack of ratings.

18.10 It is proposed that investments be allowed in government bodies, banks including supranational banks, building societies, money market funds, enhanced money market funds, RSLs and corporate bonds that meet the Council’s investment criteria.

18.11 Money market funds are well diversified funds that invest in high quality very short term instruments enabling investors to have instant access to their funds. Enhanced money market funds, also known as short dated investment funds, are also well diversified funds investing in high quality counter parties, but for longer periods, and require a few days' notice of withdrawals.

18.12 Corporate bonds are tradable loan instruments issued by commercial companies. Credit ratings measure the risk of default, ie. the risk of not receiving principal and interest when it is due, across these institutions in a way that allows them to be compared. However, other measures of credit risk such as CDS prices are not available for all institutions including most building societies, RSLs and commercial companies.

18.13 There are over 30 registered social landlords (RSLs) with a single or double A credit rating. RSLs are subject to Government regulation but their debts are not guaranteed by the Government. As RSLs own houses, lending to RSLs can be secured by a charge against the RSLs properties.

18.14 The risk of loss following a default is much smaller for building societies. Building societies also operate under a separate legal regime to banks, which limits the amount of lending not secured on residential property and limits the amount of wholesale funding.

18.15 It is recommended that the Council's investments be limited to senior debt **(Recommendation 3.1(u))**. Subordinated corporate bonds are sometimes issued by financial institutions and commercial companies. Subordinated corporate bonds offer higher yields, but in the event of an institution defaulting, senior debtors are repaid before subordinated debtors. Because of this, subordinated bonds often have a lower credit rating than senior debt issued by the same institution.

18.16 On 25 September 2015 the Council gave the Director of Finance and Information Services (Section 151 Officer) delegated authority to invest the Council's funds in equity trackers which follow the developed stock markets with a floor of 100% of the capital invested, ie. the Council's capital was guaranteed. Market conditions for equities have deteriorated and there is evidence to suggest that the probability of a fully capital protected equity tracker paying a return is less than 60%. There are structured investment products available that pay returns in excess of 6% per annum provided that neither the FTSE 100, S&P 500 or Eurostoxx 50 decline by more than 40% over 5 years and repay the capital invested if the worst performing index and the Eurostoxx 50 do not fall by more than 65%. There are also similar structured investment products available that will pay in excess of 6% per annum provided that none of the indices decline by more than 50% over 6 years. It is therefore recommended that the Director of Finance and Information Services (Section 151 Officer) be given delegated authority to invest the Council's funds in structured investment products which follow the developed stock markets that do not fully protect the Council's capital invested **(Recommendation 3.1(v))**. In order to accommodate this type of investment it is also recommended that the maximum duration of investments in categories 1, 2, 4, 6, 7, and 8 below be increased from 5 years to 6 years. These products are effectively bank deposits where the return is determined by stock market performance. As such they are subject to credit risk if the issuer defaults.

18.17 It is proposed to divide the approved counter parties for specified investments into eight categories as follows:

	Recommended Maximum Investment in a Single Organisation
Category 1 United Kingdom Government including the Debt Management Office Deposit Facility	Unlimited investments for up to 6 years
Category 2 Local authorities in England, Scotland and Wales	£30m for up to 6 years
Category 3 RSLs with a single long term credit rating of Aa-	£30m for up to 10 years
Category 4 Banks with a short term credit rating of F1+ and a long term rating of Aa-. Aaa rated money market funds, Aa rated enhanced money market funds	£26m for up to 6 years
Category 5 RSLs with a single A long term credit rating of A-	£20m for up 10 years
Category 6 Banks and corporate bonds with a short term credit rating of F1 and a long term rating of A+. Building societies with a short term credit rating of F1 and a long term rating of A.	£20m for up to 6 years.
Category 7 Banks and corporate bonds with a short term credit rating of F1 and a long term rating of A. Building societies with a short term credit rating of F1 and a long term rating of A-.	£13m for up to 6 years
Category 8 Banks and corporate bonds with a short term credit rating of F1 and a long term rating of A-.	£10m for up to 6 years

18.18 It is proposed that the bodies meeting the criteria of categories 1 to 8 in paragraph 18.17 be approved as repositories of specified investments of the City Council's surplus funds **(Recommendation 3.1(w)).** A list of financial institutions currently meeting the Councils investment criteria is contained in Appendix F. There are too many RSLs and companies issuing corporate bonds to include in the list.

18.19 It is recommended that the credit ratings be reviewed weekly and that any institution whose lowest credit rating falls below the criteria for category 8 in paragraph 18.17 be removed from the list of specified investments **(Recommendation 3.1(x)).**

18.20 It is recommended that institutions that are placed on negative watch or negative outlook by the credit rating agencies be reassigned to a lower category **(Recommendation 3.1(y)).**

19. NON-SPECIFIED INVESTMENTS

19.1 The Government's Guidance requires that other less secure types of investment be identified and that a limit be set on the overall amount that may be held in such investments at any time in the year. Non-specified investments are investments that are not secure, ie. do not have an "A" credit rating or are not liquid, ie. have a maturity in excess of 364 days. Investments that are not denominated in sterling would also be non-specified investments due to exchange rate risks.

19.2 In order to reduce the risks associated with placing funds with a relatively small number of counter parties and to improve returns it is recommended that further investment categories be established for non-specified investments that do not meet the criteria for specified investments.

<u>Category 9 - £10m for 2 years</u>
Short Term – F2 (or equivalent from Moody's and Standard & Poor)
Long Term – BBB or better (or equivalent from Moody's and Standard and Poor)

Category 9 will consist of rated building societies that meet the above criteria.

<u>Category 10 - £6m for 2 years</u>

Many smaller building societies that have been more conservative in their lending approach do not have credit ratings. An analysis of building society accounts suggests that many of those without credit ratings are in a better financial position than some of the larger ones who do hold credit ratings.

Category 10 consists of the unrated building societies in the strongest financial position.

The limits on these building societies are less than £6m to take account of their small size in terms of assets.

Building Society	**Limit**
Leek United	£4.5m
Furness	£4.4m
Newbury	£4.1m
Market Harborough	£2.1m
Melton Mowbray	£1.9m
Marsden	£1.9m
Tipton and Coseley	£1.9m
Hanley Economic	£1.8m
Dudley	£1.6m
Harpenden	£1.5m
Loughborough	£1.4m
Staffordshire Railway	£1.3m
Swansea	£1.1m
Chorley and District	£1.1m
Buckinghamshire	£1.1m

Category 11 - £6m for 364 days

Category 11 consists of the unrated building societies that are in a strong financial position.

The limits on some building societies are less than £6m to take account of their small size in terms of assets.

Building Society	Limit
Nottingham	£6.0m
Progressive	£6.0m
Monmouthshire	£5.2m
Hinkley & Rugby	£2.7m
Darlington	£2.7m
Scottish	£1.9m
Mansfield	£1.4m
Vernon	£1.4m

19.3 The Council's treasury management operation is exposed to the Council's subsidiary company MMD (Shipping Services) Ltd. The Council has £550k lodged with Lloyds Bank to guarantee MMD's banking limits.

19.4 The Annual Investment Strategy provides for the Council to lend to the United Kingdom Government and local authorities in England, Scotland and Wales, A rated financial institutions and A rated corporate bonds for 6 years, and to RSLs for 10 years. However as these investments would be over a year they cannot be included as specified investments.

19.5 The Council sometimes enters into contracts denominated in foreign currencies. Such contracts normally relate to civil engineering schemes at the port. It can be beneficial to buy Euros early to fund these projects and avoid the associated currency risk.

19.6 It is recommended that non-specified investments should in aggregate be limited to the following (**Recommendation 2.1 (z))**:

	£
Building societies with a BBB credit rating and unrated building societies	81m
Investments in MMD (Shipping Services) Ltd including funds lodged to guarantee the company's banking limits. MMD is a wholly owned subsidiary of the City Council.	2m
Long term investments	286m
Investments in foreign currencies to hedge against contracts priced or indexed against foreign currencies	5m
Total	**374m**

20. MAXIMUM LEVEL OF INVESTMENT IN INDIVIDUAL ORGANISATIONS

20.1 The Government's Guidance does not require a limit to be placed on the amount that can be placed in any one investment. However in order to minimise risk further, it is proposed that the total amount that can be directly invested with any organisation at any time should be limited as follows **(Recommendation 3.1(aa)):**

	Maximum Investment in Single Organisation
Category 1	Unlimited for up to 6 years
Category 2	£30m for up to 6 years
Category 3	£30m for up to 10 years
Category 4	£26m for up to 6 years
Category 5	£20m for up to 10 years
Category 6	£20m for up to 6 years
Category 7	£13m for up to 6 years
Category 8	£10m for up to 6 years
Category 9	£10m for up to 2 years
Category 10	£6m for up to 2 years
Category 11	£6m for up to 364 days
MMD (Shipping Services) Ltd including sums lodged to guarantee the company's banking limits	£2m for up to 364 days

The duration limits for categories 1, 2, 4, 6, 7 and 8 was previously 5 years. It is recommended that the duration limits for these categories be increased to 6 years to facilitate the purchase of structured investment products that follow the developed equity markets (see paragraph 18.5)

20.2 It is recommended that the Director of Finance and Information Services (Section 151 Officer) in Consultation with the Leader of the Council be given delegated authority to revise the total amount that can be directly invested with any organisation at any time **(Recommendation 3.1(ab)).**

20.3 AA money market funds offer security and same day access. By aggregating investments they can also invest in financial institutions that may not be interested in the relatively small sums that the Council can invest. Although AA money market funds are well diversified in their investments there is a risk that more than one fund could have investments with the same bank or that the Council may also have invested funds in the same bank as a money market fund. Therefore it is proposed that the Council should aim to have no more than £70m invested in money market funds with an absolute limit of £80m.

20.4 Most building society lending is secured against residential properties. If property prices fall there may be inadequate security to support building societies lending giving rise to a systemic risk.

20.5 As RSL's offer one principal service and their assets principally consist of residential properties, excessive investments in RSLs would also expose the Council to a systemic risk.

20.6 Excessive investments in investment products tracking equity markets could also expose the Council to a systemic risk.

20.7 In order to minimise systemic credit risk in any sector it is recommended that the following limits be applied **(Recommendation 3.1(ac))**:

Money market funds	£80m
Building societies	£107m
Registered Social Landlords	£80m
Investments tracking the equity markets	£70m

20.8 In order to minimise systemic credit risk in any region it is recommended that the following limits be applied to the geographic areas where investments can be made in foreign countries.

20.9 It is recommended that the following limits be applied **(Recommendation 3.1(ad))**:

Asia & Australia	£60m
Americas	£60m
Eurozone	£30m
Continental Europe outside the Eurozone	£30m

20.10 The limits above only apply to direct investments. The City Council's exposure to any institution, sector or region may exceed the limits stated above through indirect investments via money market funds. Money market funds employ specialist staff to assess counter party risks and all investments made by money market funds are short-term.

21. LIQUIDITY OF INVESTMENTS

18.1 The Council's cash flow forecast for the current year is updated daily. In addition, the Council maintains a long term cash flow forecast that extends to 2023/24. These forecast are used to determine the maximum period for which funds may be prudently committed, ie. the City Council's core cash. The City Council maintains at least £10m invested on an instant access basis to ensure that unforeseen cash flows can be financed.

21. INVESTMENT OF MONEY BORROWED IN ADVANCE OF NEED

21.1 Section 12 of the Local Government Act gives a local authority the power to invest for "any purpose relevant to its functions under any enactment or for the prudent management of its financial affairs". While the speculative procedure of borrowing purely to invest at a profit is clearly unlawful, there is no legal obstacle to the temporary investment of funds borrowed for the purpose of funding capital expenditure incurred in the reasonably near future.

21.2 Borrowing in advance of need may enable the City Council to obtain cheaper loans than those available at the time when expenditure is incurred, although the consequent investment of funds borrowed in advance of need does expose the City Council to credit risk. The interest payable on funds borrowed in advance of need is likely to exceed the interest earned on the investment of those funds in the current economic climate.

21.3 The Council's gross debt currently exceeds its estimated CFR by £17m, ie. it is over borrowed, in 2015/16 because £18m was borrowed from the Public Works Loans Board (PWLB) at the project rate which is 0.20% below the certainty rate at which the PWLB normally lends to local authorities. The Council had an £18m allocation of project rate funding for 2015/16 to finance the development of Dunsbury Hill Farm, Tipner and Horsea Island.

21.4 The capital programme approved by the City Council on 9th February 2016 includes £99.3m of capital expenditure financed by borrowing. This is expected to cause the Council's CFR to rise above its gross debt, ie. it is expected to become under borrowed in 2016/17.

22. TRAINING OF INVESTMENT STAFF

22.1 The Finance Manager (Technical & Financial Planning) manages the treasury function and is a qualified Chartered Public Finance Accountant and holds the Association of Corporate Treasurers Certificate in International Treasury Management. The Finance Manager (Technical & Financial Planning) is assisted by the Treasury Manager who is a qualified Chartered Certified Accountant. The City Council is also a member of CIPFA’s Treasury Management Network which provides training events throughout the year. Additional training for investment staff is provided as required.

23. DELEGATED POWERS

23.1 Once the Treasury Policy has been approved, the Head of Financial Services and Section 151 Officer has delegated powers under the constitution of the City Council, to make all executive decisions on borrowing, investments or financing.

24. TREASURY SYSTEMS AND DOCUMENTATION

24.1 Once the Policy Statement has been approved by the Council, the documentation of the Treasury Systems will be updated so that all employees involved in Treasury Management are clear on the procedures to be followed and the limits applied to their particular activities.

24.2 The Treasury Management Practices document covers the following topics: -

- risk management
- best value and performance measurement
- decision making and analysis
- approved instruments, methods and techniques
- organisation, clarity and segregation of responsibilities, and dealing arrangements
- reporting requirements and management information arrangements
- budgeting, accounting and audit arrangements
- cash and cash flow management
- money laundering
- staff training and qualifications
- use of external service providers
- corporate governance

25. REVIEW AND REPORTING ARRANGEMENTS

25.1 The Head of Financial Services and Section 151 Officer will submit the following:-

(i) an annual report on the treasury management outturn to the Cabinet by 30 September of the succeeding financial year

(ii) a mid year review to the Council

(iii) the Annual Strategy Report to the Council in March 2017

(iv) quarterly treasury management monitoring reports to the Governance and Audit and Standards Committee

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APPENDIX A

Capital Expenditure	2014/15 Actual £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Children & Education	10,309	17,992	11,765	2,238	-	1,800	-
Culture & Leisure	1,181	843	3,714	3,011	-	-	-
Environment & Community Safety	897	8,205	16,559	29,707	24,706	37,147	50,651
Health & Social Care (Adults Services)	907	683	7,100	1,755	400	-	-
Planning, Regeneration & Economic Development	5,238	119,423	142,817	27,027	40,443	21,400	13,978
Commercial Port	839	5,509	2,303	11,643	2,700	5,110	-
Resources	7,050	5,934	9,217	45	-	-	-
Traffic & transportation	7,290	14,569	16,278	4,761	4,586	3,030	1,502
Housing General Fund	1,918	2,768	2,260	1,855	1,901	1,949	1,997
Local Enterprise Partnership	6,325						
Non HRA	41,954	175,926	212,013	82,042	74,736	70,436	68,128
HRA	26,370	34,087	38,939	23,803	17,526	17,564	24,036
Total	**68,324**	**210,013**	**250,952**	**105,845**	**92,262**	**88,000**	**92,164**

Ratio of Financing Costs to Net Revenue Stream	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Non - HRA	8.7%	11.7%	13.3%	14.2%	13.8%	14.6%	16.7%
HRA	13.4%	13.2%	12.7%	13.4%	13.6%	13.5%	13.1%

Capital Financing Requirement	2014/15 Actual £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Non - HRA	250,599	305,596	380,872	387,830	387,228	384,101	373,408
HRA	153,391	154,536	168,667	170,606	167,652	164,698	161,744

HRA Limit on Indebtedness	2014/15 Actual £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
HRA	181,701	181,701	196,821	196,821	196,821	196,821	196,821

Authorised Limit for External Debt	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Borrowing	416,768	410,925	486,586	499,682	503,400	504,381	504,995
Other Long Term Liabilities (ie Credit Arrangements)	86,095	84,355	81,263	77,429	74,085	69,929	63,623
Total	**502,863**	**495,280**	**567,849**	**577,112**	**577,485**	**574,310**	**568,618**

Operational Boundary for External Debt	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Borrowing	397,422	392,974	468,276	481,006	484,350	484,950	485,176
Other Long Term Liabilities (ie Credit Arrangements)	86,095	84,355	81,263	77,429	74,085	69,929	63,623
Total	**483,517**	**477,329**	**549,540**	**558,436**	**558,436**	**554,879**	**548,798**

Incremental Impact of Capital Investment Decisions on the Council Tax	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Revenue effect of existing capital programme	742	93,291	35,796	25,650	31,530	38,478
Revenue effect of proposed capital programme	834	91,591	33,293	22,685	28,567	35,511
Increase in revenue effect	92	(1,700)	(2,503)	(2,965)	(2,963)	(2,967)
Increase in Council Tax Band D	£1.73	(£31.76)	(£46.75)	(£55.38)	(£55.35)	(£55.41)

Incremental Impact of Capital Investment Decisions on Housing Rents	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Revenue effect of existing capital programme	26,653	20,035	16,422	16,882	16,740	18,798
Revenue effect of proposed capital programme	26,644	19,997	16,364	16,822	16,680	18,738
Increase in revenue effect	(9)	(38)	(59)	(59)	(59)	(59)
Effect on average weekly rent	(£0.01)	(£0.05)	(£0.08)	(£0.08)	(£0.08)	(£0.08)

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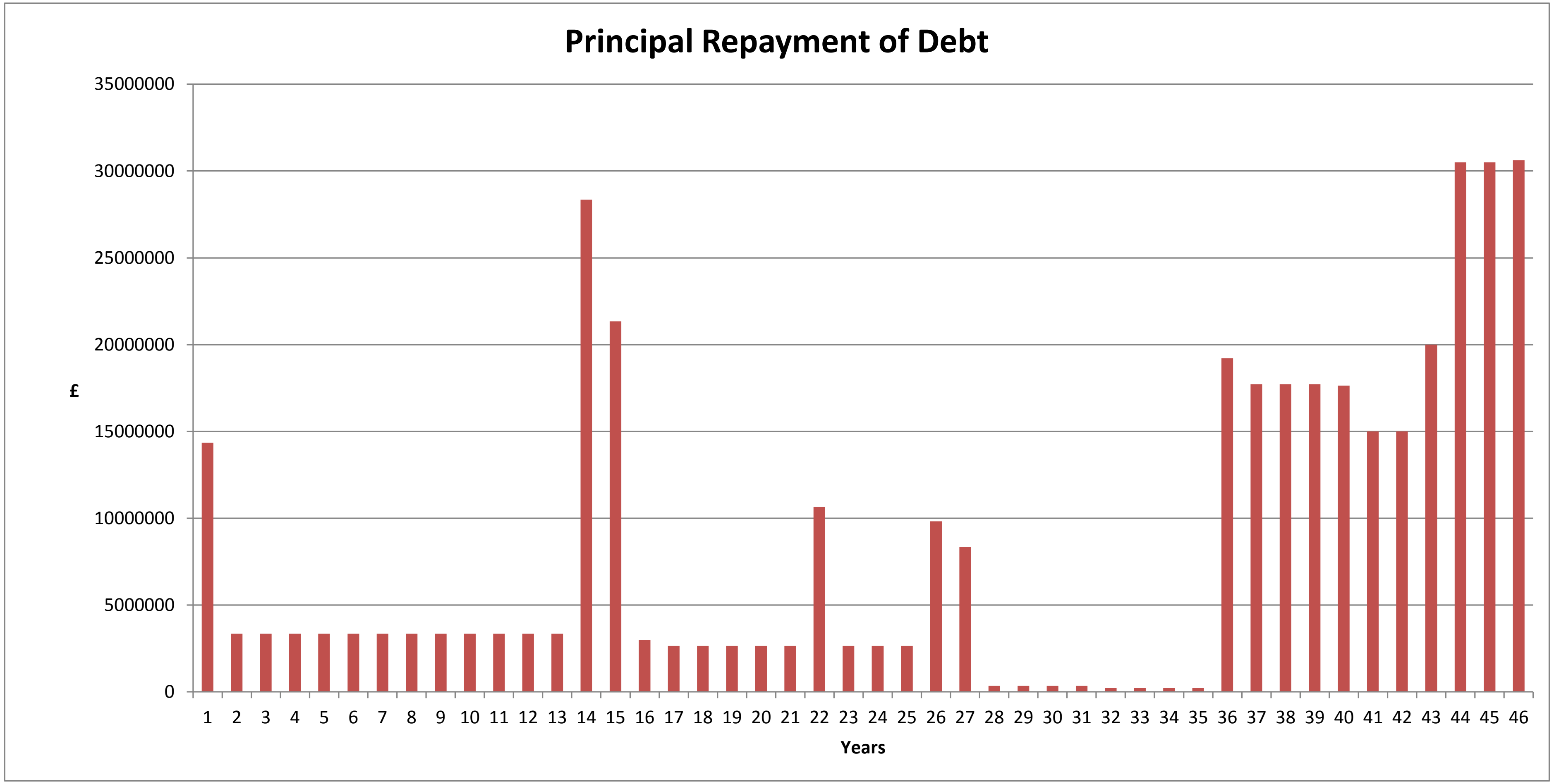
Principal Repayment of Debt
£
35000000
30000000
25000000
20000000
15000000
10000000
5000000
0
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46
Years

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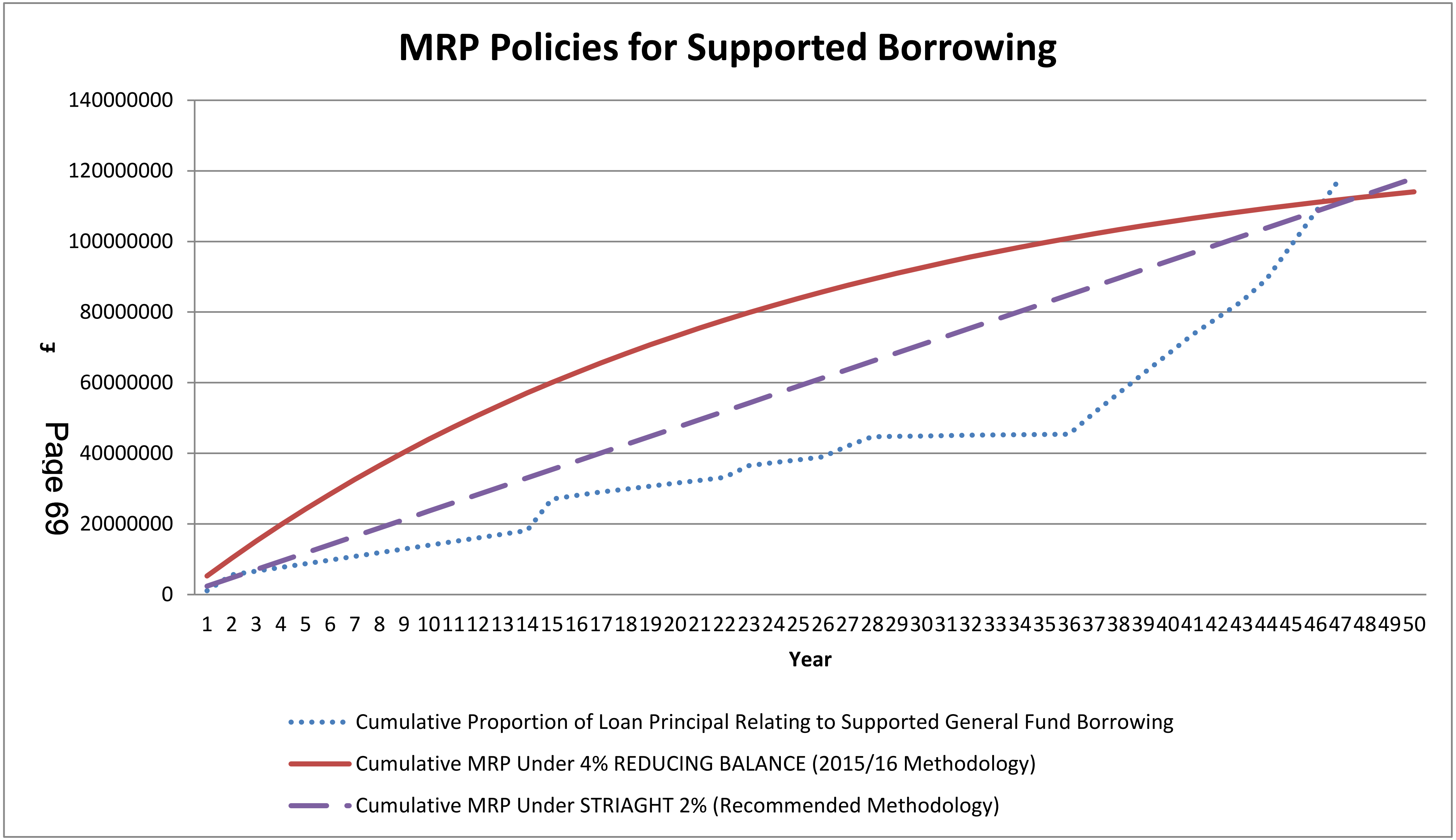
MRP Policies for Supported Borrowing
140000000
120000000
100000000
80000000
60000000
40000000
20000000
0
£
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50
Year
Cumulative Proportion of Loan Principal Relating to Supported General Fund Borrowing
Cumulative MRP Under 4% REDUCING BALANCE (2015/16 Methodology)
Cumulative MRP Under STRIAGHT 2% (Recommended Methodology)

APPENDIX C

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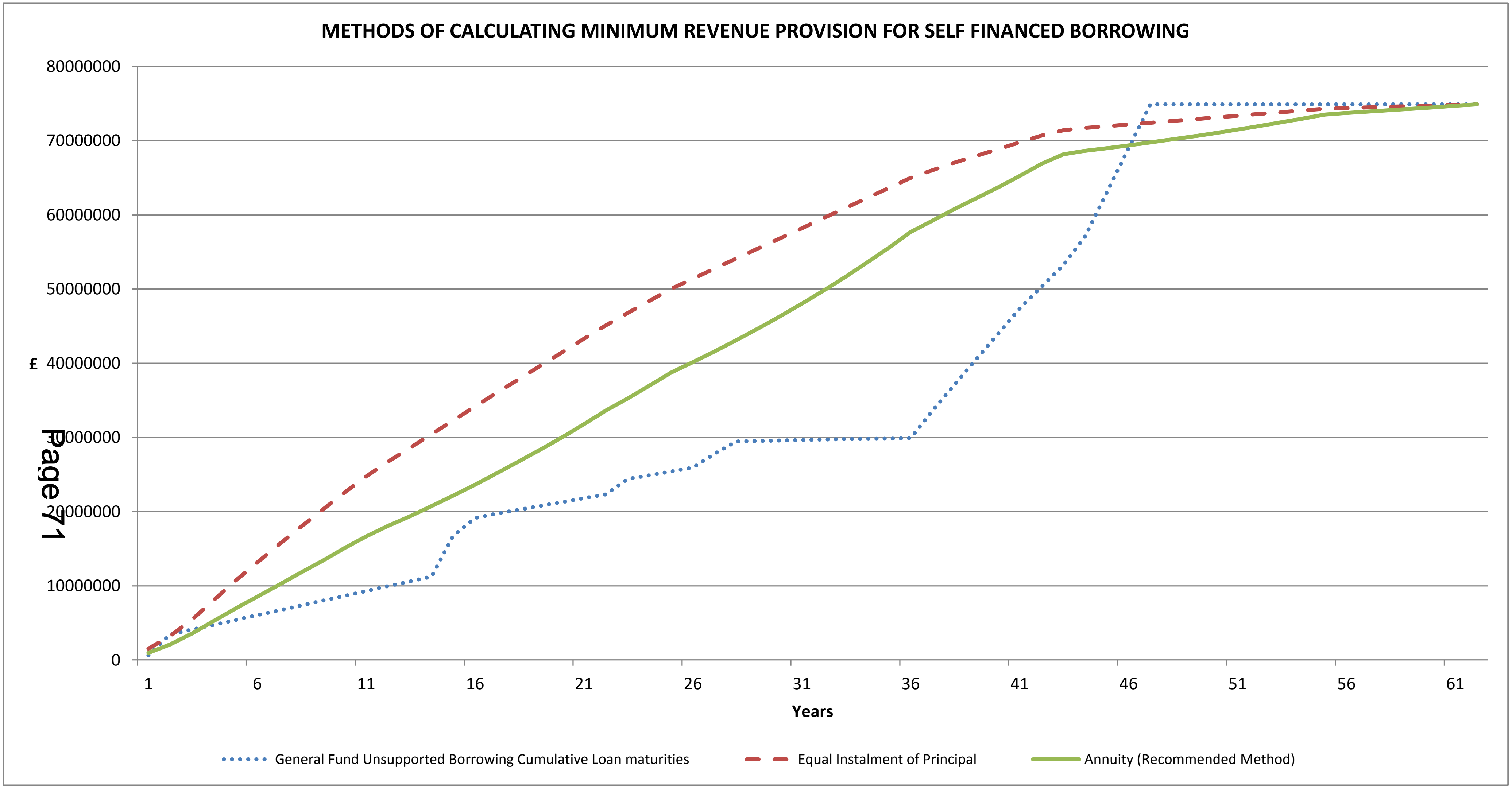

METHODS OF CALCULATING MINIMUM REVENUE PROVISION FOR SELF FINANCED BORROWING
80000000
70000000
60000000
50000000
£ 40000000
30000000
20000000
10000000
0
1
6
11
16
21
26
31
36
41
46
51
56
61
Years
General Fund Unsupported Borrowing Cumulative Loan maturities
Equal Instalment of Principal
Annuity (Recommended Method)

APPENDIX D

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APPENDIX E

DEFINITIONS OF LONG TERM CREDIT RATINGS

Credit ratings are issued by three main credit rating agencies, Fitch, Moody's and Standard & Poor. All three agencies use broadly the same scale. Fitch defines its long term ratings as follows:

AAA: Highest credit quality
"AAA" ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA: Very high credit quality
"AA" ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A: High Credit Quality
"A" ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than in the case of the higher ratings.

BBB: Good credit quality

"BBB" ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

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INVESTMENT COUNTER PARTY LIST

Category	Counter Party	Average Long Term Credit Rating *	Comments	Investment Limit £	Maximum Term
1	United Kingdom Government including investments explicitly guaranteed by the UK Government	AA+		Unlimited	6 years
2	All local authorities in England, Scotland & wales	n/a		30,000,000	6 years
3	Registered Social Landlords (RSLs)	AA-		30,000,000	10 years
4	Australia & New Zealand Banking Group	AA-		26,000,000	6 years
4	Commonwealth Bank of Australia	AA-		26,000,000	6 years
4	National Australia Bank	AA-		26,000,000	6 years
4	Westpac Banking Corporation	AA-		26,000,000	6 years
4	Toronto Dominion Bank	AA		26,000,000	6 years
4	Royal Bank of Canada	AA-	Upgraded from category 6	26,000,000	6 years
4	DZ Bank AG	AA-		26,000,000	6 years
4	Landswirtschafitiche Rentenbank	AAA		26,000,000	6 years
4	NRW Bank	AA		26,000,000	6 years
4	Bank Nederlanden Gemeeten	AA+		26,000,000	6 years
4	Nederlandse Watersschapsbank NV	AA+		26,000,000	6 years
4	Rabobank Nederland NV	AA-	Upgraded from category 6	26,000,000	6 years
4	DBS Bank	AA		26,000,000	6 years
4	Overseas Chinese Banking Corp	AA		26,000,000	6 years
4	United Overseas Bank	AA		26,000,000	6 years
4	Nordia Bank AB	AA-		26,000,000	6 years
4	Svenska Handelsbanken	AA-		26,000,000	6 years
4	HSBC Bank plc	AA-		26,000,000	6 years
4	Bank of New York Mellon	AA-		26,000,000	6 years
4	JP Morgan Chase Bank NA	AA-		26,000,000	6 years
4	Wells Fargo Bank NA	AA-		26,000,000	6 years
4	Nordic Investment Bank	AAA		26,000,000	6 years
4	Inter-American Developmemnt Bank	AAA		26,000,000	6 years
4	IBRD (World Bank)	AAA		26,000,000	6 years
4	Council of Europe Developmenmt Bank	AA+		26,000,000	6 years
4	Eurpopean Bank for Reconstruction & Development	AAA		26,000,000	6 years
4	Eurpean Investment Bank	AA+		26,000,000	6 years

Category	Counter Party	Average Long Term Credit Rating *	Comments	Investment Limit £	Maximum Term
4	Global Treasury Funds Plc	AAA	Money Market Fund	26,000,000	Instant Access
4	Morgan Stanley Funds Plc	AAA	Money Market Fund	26,000,000	Instant Access
4	Short Term Investment Company (Global Series) Plc	AAA	Money Market Fund	26,000,000	Instant Access
4	Goldman Sachs Sterling Liquidity Reserve	AAA	Money Market Fund	26,000,000	Instant Access
4	Scottish Widows Investment Partnership Global Liquidity Sterling Fund	AAA	Money Market Fund	26,000,000	Instant Access
4	BNY Mellon Sterling Liquidity Fund	AAA	Money Market Fund	26,000,000	Instant Access
4	Deutsche Global Liquidity Series Plc	AAA	Money Market Fund	26,000,000	Instant Access
4	Morgan Stanley Funds Plc	AAA	Money Market Fund	26,000,000	Instant Access
4	Aberdeen Investment Cash OEIC Plc	AAA		26,000,000	Instant Access
4	Insight Investment	AAA		26,000,000	Instant Access
4	Federated Investors (UK) LLP	AAA		26,000,000	Instant Access
4	Royal London Asset Management	AAA		26,000,000	Instant Access
4	Standard Life Sterling Liquidity Fund	AAA		26,000,000	Instant Access
5	Registered Social Landlords (RSLs)	A-		20,000,000	10 years

Category	Counter Party	Average Long Term Credit Rating *	Comments	Investment Limit £	Maximum Term
6	Lloyds Bank plc	A+		20,000,000	6 years
6	Close Brothers Ltd	A+	New counter party	20,000,000	6 years
6	Bank of Montreal	A+		20,000,000	6 years
6	Canadian Imperial Bank of Commerce	A+		20,000,000	6 years
6	Bank of Nova Scotia	A+	Downgraded from category 4	20,000,000	6 years
6	National Bank of Canada	A+	Upgraded from category 7	20,000,000	6 years
6	Pohjola Bank plc	A+	New counter party	20,000,000	6 years
6	Landesbank Hessen - Thueringen	A+		20,000,000	6 years
6	Swedbank AB	A+		20,000,000	6 years
6	Skandinaviska Enskilda Banken (SEB)	A+	Upgraded from category 7	20,000,000	6 years
6	Bank of America NA	A+		20,000,000	6 years
6	Citibank NA	A+		20,000,000	6 years
6	Morgan Stanley	A+		20,000,000	6 years
6	Coventry Building Society	A		20,000,000	6 years
6	Nationwide Building Society	A		20,000,000	6 years
6	Standard Life Investments	AAA	Short Duration Cash Fund	20,000,000	3 working days notice
6	Aberdeen Investment Cash OEIC Plc	AAA	Cash Investment Fund	20,000,000	3 working days notice
6	Insight Investment	AAA	Liquidity Plus Fund	20,000,000	4 working days notice
6	Federated Investors (UK) LLP	AAA	Cash Plus Fund	20,000,000	2 working days notice
6	Royal London Asset Management	AA	Cash Plus Fund	20,000,000	2 working days notice

Category	Counter Party	Average Long Term Credit Rating *	Comments	Investment Limit £	Maximum Term
7	Santander UK Plc	A		13,000,000	6 years
7	Barclays Bank Plc	A		13,000,000	6 years
7	Sumitomo Mitsui Banking Corporation Eurpoe Ltd	A	Downgraded from category 6	13,000,000	6 years
7	Danske Bank	A		13,000,000	6 years
7	Landesbank Baden Wurtenburg	A		13,000,000	6 years
7	Bayern LB	A	Upgraded from category 8	13,000,000	6 years
7	ABN Amro Bank NV	A		13,000,000	6 years
7	ING Bank NV	A		13,000,000	6 years
7	Credit Suisse	A		13,000,000	6 years
7	UBS AG	A		13,000,000	6 years
7	Goldman Sachs (including Goldman Sachs International Bank)	A		13,000,000	6 years
7	National Bank of Canada	A		13,000,000	6 years
7	Leeds Building Society	A-		13,000,000	6 years
8	Deutsche Bank AG	A-		10,000,000	6 years
8	Norddeutsche Landsbank Girozentrale	A-	New counter party	10,000,000	6 years
9	Yorkshire Building Society	A-	Short term rating P2	10,000,000	2 years
10	Furness Building Society	Unrated		4,400,000	2 years
10	Leek United Building Society	Unrated		4,500,000	2 years
10	Newbury Building Society	Unrated		4,100,000	2 years
10	Market Harborough Building Society	Unrated	Upgraded from category 10	2,100,000	2 years
10	Tipton & Coseley Building Society	Unrated		1,900,000	2 years
10	Marsden Building Society	Unrated		1,900,000	2 years
10	Melton Mowbray Building Society	Unrated	Upgraded from category 10	1,900,000	2 years
10	Hanley Economic Building Society	Unrated	Upgraded from category 10	1,800,000	2 years
10	Dudley Building Society	Unrated		1,600,000	2 years
10	Loughborough Building Society	Unrated		1,400,000	2 years
10	Harpenden Building Society	Unrated		1,500,000	2 years
10	Stafford Railway Building Society	Unrated		1,300,000	2 years
10	Swansea Building Society	Unrated		1,100,000	2 years
10	Buckinghamshire Building Society	Unrated	New counter party	1,100,000	2 years
10	Chorley and District	Unrated		1,100,000	2 years
11	Nottingham Building Society	BBB	Single rating	6,000,000	364 days
11	Progressive Building Society	Unrated		6,000,000	364 days
11	Monmouthshire Building Society	Unrated		5,200,000	364 days
11	Hinckley & Rugby Building Society	Unrated	Downgraded from category 10.	2,700,000	364 days
11	Darlington Building Society	Unrated		2,700,000	364 days
11	Scottish Building Society	Unrated		1,900,000	364 days
11	Mansfield Building Society	Unrated		1,400,000	364 days
11	Vernon Building Society	Unrated		1,400,000	364 days

Notes

* The long term credit ratings shown are adjusted to take account of possible future actions resulting from negative watches & outlooks.

Agenda Item 5

Agenda item:

Decision maker:	Cabinet 3rd March 2016 City Council 22nd March 2016
Subject:	Budget & Performance Monitoring 2015/16 (3rd Quarter) to end December 2015
Report by:	Section 151 Officer
Wards affected:	All
Key decision (over £250k):	Yes

1. Purpose of Report

1.1 The purpose of this report is to update members on the current Revenue Budget position of the Council as at the end of the third quarter for 2015/16 in accordance with the proposals set out in the "Portsmouth City Council - Budget & Council Tax 2016/17 & Medium Term Budget Forecast 2017/18 to 2019/20" report approved by the City Council on the 9th February 2016.

1.2 This report has been prepared on the basis of the Revised Estimate 2015/16 approved by Full Council on 9th February 2016. It therefore reports on the City Council Financial position after the decisions were taken to use the £5.7m improvement reported to Council. The forecast underspend in this report therefore is in addition to the £5.7m improvement reported to Council on 9th February 2016.

2. Recommendations

2.1 It is recommended that:

(i) The forecast outturn position for 2015/16 be noted:

(a) An underspend of £1,727,700 before further forecast transfers from/to Specific Reserves

(b) An underspend of £1,481,000 after further forecast transfers from/to Specific Reserves.

(ii) Members note:

(a) that on 9th February 2016 City Council approved that the "clawback" requirement for overspendings be waived for 2015/16 for both the Children & Education Portfolio and the Health & Social Care Portfolio given the scale of those overspendings and also that the financial risks contained therein were fully provided for within the Council's contingency provision

(b) that on 9th February 2016 City Council approved that any underspending for 2015/16 arising at year-end outside of those made by Portfolio's (currently forecast at £1,481,000) be transferred to Capital Resources.

(c) that all other actual portfolio overspends at year end will in the first instance be deducted from any Portfolio Specific Reserve balance and once depleted then be deducted from the 2016/17 Cash Limit.

(iii) Directors, in consultation with the appropriate Cabinet Member, consider options that seek to minimise any forecast overspend presently being reported and prepare strategies outlining how any consequent reduction to the 2016/17 Portfolio cash limit will be managed to avoid further overspending during 2016/17.

3. Background

3.1 The Revised Budget for 2015/16 of £167,224,700 was approved by City Council on the 9th February 2016. This level of spending enabled an overall contribution to General Reserves of £1.532m after in-year spending and in-year income from all sources is taken into account.

3.2 This is the third quarter monitoring report of 2015/16 and reports on the forecast 2015/16 outturn as at the end of December 2015. The forecasts summarised in this report and detailed in the attached papers are made on the basis that management action to address any forecast overspends are only brought in when that action has been formulated into a plan and there is a high degree of certainty that it will be achieved.

3.3 Any variances within Portfolios that relate to windfall costs or windfall savings will be met / taken corporately and not generally considered as part of the overall budget performance of a Portfolio. “Windfall costs” are defined as those costs where the manager has little or no influence or control over such costs and where the size of those costs is high in relation to the overall budget controlled by that manager. “Windfall costs” therefore are ordinarily met corporately from the Council's central contingency. A manager / Cabinet Member however, does have an obligation to minimise the impact of any “windfall cost” from within their areas of responsibility in order to protect the overall Council financial position. Similarly, “windfall savings” are those savings that occur fortuitously without any manager action and all such savings accrue to the corporate centre.

3.4 The Financial Pack attached at Appendix A has been prepared in Portfolio format and is similar in presentation, but not the same as, the more recognisable “General Fund Summary” presented as part of the Budget report approved by Council on 9th February 2016. The format presented at Appendix A has been amended to aid understandability for monitoring purposes by excluding all non cash items which have a neutral effect on the City Council’s budget such as Capital Charges. In addition to this, Levies and Insurances are shown in total and have therefore been separated from Portfolios to also provide greater clarity for monitoring purposes.

4 Forecast Outturn 2015/16 – As at end December 2015

4.1 At the third quarter stage, the revenue outturn for 2015/16 after further forecast transfers to Portfolio Specific Reserves (which are retained by right) and transfers from the ring fenced Public Health Reserve is forecast to be underspent by £1,481,000 representing an overall budget variance of 0.9%.

4.2 The quarter 3 variance consists of a number of forecast under and overspends.

Before forecast transfers from Specific Reserves the most significant overspendings at the quarter 3 stage are:

Quarter 1 Forecast Variance	Quarter 2 Forecast Variance		Quarter 3 Forecast Variance	Quarter 3 Forecast Variance (After Transfers From Portfolio Reserves)
£	£		£	£
2,312,200	2,292,300	Children and Education	1,789,200	1,789,200
	291,500	Environment & Community Safety		
2,926,500	2,152,500	Health and Social Care	2,553,900	1,887,100
292,100		PRED		
650,000	650,000	Other Expenditure		

These are offset by the following significant forecast underspends at the quarter 3 stage:

Quarter 1 Forecast Variance	Quarter 2 Forecast Variance		Quarter 3 Forecast Variance	Quarter 3 Forecast Variance (After Transfers To Portfolio Reserves)
£	£			£
		Culture, Leisure & Sport	101,000	Nil
		PRED	418,900	Nil
208,600	870,400	Commercial Port	183,000	Nil
		Resources	241,400	Nil
	141,500	Traffic & Transportation		
450,300	1,433,500	Asset Management Revenue Account	427,300	427,300
		Other Miscellaneous	4,730,000	4,730,000

5 Quarter 3 Significant Budget Variations – Forecast Outturn 2015/16

5.1 Children and Education – Overspend £1,789,200 (or 5.8%)

The cost of Children and Education Services is forecast to be £1,789,200 higher than budgeted.

The key variances are:

- Inclusion Services is forecast to overspend by £144,700. Within this, home to school and college transport is forecasting an overspend of £208,000 due to the number of children being supported. New transport policies were implemented from September 2014 and the cost of travel compared to 2013/14 has already reduced. This overspend is partially offset by the application of Pupil Premium funding towards the costs of the Virtual School Team.

- Looked After Children is forecasting an overspend of £1,565,300.

    - Whilst the continuing review of placements and placement plans has produced a reduction in external residential numbers, this has not yet matched budgeted numbers. Similarly numbers in Independent Fostering placements are also reducing but at a slower rate than planned and in house placements continue to rise (£1,109,300).

    - In addition, staffing costs are currently projected to exceed the budget provision by £113,000, largely as a result of the loss of one-off funding allocations which have not been able to be matched with similar spending reductions or savings arising from reduced placement numbers as anticipated.

    - The added focus on Adoption Support, in line with the government's adoption agenda, to move children into permanent arrangements has led to an anticipated pressure of £210,000 associated with the purchase of placements. It is likely that this may be reduced following the recent announcement by the Government that they will pay the inter-agency fee for a targeted group of children.

    - A further £133,000 projected overspend relates to savings proposals on income generation that are proving difficult to implement, £40,000 of which relates to the decision not to pursue parental contributions (means tested contributions in respect of placements under s.20 of the Children's Act 1989)

- Safeguarding & Monitoring is forecasting an overspend of £195,800. Of this, £97,000 relates to a reduction in budget arising from an anticipated improvement in service absence management. A further £59,000 relates to the delayed implementation of savings plans together with increased recharges and a further £40,000 is as a result of the enhancement of contracted Family Group conferencing and Information governance arrangements.

- Staff vacancies and additional income from training courses has resulted in underspends elsewhere within the Portfolio of £150,200.

Whilst there are individual variances within budget areas covered by the Dedicated Schools Grant, in aggregate these are neutral.

It was reported to the Cabinet on 3rd December 2015 that Children's Social Care and Safeguarding was forecast to exceed the budget provision by £2.7m in 2015/16. At the same meeting, proposals totalling £2.7m (in a full year) were approved in order to reduce the operating expenditure requirements of the Portfolio.

Whilst these savings proposals will reduce the underlying budget deficit being experienced by the Portfolio in 2015/16, and are designed to eliminate it from 2016/17, as reported to the City Council within the Budget Report on 9th February 2016, given the proximity to the end of the financial year, the scale of this overspend cannot be rectified within the current financial year. To ensure that the Council's budget overall remained robust, some funding was retained within the Council's corporate contingency provision to cover the 2015/16 overspend position of the Portfolio. This is described further in paragraph 5.8.

5.2 <u>Health and Social Care – Overspend £2,553,900 (or 6.3%) or After Transfers From Portfolio Reserves & Ring Fenced Public Health Reserve £1,887,100 (4.6%)</u>

The cost of Health & Social Care is forecast to be £2,553,900 higher than budgeted.

The key variances are:

- A greater volume of older persons domiciliary care being required due to demographic pressures and unforeseen delays in the implementation of savings in 2015/16 has resulted in a forecast overspend of £1,339,500

- Learning Disability Support is forecasting an overspend of £666,600 due to an increased volume of clients transitioning from Children's Services, a delayed initiation of the review of day care services and claims for funding from other Local Authorities under the ordinary residence ruling

- Due to an increased volume of clients requiring residential care placements Mental Health Support is forecasting an overspend of £298,300

- A delay in the implementation of client charging within the Supporting People service has resulted in a forecast overspend of £95,200

- In the autumn of 2015 the Department of Health announced an in year reduction to the Public Health Grant of £1.126m. Public Health has been unable to identify equivalent savings in year and is currently forecasting an overspend of £643,000. This overspending will be met from the ring fenced Public Health Reserve that contains the balance of unspent Public Health Grant received in previous years whilst further reductions in spending plans are formulated.

- These overspends are offset by underspending elsewhere totalling £488,700 primarily as a result of increased funding from the Better Care Fund.

It was reported to the Cabinet on 3rd December 2015 that the Health & Social Care Portfolio was forecast to exceed the budget provision by £2.4m in 2015/16. At the same meeting, proposals totalling £2.4m (in a full year) were approved in order to reduce the operating expenditure requirements of the Portfolio.

Whilst these savings proposals will reduce the underlying budget deficit being experienced by the Portfolio in 2015/16, and are designed to eliminate it from 2016/17, as reported to the City Council within the Budget Report on 9th February 2016, given the proximity to the end of the financial year, the scale of this overspend cannot be rectified within the current financial year. To ensure that the Council's budget overall remained robust, some funding was retained within the Council's corporate contingency provision to cover the 2015/16 overspend position of the Portfolio. This is described further in paragraph 5.8.

5.3 <u>Culture, Leisure & Sport – Underspend £101,100 (or 1.4%) (No variance after transfers to Portfolio Reserves)</u>

As a result of staff being redeployed to capital schemes the Portfolio revenue budget is forecasting an underspend of £101,100.

5.4 <u>PRED – Underspend £418,900 (or 16.8%) (No variance after transfers to Portfolio and Investment Fund Reserves)</u>

The Portfolio is currently forecasting an underspend of £418,900.

The underspending is primarily as a result of additional income from increased occupancy of Enterprise Centres (£107,000), net additional income arising from the Property Portfolio (£540,900) offset by reduced manufacturing income at PCMI (£143,000) and reduced contract income from Community Learning and Pride in Pompey (£28,000).

5.5 <u>PRED (Port) – Underspend £183,000 (or 3.3%) (No variance after transfers to Portfolio Reserves)</u>

Overall net income from the Port is forecast to be £183,000 above target income.

The improvement over the target net income is as a result of increased income from pilotage and throughput coupled with a reduction in Operational Employee, security and berthing costs.

5.6 <u>Resources – Underspend £241,400 (or 1.2%) (No variance after transfers to Portfolio Reserves)</u>

The Portfolio is forecasting an underspend of £241,400.

A number of underspendings are forecast across the Portfolio mainly as a result of posts that are being held vacant (£168,100). In addition Landlords Maintenance is expected to be £198,900 lower than budget due to the final cost of works completed in previous years being lower than expected. These underspends have been offset by an overspend compared to budget within the AMS design and Maintenance Team (£188,200) as a result lower fee earning work relating to capital schemes and delays in implementing savings proposals.

5.7 Asset Management Revenue Account – Underspend £427,300 (or 2.0%)

This budget funds all of the costs of servicing the City Council's long term debt portfolio that has been undertaken to fund capital expenditure. It is also the budget that receives all of the income in respect of the investment of the City Council's surplus cash flows. As a consequence, it is potentially a very volatile budget particularly in the current economic climate and is extremely susceptible to both changes in interest rates as well as changes in the Council's total cash inflows and outflows.

5.8 Other Miscellaneous – £4,730,000

As described in the Budget & Council Tax 2016/17 & Medium Term Budget Forecast 2017/18 to 2019/20 Report to Council on 9th February 2016, the Children and Education and Health and Social Care Portfolios are experiencing difficulty containing expenditure within budgeted limits. The Revised Budget approved by the City Council on the 9th February 2016 was prepared to include a Contingency provision of £4.5m which was set aside to guard against an overall overspend on the Children's Safeguarding and Adult Social Care budgets. It is now anticipated that £3.7m will be required to cover these overspendings. The Contingency set aside for these overspendings (£4.5m) plus a further £230,000 currently provided for other items within the 2015/16 contingency is now available.

6 Other Minor Budget Variations – Forecast Outturn 2015/16

6.1 Environment and Community Safety – Minor Overspend £75,000 (0.5%) (No variance after transfers from Portfolio Reserves)

The Portfolio is currently forecasting an overspend of £75,000.

A number of areas of under and over spending are currently being forecast across the Portfolio. The more significant areas of under and over spending are:

- The Waste Disposal service is forecast to overspend by £279,400 due to an underlying budget pressure of £181,000, which will be met from Portfolio Specific Reserves in 2015/16 while a plan to resolve the deficit is formulated. A shortfall in income received from the sale of recyclable material is also now expected due to reduced market prices arising from a fall in world demand which combined with an increase in the volume of non-recyclable waste has resulted in an overspend of £98,400.

- Clean City is forecasting an overspend of £113,500. A service review is currently underway to address this overspending, however the full year effect of the review will now not be achieved until 2016/17.

- These overspending areas are offset by underspends within Hidden Violence & Abuse (£133,500) as a result of posts being held vacant in anticipation of future savings requirements, salary charges to major sea defence capital schemes (£51,000) and Refuse Collection following a contract review (£86,200).

6.2 Housing – Minor Underspend £73,400 (or 1.9%) (No variance after transfers to Portfolio Reserves)

6.3 Leader – Minor Overspend £3,500 (or 1.5%) (No variance after transfers from Portfolio Reserves)

6.4 Traffic & Transportation – Overspend £32,700 (0.2%) (No variance after transfers from Portfolio Reserves)

6.5 Licensing Committee – No variance

6.6 Governance, Audit and Standards Committee – Underspend £6,900 (or 2.5%) (No variance after transfers to Committee Reserves)

6.7 Levies – No Forecast Variance

6.8 Insurance – No Forecast Variance

7. Transfers From/To Specific Reserves

In November 2013 Full Council approved the following changes to the Council's Budget Guidelines and Financial Rules:

- Each Portfolio to retain 100% of any year-end underspending and to be held in an earmarked reserve for the relevant Portfolio

- The Portfolio Holder be responsible for approving any releases from their reserve in consultation with the Head of Finance and Section 151 Officer

- That any retained underspend (held in an earmarked reserve) be used in the first instance to cover the following for the relevant portfolio:

    i. Any overspendings at the year-end
    ii. Any one-off Budget Pressures experienced by a Portfolio
    iii. Any on-going Budget Pressures experienced by a Portfolio whilst actions are formulated to permanently mitigate or manage the implications of such on-going budget pressures
    iv. Any items of a contingent nature that would historically have been funded from the Council's corporate contingency provision
    v. Spend to Save schemes, unless they are of a scale that is unaffordable by the earmarked reserve (albeit that the earmarked reserve may be used to make a contribution)

- Once there is confidence that the instances i) to v) above can be satisfied, the earmarked reserve may be used for any other development or initiative

The forecast balance of each Portfolio Specific Reserve that will be carried forward into 2016/17 is set out below:

Portfolio/Committee Reserve	Balance Brought Forward £	Approved Transfers 2015/16 £	Forecast Under/ (Over) Spending £	Balance Carried Forward £
Children & Education	42,000	(42,000)	0	0
Culture, Leisure & Sport	409,800	40,000	101,100	550,900
Environment & Community Safety	1,241,300	(222,500)	(75,000)	943,800
Health & Social Care	730,700	(706,900)	(23,800)	0
Housing	541,700	(95,000)	73,400	520,100
Leader	6,900	(700)	(3,500)	2,700
PRED	919,400	50,000	418,900	1,388,300
Port	879,900	513,900	183,000	1,576,800
Resources	1,397,600	(595,600)	241,400	1,043,400
Traffic & Transportation	32,700		(32,700)	0
Licensing	0		0	0
Governance, Audit & Standards	255,300	92,000	6,900	354,200
Total	**6,457,300**	**(966,800)**	**889,700**	**6,380,200**

Note: Releases from Portfolio Reserves to fund overspending cannot exceed the balance on the reserve

In addition a transfer of £643,000 from the Ring Fenced Public Health Reserve to meet an in year reduction to the Public Health grant paid by the Department of Health will be required to balance Public Health income and expenditure.

8. Conclusion - Overall Finance & Performance Summary

8.1 The overall forecast outturn for the City Council in 2015/16, before further transfers from/to Specific Reserves as at the end of December 2015, is forecast to be £165,497,000. This is an overall underspend of £1,727,700 against the Revised Budget and represents a variance of 1.0%. Once all transfers from/to Specific Reserves are taken into account (Transfers to Portfolio Reserves £889,700 less Transfers from Public Health Reserve £643,000) the forecast outturn for the City Council increases by £246,700 to £165,743,700. This is an overall underspend against the revised budget of £1,481,000 representing a variance of 0.9%.

8.2 The forecast takes account of all known variations at this stage, but only takes account of any remedial action to the extent that there is reasonable certainty that it will be achieved.

8.3 The overall financial position is deemed to be “green” since the forecast outturn after transfers from/to Portfolio Specific Reserves is lower than budgeted and finance is not having a negative impact on the overall performance status of the Council’s activities.

8.4 In financial terms, the forecast overspend within the Children and Education and Health and Social Care Portfolios represent the greatest concerns in terms of the impact that they have on the overall City Council budget for 2015/16. Furthermore, a significant proportion of the overspending is of an ongoing nature representing an underlying deficit. For both Children & Education and Health & Social Care Portfolios, on 3rd December 2015 Cabinet approved a package of savings proposals to remedy these underlying budget deficits from 2016/17.

8.5 The prospects for the Children & Education and Health & Social Care Portfolio Budgets in 2016/17 remain challenging but achievable if the proposals described in the reports to Cabinet in December 2015 to save £5.1m are successfully delivered.

8.6 On 9th February 2016 City Council approved that the "clawback" requirement for overspendings be waived for 2015/16 for both the Education & Children's Portfolio and the Health & Social Care Portfolio given the scale of those overspendings and also in the knowledge of the financial risks contained therein which were fully provided for within the Council's contingency provision.

8.7 Where a Portfolio is presently forecasting a net overspend and does not have a waiver approved by City Council, in accordance with current Council policy, any overspending in 2015/16 will be deducted from cash limits in 2016/17 and therefore the appropriate Directors in consultation with Portfolio Holders should prepare an action plan outlining how their 2015/16 forecast outturn or 2016/17 budget might be reduced to alleviate the adverse variances currently being forecast.

8.8 Based on the Revised Budget of £167,224,700 the Council will remain within its minimum level of General Reserves for 2015/16 of £6.5m as illustrated below:

	£m
General Reserves brought forward @ 1/4/2015	14.864
Add:	
Forecast Underspend 2015/16	1.481
Planned Contribution to General Reserves 2015/16	1.532
Less:	
Forecast Contribution to Capital Reserve	(1.481)
Forecast General Reserves carried forward into 2016/17	**16.396**

Levels of General Reserves over the medium term are assumed to remain within the Council approved sum of £6.5m in 2015/16 and future years since any ongoing budget pressures / savings will be reflected in future years' savings targets.

8.9 Financial resources are not seen as a primary barrier during the current year to either performance achievement or performance improvement. Although there are no specific requests for additional resourcing to ensure targets are achieved, or objectives met through this report, in some cases resources may be a possible risk to future delivery which ought to be considered in the context of all other current and emerging budget pressures and evaluated in relation to each other.

9. City Solicitor's Comments

9.1 The City Solicitor is satisfied that it is within the Council's powers to approve the recommendations as set out.

10. Equalities Impact Assessment

10.1 This report does not require an Equalities Impact Assessment as there are no proposed changes to PCC's services, policies, or procedures included within the recommendations.

…………………………………….

Chris Ward

S151 Officer

<u>Background List of Documents –</u>

Section 100D of the Local Government Act 1972

<u>The following documents disclose facts or matters which have been relied upon to a material extent by the author in preparing this report –</u>

Title of Document		Location
Budget & Council Tax 2016/17 & Medium Term Budget Forecast 2017/18 to 2019/20		Office of Deputy Director of Finance & Section 151 Officer
Electronic Budget Monitoring Files		Financial Services Local Area Network

The recommendations set out above were:

Approved / Approved as amended / Deferred / Rejected by the Cabinet on 3rd March, 2016

Signed: ……………………………………….

Approved / Approved as amended / Deferred / Rejected by the City Council on 22nd March, 2016

Signed: ……………………………………….

APPENDIX A

FINANCIAL & SERVICE PERFORMANCE

QUARTER 3
2015/16

INFORMATION PACK

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

PORTFOLIO City Council General Fund

BUDGET Total General Fund Expenditure

TOTAL CASH LIMIT 167,224,700

CHIEF OFFICER All Budget Holders

MONTH ENDED December 2015

ITEM No.	BUDGET HEADING	BUDGET FORECAST 2015/16			
		Total Budget	Forecast Year End Outturn	Variance vs. Total Budget	
		£	£	£	%
1	Children & Education	31,054,300	32,843,500	**1,789,200**	5.8%
2	Culture, Leisure & Sport	7,215,100	7,114,000	**(101,100)**	(1.4%)
3	Environment & Community Safety	15,182,500	15,257,500	**75,000**	0.5%
4	Health & Social Care	40,680,200	43,234,100	**2,553,900**	6.3%
5	Housing	3,958,700	3,885,300	**(73,400)**	(1.9%)
6	Leader	241,300	244,800	**3,500**	1.5%
7	PRED	(2,495,100)	(2,914,000)	**(418,900)**	(16.8%)
8	Port	(5,552,200)	(5,735,200)	**(183,000)**	(3.3%)
9	Resources	20,244,800	20,003,400	**(241,400)**	(1.2%)
10	Traffic & Transportation	16,742,000	16,774,700	**32,700**	0.2%
11	Licensing Committee	(241,900)	(241,900)	**0**	0.0%
12	Governance, Audit & Standards Com	271,900	265,000	**(6,900)**	(2.5%)
13	Levies	73,700	73,700	**0**	0.0%
14	Insurance	1,299,800	1,299,800	**0**	0.0%
15	Asset Management Revenue Account	20,975,000	20,547,700	**(427,300)**	(2.0%)
16	Other Miscellaneous	17,574,600	12,844,600	**(4,730,000)**	(26.9%)
TOTAL		**167,224,700**	**165,497,000**	**(1,727,700)**	**(1.0%)**
Total Value of Remedial Action (from Analysis Below)			0		
Forecast Outturn After Remedial Action		**167,224,700**	**165,497,000**	**(1,727,700)**	**(1.0%)**
Forecast Transfers To Portfolio Specific Reserves			889,700		
Forecast Transfer From Ring Fenced Public Health Reserve			(643,000)		
Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves		**167,224,700**	**165,743,700**	**(1,481,000)**	**(0.9%)**

Note All figures included above exclude Capital Charges
Income/underspends is shown in brackets and expenditure/overspends without brackets

VALUE OF REMEDIAL ACTIONS & TRANSFERS (FROM)/TO PORTFOLIO SPECIFIC RESERVES

Item No.	Reason for Variation	Value of Remedial Action	Forecast Portfolio Transfers
1	Children & Education	0	0
2	Culture, Leisure & Sport	0	101,100
3	Environment & Community Safety	0	(75,000)
4	Health & Social Care	0	(23,800)
5	Housing	0	73,400
6	Leader	0	(3,500)
7	PRED	0	418,900
8	Port	0	183,000
9	Resources	0	241,400
10	Traffic & Transportation	0	(32,700)
11	Licensing Committee	0	0
12	Governance, Audit & Standards Com	0	6,900
13	Levies	0	
14	Insurance	0	
15	Asset Management Revenue Account	0	
16	Other Miscellaneous	0	
Total Value of Remedial Action		**0**	**889,700**

Note Remedial Action resulting in savings should be shown in brackets

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

PORTFOLIO **Children and Education**

BUDGET

6,673,300	Education
22,475,400	Children's Social Care & Safeguarding
1,508,800	Public Health
396,800	Regulatory Services Community Safety & Troubled Families

TOTAL CASH LIMIT **31,054,300**

CHIEF OFFICER **Di Smith**

MONTH ENDED **December 2015**

Risk indicator	
Low	L
Medium	M
High	H

ITEM No.	BUDGET HEADING	BUDGET FORECAST 2015/16 Total Budget £	Forecast Year End Outturn £	Variance vs. Total Budget £	%	RISK INDICATOR
1	Individual Schools Budget - DSG	77,208,600	77,421,500	**212,900**	0.3%	L
2	Other School Expenditure	22,593,200	22,382,400	**(210,800)**	(0.9%)	L
3	DSG & Pupil Premium Funding	(99,801,800)	(99,801,800)	**0**	0.0%	L
4	Strategic Commissioning	1,235,900	1,214,800	**(21,100)**	(1.7%)	L
5	Early Support	640,100	554,100	**(86,000)**	(13.4%)	L
6	Children's Centres	1,508,800	1,561,700	**52,900**	3.5%	L
7	Education Improvement	581,500	491,600	**(89,900)**	(15.5%)	L
8	Inclusion Services	4,215,800	4,360,500	**144,700**	3.4%	M
9	Troubled Families & MST	396,800	396,800	**0**	0.0%	M
10	Assessment & Intervention	5,526,800	5,573,600	**46,800**	0.8%	M
11	Looked After Children	13,226,200	14,791,500	**1,565,300**	11.8%	M
12	Safeguarding & Monitoring	2,001,200	2,197,000	**195,800**	9.8%	H
13	Youth Support [IYSS]	1,330,300	1,308,900	**(21,400)**	(1.6%)	H
14	Support Activities	390,900	390,900	**0**	0.0%	M
	TOTAL	**31,054,300**	**32,843,500**	**1,789,200**	**5.8%**	
	Total Value of Remedial Action (from Analysis Below)		0			
	Forecast Outturn After Remedial Action	**31,054,300**	**32,843,500**	**1,789,200**	**5.8%**	
	Forecast Transfers From Portfolio Specific Reserves	0				
	Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves	**31,054,300**	**32,843,500**	**1,789,200**	**5.8%**	

Note All figures included above exclude Capital Charges, Levies and Insurances
Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial
4	Staffing turnover and vacancies	(21,100)		
5	Staffing turnover and vacancies held in anticipation of future savings requirements and additional income generation as a result of training courses offered to nursery providers	(86,000)		
6	Delay in the implementation of savings due to revised savings plan	52,900		
7	Staffing vacancies held in anticipation of future savings requirements and pending service review	(89,900)		
8	An overspend on the Home to School / College transport is currently projected at £208,000. The projection basis is now being reviewed with expectation of reduction reflecting the effect of the new transport policies implemented in September 2015 and reduced numbers. This is partially offset by applying pupil premium funding towards the costs of the virtual school team thereby realising a saving	144,700		
10	Staffing vacancies are expected to result in a cost reduction of £290,000. However, this is insufficient to offset increased legal and parking charges of £260,000 coupled with additional care leaver requirements of £77,000	46,800		
11	Placement numbers and costs are expected to lead to a projected overspend of around £1.1m. Loss of prior year funding together with an inability to deliver anticipated income levels alongside ongoing spending in support of Fostering and Adoption activities have further added to the budget pressure currently being experienced	1,565,300		
12	Staffing requirements, inability to progress savings plans due to the redirection of resources and increased project funding requirements have contributed to a forecast overspend	195,800		
13	Current numbers and support requirements of care leavers has resulted in higher expenditure than budgeted. However, this overspend has been offset by reduced numbers in Youth Offending enabling posts to be held vacant	(21,400)		
	TOTAL PROJECTED VARIANCE	**1,787,100**	**TOTAL VALUE OF REMEDIAL ACTION**	**0**

Note Remedial Action resulting in savings is shown in brackets

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

PORTFOLIO **Culture, Leisure & Sport**

BUDGET 7,215,100 City Development & Cultural Services

TOTAL CASH LIMIT **7,215,100**

CHIEF OFFICER **Various**

MONTH ENDED **December 2015**

Risk indicator	
Low	L
Medium	M
High	H

ITEM No.	BUDGET HEADING	BUDGET FORECAST 2015/16 Total Budget	Forecast Year End Outturn	Variance vs. Total Budget		RISK INDICATOR
		£	£	£	%	
1	Parks, Gardens & Open Spaces	2,114,000	2,114,000	0	0.0%	H
2	Seafront Management	149,000	149,000	0	0.0%	H
3	Golf Courses	-211,000	-211,000	0	0.0%	H
4	Pyramids	191,000	191,000	0	0.0%	M
5	Mountbatten & Gymnastic Centres	313,000	313,000	0	0.0%	M
6	Other Sports & Leisure Facilities Inc. (POC)	282,000	282,000	0	0.0%	M
7	Sports Development	240,000	240,000	0	0.0%	L
8	Departmental Establishment (Leisure)	455,100	354,000	(101,100)	(22.2%)	H
9	Libraries	2,066,000	2,066,000	0	0.0%	M
10	Museum Services	795,000	795,000	0	0.0%	M
11	Cultural Partnerships (Previously Arts Service)	355,000	355,000	0	0.0%	L
12	Community Centres	286,000	286,000	0	0.0%	L
13	Events	180,000	180,000	0	0.0%	H
	TOTAL	**7,215,100**	**7,114,000**	**(101,100)**	**(1.4%)**	
	Total Value of Remedial Action (from Analysis Below)		0			
	Forecast Outturn After Remedial Action	**7,215,100**	**7,114,000**	**(101,100)**	**(1.4%)**	
	Forecast Transfers To Portfolio Specific Reserves	(101,100)				
	Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves	**7,114,000**	**7,114,000**	**0**	**0.0%**	

Note All figures included above exclude Capital Charges, Levies and Insurances
Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial Action
8	Staff employed in this area have been redeployed to capital schemes. This has resulted in the favourable variance in this area.	(101,100)		
TOTAL PROJECTED VARIANCE		**(101,100)**	**TOTAL VALUE OF REMEDIAL ACTION**	**0**

Note Remedial Action resulting in savings is shown in brackets

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

PORTFOLIO **Environment & Community Safety**

BUDGET	442,400	Transport Environment & Business Support
	250,900	Culture & City Development
	11,600,900	Property & Housing Services
	2,888,300	Regulatory Services Community Safety & Troubled Families
TOTAL CASH LIMIT	**15,182,500**	

CHIEF OFFICER **Various**

Risk indicator	
Low	L
Medium	M
High	H

MONTH ENDED **December 2015**

ITEM No.	BUDGET HEADING	BUDGET FORECAST 2015/16 Total Budget	Forecast Year End Outturn	Variance vs. Total Budget £	%	RISK INDICATOR
1	Environmental Protection	370,800	376,500	**5,700**	1.5%	L
2	Environment Admin & Management	34,700	32,800	**(1,900)**	(5.5%)	L
3	Community Safety Administration & Management	14,700	13,900	**(800)**	(5.4%)	L
4	Environmental Health - Commercial Services	323,600	302,800	**(20,800)**	(6.4%)	M
5	Port Health	(24,300)	(26,300)	**(2,000)**	(8.2%)	L
6	Trading Standards	295,100	295,100	**0**	0.0%	M
7	Welfare Burials	31,400	13,300	**(18,100)**	(57.6%)	L
8	Refuse Collection	3,308,400	3,222,200	**(86,200)**	(2.6%)	H
9	Waste Disposal	4,491,000	4,770,400	**279,400**	6.2%	H
10	Waste Recycling	145,400	135,900	**(9,500)**	(6.5%)	L
11	Public Conveniences	334,900	334,900	**0**	0.0%	L
12	Street Cleansing	3,023,500	3,023,500	**0**	0.0%	L
13	Clean City	64,000	177,500	**113,500**	177.3%	L
14	Control Of Dogs	87,800	94,300	**6,500**	7.4%	M
15	Sea Defences And Drainage	279,000	228,000	**(51,000)**	(18.3%)	M
16	Coastal Partnership	164,000	164,000	**0**	0.0%	L
17	Cemeteries	(9,000)	(4,000)	**5,000**	55.6%	L
18	Contaminated Land	108,000	113,000	**5,000**	4.6%	L
19	Carbon Allowances	48,600	48,600	**0**	0.0%	L
20	Carbon Management Team	151,000	151,000	**0**	0.0%	M
21	Hidden Violence And Abuse	948,800	815,300	**(133,500)**	(14.1%)	L
22	Community Safety Strategy And Partnership	228,700	243,200	**14,500**	6.3%	H
23	CCTV	236,200	221,700	**(14,500)**	(6.1%)	H
24	Community Wardens	185,100	160,400	**(24,700)**	(13.3%)	L
25	Anti Social Behaviour Unit	151,700	164,100	**12,400**	8.2%	L
26	Substance Misuse (including Alcohol)	0	(5,000)	**(5,000)**	-	L
27	Civil Contingencies (Emergency Planning)	189,400	190,400	**1,000**	0.5%	L
	TOTAL	**15,182,500**	**15,257,500**	**75,000**	**0.5%**	
	Total Value of Remedial Action (from Analysis Below)		0			
	Forecast Outturn After Remedial Action	**15,182,500**	**15,257,500**	**75,000**	**0.5%**	
	Forecast Transfers From Portfolio Specific Reserves	75,000				
	Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves	**15,257,500**	**15,257,500**	**0**	**0.0%**	

Note All figures included above exclude Capital Charges, Levies and Insurances
Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial Action
4	Portfolio Reserve transfer for work to combat noise levels on the M275 as yet to be commissioned	(20,800)		
7	Portfolio Reserve funding allocated earlier in the year to meet rising demand has been offset by changed working practices.	(18,100)		
8	The underspend is largely due to the identification of ongoing efficiencies that have been made within the refuse collection contract, following a collaborative review of costs involving PCC and the contractor	(86,200)		
9	The anticipated overspend is the result of a number of compounding issues. There has been a fall in the amount of recycling that has gone through the Material Recycling Facility, at the same time that prices paid for recyclable goods has fallen. This has resulted in a significant loss of income from recyclable waste. In addition, there has been an increase in the volume of non-recyclable and increased contaminated recycling has further depressed the price paid, capacity limitations at the Council's waste incinerator has resulted in increased non-recyclables being sent to landfill, which has resulted in an increase in the cost of disposal	279,400		
13	Staffing levels are being reduced within Community Wardens and Clean City in order to meet the approved budget reductions from the City Wide Anti Social Behaviour review. The overspend is the result of this review of the Clean City element being delayed in order to ensure a more detailed review of the Clean City service, which is anticipated to deliver larger ongoing savings. The full saving is therefore anticipated to be achieved from 2016/17	113,500	The service (Community Wardens and Clean City) has been restructured but the full year effect will not come into effect until 2016/17.	
15	The Coastal and Drainage Manager has been engaged on external fee earning schemes during the third quarter resulting in higher fee income. Additionally a Employee costs are lower due to a vacancy with the Drainage team	(51,000)		
21	Staffing vacancies held in anticipation of future savings requirements	(133,500)		
24	Staffing levels have been reduced within Community Wardens following the transfer of the management to Property and Housing Services, earlier than previously anticipated. Further savings are anticipated following the fuller Clean City review.	(24,700)	The service (Community Wardens and Clean City) has been restructured but the full year effect will not come into effect until 2016/17.	
25	Overspend due to delayed implementation of solicitor post saving due to wider review of legal services.	12,400		
	Other minor variances	4,000		
	TOTAL PROJECTED VARIANCE	**75,000**	**TOTAL VALUE OF REMEDIAL ACTION**	**0**

Note Remedial Action resulting in savings is shown in brackets

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

PORTFOLIO	**Health & Social Care**	
BUDGET		40,680,200
TOTAL CASH LIMIT		**40,680,200**
CHIEF OFFICER	**Various**	
MONTH ENDED	**December 2015**	

Risk indicator	
Low	L
Medium	M
High	H

ITEM No.	BUDGET HEADING	BUDGET FORECAST 2015/16 Total Budget £	Forecast Year End Outturn £	Variance vs. Total Budget £	%	RISK INDICATOR
1	Physical Support	12,419,300	12,804,900	**385,600**	3.1%	M
2	Sensory Support	360,000	360,000	**0**	0.0%	L
3	Memory & Cognition	2,191,400	3,145,300	**953,900**	43.5%	H
4	Learning Disability Support	16,381,400	17,048,000	**666,600**	4.1%	M
5	Mental Health Support	2,014,700	2,313,000	**298,300**	14.8%	H
6	Social Support: Substance Misuse Support	138,700	138,700	**0**	0.0%	L
7	Assistive Equipment & Technology	692,100	815,200	**123,100**	17.8%	H
8	Social Care Activities	3,664,700	3,648,900	**(15,800)**	(0.4%)	L
9	Information & Early intervention	65,300	45,200	**(20,100)**	(30.8%)	H
10	Commissioning and Service Delivery	1,401,800	825,900	**(575,900)**	(41.1%)	H
11	Supporting People - Housing	1,350,800	1,446,000	**95,200**	7.0%	H
12	Sexual Health Mandatory - services	3,495,800	3,558,000	**62,200**	1.8%	M
13	Sexual Health Non Mandatory - services	228,900	243,800	**14,900**	6.5%	H
14	Smoking	630,400	519,700	**(110,700)**	(17.6%)	H
15	Children 5-19 Programme	2,636,800	2,563,900	**(72,900)**	(2.8%)	M
16	Health Checks	362,900	380,000	**17,100**	4.7%	M
17	Obesity	306,400	266,900	**(39,500)**	(12.9%)	H
18	Substance Misuse	4,263,800	4,221,000	**(42,800)**	(1.0%)	M
19	Public Health Advice	173,000	122,700	**(50,300)**	(29.1%)	H
20	Miscellaneous Public Health Services	(12,098,000)	(11,233,000)	**865,000**	(7.1%)	M
	TOTAL	**40,680,200**	**43,234,100**	**2,553,900**	**6.3%**	
	Total Value of Remedial Action (from Analysis Below)		0			
	Forecast Outturn After Remedial Action	**40,680,200**	**43,234,100**	**2,553,900**	**6.3%**	
	Forecast Transfers From Portfolio Specific Reserves	23,800				
	Forecast Transfer From Ring Fenced Public Health Reserve	643,000				
	Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves	**41,347,000**	**43,234,100**	**1,887,100**	**4.6%**	

Note All figures included above exclude Capital Charges, Levies and Insurances
Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial Action
1 to 3	Greater volume of older persons domiciliary care required due to demographic pressures. There have also been unforeseen delays in implementing 2015/16 savings proposals for this area of the budget.	1,339,500	The service is currently reviewing options to reduce the currently forecast overspend.	
4	Increased volume of clients transitioning from Children's Service's in conjunction with a delayed initiation of the review of day care services. There have also been ongoing claims for funding from other authorities under the ordinary residence ruling.	666,600		
5	Increased volume of clients with mental health support needs requiring residential care placements.	298,300		
11	Supporting People - delay in implementation of client charging due to consultation	95,200		
20	In the Autumn of 2015 the Department of Health announced an in year reduction to the Public Health Grant of £1.126m. As a result Public Health has been unable to contain expenditure within the total 2015/16 budget	643,000	This element of the overspend which will be financed from the Public Health Ring Fenced reserve	
	Other Miscellaneous - primarily increased funding from Better Care Fund	(488,700)		
	TOTAL PROJECTED VARIANCE	**2,553,900**	**TOTAL VALUE OF REMEDIAL ACTION**	**0**

Note Remedial Action resulting in savings should be shown as minus figures

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

PORTFOLIO **Housing**

BUDGET

3,958,700

TOTAL CASH LIMIT **3,958,700**

Risk indicator	
Low	L
Medium	M
High	H

CHIEF OFFICERS **Owen Buckwell**

MONTH ENDED **December 2015**

ITEM No.	BUDGET HEADING	Total Budget	Forecast Year End Outturn	Variance vs. Total Budget To December 2015		RISK INDICATOR
		£	£	£	%	
1	Housing Strategy - General	85,200	26,300	(58,900)	(69.1%)	L
2	Registered Social Landlords	40,300	34,900	(5,400)	(13.4%)	L
3	Housing Advisory Service	192,400	172,400	(20,000)	(10.4%)	L
4	Housing Enabling	65,700	59,800	(5,900)	(9.0%)	L
5	Homelessness	676,900	675,700	(1,200)	(0.2%)	L
6	Telecare	(167,000)	(164,700)	2,300	1.4%	M
7	Youth & Play Shared Services with the HRA	344,200	347,000	2,800	0.8%	L
8	De Minimis Capital Receipts	(94,400)	(35,400)	59,000	62.5%	M
9	Other Council Property	(26,300)	(17,500)	8,800	33.5%	L
10	Housing Standards	527,700	481,200	(46,500)	(8.8%)	L
11	Home Check scheme	9,000	52,700	43,700	485.6%	M
12	Green Deal	0	28,000	28,000	-	M
13	Additional Licensing	0	(41,900)	(41,900)	-	L
14	Supporting People Contracts	2,305,000	2,266,800	(38,200)	(1.7%)	L
	TOTAL	**3,958,700**	**3,885,300**	**(73,400)**	**(1.9%)**	
	Total Value of Remedial Action (from Analysis Below)		0			
	Forecast Outturn After Remedial Action	**3,958,700**	**3,885,300**	**(73,400)**	**(1.9%)**	
	Forecast Transfers To Portfolio Specific Reserves	(73,400)				
	Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves	**3,885,300**	**3,885,300**	**0**	**0.0%**	

Note All figures included above exclude Capital Charges, Levies and Insurances
Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial Action
1	Lower IT costs	(58,900)		
2	Small Increase in interest income received	(5,400)		
3	The underspend has arisen mainly from a reduction in salary costs, and a small amount of additional income received.	(20,000)		
4	A review of staffing costs charged to the Housing Enabling service has resulted in the identification of ongoing savings, the part year effect of which is seen in 2015/16.	(5,900)		
8	These receipts are realised when small grants are repaid, and are largely reliant upon the housing market. There has been a reduction in the receipts received in the year to date	59,000		
9	This overspend relates to the loss of rental income from properties which have been earmarked for disposal, and held void	8,800		
10	This underspend has arisen primarily from staff vacancies and a reduction in IT costs	(46,500)		
11	The overspend has a arisen as a result of a delay to the review of the Homecheck service, as a wider service review was implemented to combine the Homecheck service with the Telecare service. As a result, part year savings from the review will arise in 2015/16 with the full year effect from 2016/17	43,700		
12	Midway through the year, the Department of Energy and Climate Change announced that it would no longer continue with its Green Deal scheme. This has resulted in PCC being unable to secure the income that it had anticipated to fund the staff employed to administer the scheme. Remedial action has been put in place which will ensure that the overspend is not ongoing in future years	28,000		
13	This is year 3 of a 5 year scheme. Over the five year period the scheme has been designed to be cost neutral	(41,900)		
14	Supporting People contracts are continually reviewed to ensure that the Council receives the services that it needs for its most vulnerable clients whilst achieving best value. The underspend relates to the renegotiation of two contracts that support vulnerable young people and adults, which will achieve ongoing savings.	(38,200)		
	Minor Variances	3,900		
	TOTAL PROJECTED VARIANCE	**(73,400)**	**TOTAL VALUE OF REMEDIAL ACTION**	**0**

Note Remedial Action resulting in savings is shown in brackets

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

PORTFOLIO **Leader**

BUDGET 241,300

TOTAL CASH LIMIT **241,300**

CHIEF OFFICER

Risk indicator	
Low	L
Medium	M
High	H

MONTH ENDED **December 2015**

ITEM No.	BUDGET HEADING	BUDGET FORECAST 2015/16 Total Budget £	Forecast Year End Outturn £	Variance vs. Total Budget £	%	RISK INDICATOR
1	Portsmouth Civic Award	1,000	1,000	**0**	0.0%	L
2	Leader Initiatives	25,000	25,000	**0**	0.0%	L
3	Lord Mayor	107,500	109,500	**2,000**	1.9%	L
4	Lord Mayor's Events	5,800	7,300	**1,500**	25.9%	L
5	Civic Events	102,000	102,000	**0**	0.0%	L
	TOTAL	**241,300**	**244,800**	**3,500**	**1.5%**	
	Total Value of Remedial Action (from Analysis Below)		0			
	Forecast Outturn After Remedial Action	**241,300**	**244,800**	**3,500**	**1.5%**	
	Forecast Transfers From Portfolio Specific Reserves	3,500				
	Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves	**244,800**	**244,800**	**0**	**0.0%**	

Note All figures included above exclude Capital Charges, Levies and Insurances
Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial Action
	TOTAL PROJECTED VARIANCE	**0**	**TOTAL VALUE OF REMEDIAL ACTION**	**0**

Note Remedial Action resulting in savings is shown in brackets

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

PORTFOLIO **Planning Regeneration & Economic Development (Excluding Commercial Ferry Port)**

BUDGET	914,300	Culture & City Development
	(210,300)	Transport Environment & Business Support
	(3,199,100)	Housing & Property Services
TOTAL CASH LIMIT	**(2,495,100)**	

CHIEF OFFICER

Michael Lawther

MONTH ENDED **December 2015**

Risk indicator	
Low	L
Medium	M
High	H

ITEM No.	BUDGET HEADING	BUDGET FORECAST 2015/16 Total Budget	Forecast Year End Outturn	Variance vs. Total Budget		RISK INDICATOR
		£	£	£	%	
1	Planning Development Control	211,000	215,000	4,000	1.9%	H
2	City Centre Business Support	239,000	241,000	2,000	0.8%	M
3	Markets	(40,000)	(39,000)	1,000	2.5%	M
4	Building Regulations & Control	35,000	35,000	0	0.0%	H
5	Economic Regeneration and Service Plan	210,000	211,000	1,000	0.5%	H
6	Tourism	259,000	259,000	0	0.0%	M
7	Enterprise Centres	(279,000)	(386,000)	(107,000)	(38.4%)	H
8	PCMI	69,000	212,000	143,000	207.2%	H
9	Community Learning & Pride in Pompey	0	28,000	28,000	-	H
10	Administrative Buildings	1,559,000	1,634,000	75,000	4.8%	M
11	Guildhall	449,000	424,000	(25,000)	(5.6%)	L
12	Property Portfolio	(5,207,100)	(5,748,000)	(540,900)	(10.4%)	H
	TOTAL	**(2,495,100)**	**(2,914,000)**	**(418,900)**	**(16.8%)**	
	Total Value of Remedial Action (from Analysis Below)		0			
	Forecast Outturn After Remedial Action	**(2,495,100)**	**(2,914,000)**	**(418,900)**	**(16.8%)**	
	Forecast Transfers To Portfolio Specific Reserves	(418,900)				
	Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves	**(2,914,000)**	**(2,914,000)**	**0**	**0.0%**	

Note All figures included above exclude Capital Charges, Levies and Insurances
Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial Action
7	Higher than targeted occupancy levels at the Enterprise Centres has resulted in higher levels of income than expected. Targets were set based upon prior year's performance and the service has managed to put in place processes to effectively reduce periods of vacancy between occupying businesses. This is likely to continue improving for existing units, however the impact of the new centre in Limberline, which is competing for businesses, may have an impact the increase in income	(107,000)		
8	The overspend is largely due to a shortfall in income from the manufacturing element of the business. A service review has been undertaken during the current year, to ensure that the business can be operated at lower cost, with the aim being for the business to break-even over the longer term, however it has resulted in a number of one-off costs being incurred (eg redundancy costs)	143,000		
9	Income levels for the Pride in Pompey are lower than expected due to the end of contracts that have not currently been renewed. This loss is offset by reduced staffing and running costs. This service is currently being reviewed with a view to achieving cost reductions	28,000		
10	The overspend being forecast is primarily due to: the higher maintenance and refurbishment costs associated with the letting out of the building, and the loss of external rent	75,000		
11	Premises related expenditure at the Guildhall is expected to be lower than budgeted, due to the reprioritisaion of works following a complete review of the building's maintenance needs	(25,000)		
12	Net additional income arising from the acquisition of investment properties offset by lower rental income across the property portfolio, due to rent reviews and asset disposals	(540,900)		
	Other minor variances	8,000		
	TOTAL PROJECTED VARIANCE	**(418,900)**	**TOTAL VALUE OF REMEDIAL ACTION**	**0**

Note Remedial Action resulting in savings is shown in brackets

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

PORTFOLIO **Planning Regeneration & Economic Development (Commercial Ferry Port)**

BUDGET (5,552,200)

TOTAL CASH LIMIT **(5,552,200)**

Risk indicator	
Low	L
Medium	M
High	H

CHIEF OFFICER **Martin Putman**

MONTH ENDED **December 2015**

ITEM No.		BUDGET PROFILE 2015/16 Total Budget	Forecast Year End Outturn	Variance vs. Total Budget		RISK INDICATOR
		£	£	£	%	
1	Income	(13,816,200)	(13,929,200)	(113,000)	(0.8%)	H
2	Operational Costs	6,572,800	6,494,600	(78,200)	(1.2%)	M
3	Management and General Expenses	1,691,200	1,699,400	8,200	0.5%	L
OPERATING SURPLUS		**(5,552,200)**	**(5,735,200)**	**(183,000)**	(3.3%)	
TOTAL		**(5,552,200)**	**(5,735,200)**	**(183,000)**	**(3.3%)**	
Total Value of Remedial Action (from Analysis Below)			0			
Forecast Outturn After Remedial Action		**(5,552,200)**	**(5,735,200)**	**(183,000)**	**(3.3%)**	
Forecast Transfers To Portfolio Specific Reserves		(183,000)				
Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves		**(5,735,200)**	**(5,735,200)**	**0**	**0.0%**	
	Capital Charges & Other Corporate Costs	4,782,000	4,851,000	69,000	1.4%	
	Net (Profit) / Loss	**(770,200)**	**(884,200)**	**(114,000)**	**14.8%**	

Note **All figures included above exclude Capital Charges, Levies and Insurances**
Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial Action
Income	Favourable variance due to increased port throughput, and additional pilotage acts resulting from shipping movements associated with demolishing a navigational hazard at the port	(113,000)		
Operational Costs	Favourable variance due to a maintenance scheme costing less than anticipated and scheme slippage, savings made within new contracts, partly offset by additional employee costs due to an increase in pilotage acts.	(78,200)		
Management and General Expenses	Adverse variance because of an increase in employee costs due to recruitment fees and sickness cover.	8,200		
	TOTAL PROJECTED VARIANCE	**(183,000)**	**TOTAL VALUE OF REMEDIAL ACTION**	**0**

Note Remedial Action resulting in savings is shown in brackets

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

PORTFOLIO	**Resources**	
BUDGET		20,244,800
TOTAL CASH LIMIT		**20,244,800**
CHIEF OFFICER	**Various**	
MONTH ENDED	**December 2015**	

Risk indicator	
Low	L
Medium	M
High	H

ITEM No.	BUDGET HEADING	Total Budget £	Forecast Year End Outturn £	Variance vs. Total Budget £	Variance vs. Total Budget %	RISK INDICATOR
1	Miscellaneous Expenses	236,800	209,900	**(26,900)**	(11.4%)	M
2	HR, Legal and Performance	3,336,700	3,324,000	**(12,700)**	(0.4%)	M
3	Transformation Workstream Investment	50,000	50,000	**0**	0.0%	M
4	Customer & Community Services	1,468,600	1,442,400	**(26,200)**	(1.8%)	M
5	Grants & Support to the Voluntary Sector	612,800	598,700	**(14,100)**	(2.3%)	L
6	Financial Services	4,362,800	4,345,300	**(17,500)**	(0.4%)	L
7	Information Services	3,887,700	3,867,700	**(20,000)**	(0.5%)	M
8	AMS Design & Maintenance	617,700	805,900	**188,200**	30.5%	H
9	Property Services	297,600	297,600	**0**	0.0%	M
10	Landlords Repairs & Maintenance	1,185,200	986,300	**(198,900)**	(16.8%)	H
11	Spinnaker Tower	(640,000)	(640,000)	**0**	0.0%	L
12	MMD Crane Rental	(385,400)	(385,400)	**0**	0.0%	M
13	Administration Expenses	5,000	5,000	**0**	0.0%	L
14	Housing Benefit - Rent Allowances	(580,800)	(694,400)	**(113,600)**	(19.6%)	H
15	Housing Benefit - Rent Rebates	(265,400)	(151,800)	**113,600**	42.8%	H
16	Local Taxation	1,338,400	1,338,400	**0**	0.0%	L
17	Local Welfare Assistance Scheme	100,000	65,200	**(34,800)**	(34.8%)	M
18	Benefits Administration	1,809,300	1,789,300	**(20,000)**	(1.1%)	M
19	Land Charges	(85,200)	(73,000)	**12,200**	14.3%	M
20	Democratic Representation & Management	1,008,200	997,400	**(10,800)**	(1.1%)	L
21	Corporate Management	1,083,700	1,036,900	**(46,800)**	(4.3%)	M
22	Coroners	801,100	788,000	**(13,100)**	(1.6%)	L
	TOTAL	**20,244,800**	**20,003,400**	**(241,400)**	**(1.2%)**	
	Total Value of Remedial Action (from Analysis Below)		0			
	Forecast Outturn After Remedial Action	**20,244,800**	**20,003,400**	**(241,400)**	**(1.2%)**	
	Variances Arising From Windfall Items	0				
	Forecast Transfers To Portfolio Specific Reserves	(241,400)				
	Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves	**20,003,400**	**20,003,400**	**0**	**0.0%**	

Note All figures included above exclude Capital Charges, Levies and Insurances
Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial Action
2	The service underspend arises from posts being held vacant to prepare for savings requirements in future years	(12,700)		
4	Underspend across a number of Customer & Community Service areas due to the holding of vacancies in order to prepare for saving requirements in future years	(26,200)		
5	The underspend relates to a staff vacancy that arose in year that has now been filled	(14,100)		
6	The service is holding vacancies in order to prepare for saving requirements in future years	(17,500)		
7	The service is projecting an underspend due to posts being held vacant in preparation for future years savings	(20,000)		
8	The projected overspend is primarily due to fee income earned by the Service being below target. This is the result of a number of fee earning capital schemes being delayed or altered due to changing client need, as well as a significant proportion of the teams time being focussed toward delivering non fee earning revenue work, which aims to generate significant ongoing savings across the Council as a whole	188,200	Services continue to seek further fee earning work. In addition, those delayed fee earning projects will now commence in next year, the result being an increase in fee income in that year. In the current year, this overspend will be met by the projected underspend within the Landlords Maintenance budget, Line 10 below.	
10	Landlords Maintenance is lower than originally budgeted. The underspend will be used to offset the expected overspend within the other Design/Maintenance budgets (Line 8 above). However, this is dependent on the weather over the winter months which can have a large impact on this budget, e.g. reactive repair work	(198,900)		
17	The remaining balance on the LWAS is not expected to be spent at this point in time.	(34,800)		
18	The service is projecting an underspend due to vacant posts being held in preparation for future years savings	(20,000)		
19	Land Charges have experienced lower than expected demand for property searches which is determined by the private sector property market	12,200		
20	Corporate Subscriptions have been negotiated at a lower price than originally budgeted. In addition to this, a review of the Members Support Service has created an underspend within the staffing budget	(10,800)		
21	The Strategy unit is underspending due to posts being held vacant in preparation for future years savings	(46,800)		
22	Underspend due to a contribution from Hampshire County Council for the refurbishment costs in relation to the Coroners relocation to the Civic Offices	(13,100)		
	Variance less than £5,000	(26,900)		
	TOTAL PROJECTED VARIANCE	**(241,400)**	**TOTAL VALUE OF REMEDIAL ACTION**	**0**

Note Remedial Action resulting in savings is shown in brackets

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

PORTFOLIO **Traffic & Transportation**

BUDGET 16,742,000

TOTAL CASH LIMIT **16,742,000**

CHIEF OFFICER **Various**

MONTH ENDED **December 2015**

Risk indicator	
Low	L
Medium	M
High	H

ITEM No.	BUDGET HEADING	BUDGET FORECAST 2015/16 Total Budget £	Forecast Year End Outturn £	Variance vs. Total Budget £	%	RISK INDICATOR
1	Off-Street Parking	(1,896,300)	(1,796,600)	99,700	5.3%	H
2	Road Safety & Sustainable Transport	210,000	165,400	(44,600)	(21.2%)	L
3	Network Management	578,300	587,100	8,800	1.5%	M
4	Highways Infrastructure	8,699,700	8,699,900	200	0.0%	L
5	Highways Routine	2,836,300	2,796,400	(39,900)	(1.4%)	H
6	Highways Street Lighting (Electricity)	1,198,100	1,253,600	55,500	4.6%	H
7	Highways Design	(46,900)	(47,200)	(300)	(0.6%)	M
8	Travel Concessions	4,363,800	4,548,700	184,900	4.2%	H
9	Passenger Transport	(290,500)	(354,800)	(64,300)	(22.1%)	M
10	Integrated Transport Unit	114,700	106,300	(8,400)	(7.3%)	L
11	School Crossing Patrol	341,900	251,300	(90,600)	(26.5%)	M
12	Transport Policy	114,400	137,300	22,900	20.0%	L
13	Group Administration and Support	424,500	386,000	(38,500)	(9.1%)	M
14	Tri-Sail Maintenance	38,900	38,900	-	0.0%	L
15	Transport Infrastructure Schemes	55,100	2,400	(52,700)	(95.6%)	M
TOTAL		**16,742,000**	**16,774,700**	**32,700**	**0.2%**	
Total Value of Remedial Action (from Analysis Below)						
Forecast Outturn After Remedial Action		**16,742,000**	**16,774,700**	**32,700**	**0.2%**	
Forecast Transfers From Portfolio Specific Reserves		32,700				
Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves		**16,774,700**	**16,774,700**	**0**	**0.0%**	

Note All figures included above exclude Capital Charges, Levies and Insurances
Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial Action
1	The increase in net operating costs is primarily as a result of the loss of the Royal Mail parking contract (£60,000) and a reduction in income relating to staff parking permits following the inception of a project to relocate staff parking and to rationalise the need for permits issued to staff	99,700		
2	Forecast underspend due to a combination of holding posts vacant and increased income from fee earning work	(44,600)		
4	Reduced expenditure on discretionary elements (including Winter Maintenance and Grounds Maintenance)	(39,900)		
6	The installation of LED street lights will lead to significant savings in electricity costs and the budget was constructed on this basis. However this capital scheme is currently on hold pending the outcome of the Highways PFI review and the savings will not be realised in the current financial year	55,500		
8	Payments to Bus Operators for the National Travel Concession scheme are higher than originally budgeted. The reimbursement is calculated based on a combination of actual usage and average fares both of which are higher than was originally estimated	184,900		
9	Following the reletting of tendered bus route contracts, costs are lower than originally estimated. This has resulted in a £40,000 favourable variance. In Addition increased income from staffing charges to fee generating schemes has arisen	(64,300)		
11	Underspend has arisen as a result of difficulties encountered filling vacant School Crossing Patrol posts.	(90,600)		
12	Additional costs associated with updating traffic modelling which is required in the sub region for future transport related capital schemes	22,900		
13	Forecast reduction in net cost due increased income from fee earning work	(38,500)		
15	Reduced expenditure as a result of vacant posts	(52,700)		
	Other minor variances	300		
	TOTAL PROJECTED VARIANCE	**32,700**	**TOTAL VALUE OF REMEDIAL ACTION**	**0**

Note Remedial Action resulting in savings is shown in brackets

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

COMMITTEE Licensing

BUDGET (241,900)

TOTAL CASH LIMIT **(241,900)**

CHIEF OFFICER **Michael Lawther**

MONTH ENDED **December 2015**

Risk indicator	
Low	L
Medium	M
High	H

ITEM No.	BUDGET HEADING	Total Budget £	Forecast Year End Outturn £	Variance vs. Total Budget £	Variance vs. Total Budget %	RISK INDICATOR
1	Licensing Committee	(241,900)	(241,900)	**0**	0.0%	L
	TOTAL	**(241,900)**	**(241,900)**	**0**	**0.0%**	
	Total Value of Remedial Action (from Analysis Below)		0			
	Forecast Outturn After Remedial Action	**(241,900)**	**(241,900)**	**0**	**0.0%**	
	Forecast Transfers From Portfolio Specific Reserves	0				
	Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves	**(241,900)**	**(241,900)**	**0**	**0.0%**	

Note All figures included above exclude Capital Charges, Levies and Insurances
Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial Action
	TOTAL PROJECTED VARIANCE	0	**Total Value of Remedial Action**	0

Note Remedial Action resulting in savings is shown in brackets

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

COMMITTEE **Governance, Audit and Standards Committee**

BUDGET 271,900

TOTAL CASH LIMIT **271,900**

CHIEF OFFICER **Michael Lawther**

MONTH ENDED **December 2015**

Risk indicator	
Low	L
Medium	M
High	H

ITEM No.	BUDGET HEADING	BUDGET FORECAST 2015/16 Total Budget £	Forecast Year End Outturn £	Variance vs. Total Budget £	%	RISK INDICATOR
1	Municipal Elections	166,000	167,000	**1,000**	0.6%	L
2	Registration Of Electors	251,800	241,000	**(10,800)**	(4.3%)	M
3	Registrar of Births, Deaths & Marriages	(145,900)	(143,000)	**2,900**	2.0%	M
	TOTAL	**271,900**	**265,000**	**(6,900)**	**(2.5%)**	
	Total Value of Remedial Action (from Analysis Below)		0			
	Forecast Outturn After Remedial Action	**271,900**	**265,000**	**(6,900)**	**(2.5%)**	
	Forecast Transfers To Portfolio Specific Reserves	(6,900)				
	Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves	**265,000**	**265,000**	**0**	**0.0%**	

Note All figures included above exclude Capital Charges, Levies and Insurances
Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial Action
2	The in year funding received to provide the Individual Electoral Registration service has exceeded the cost of providing the service. This has been due to a concerted effort to minimise expenditure in the knowledge that there will be no further funding in later years and any underspends held will be used to contribute towards the cost of service provision in future years.	(10,800)		
	Variance less than £5,000	3,900		
	TOTAL PROJECTED VARIANCE	**(6,900)**	**TOTAL VALUE OF REMEDIAL ACTION**	**0**

Note Remedial Action resulting in savings is shown in brackets

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

PORTFOLIO **Other Expenditure**

BUDGET 73,700 Levies

TOTAL CASH LIMIT **73,700**

CHIEF OFFICER **Michael Lawther**

MONTH ENDED **December 2015**

Risk indicator	
Low	L
Medium	M
High	H

ITEM No.	BUDGET HEADING	Total Budget £	Forecast Year End Outturn £	Variance vs. Total Budget £	Variance vs. Total Budget %	RISK INDICATOR
1	Environment & Flood Defence Agency	37,100	37,100	0	0.0%	M
2	Southern Sea Fisheries	36,600	36,600	0	0.0%	L
	TOTAL	**73,700**	**73,700**	**0**	**0.0%**	
	Total Value of Remedial Action (from Analysis Below)		0			
	Total Net Forecast Outturn (after remedial action)	**73,700**	**73,700**	**0**	**0.0%**	

Note **All figures included above exclude Capital Charges and Insurances**
Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial Action
	TOTAL PROJECTED VARIANCE	0	**TOTAL VALUE OF REMEDIAL ACTION**	0

Note **Remedial Action resulting in savings is shown in brackets**

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

PORTFOLIO	**Other Expenditure**		
BUDGET		1,299,800	Insurance
TOTAL CASH LIMIT		**1,299,800**	
CHIEF OFFICER	**Michael Lawther**		
MONTH ENDED	**December 2015**		

Risk indicator	
Low	L
Medium	M
High	H

ITEM No.	BUDGET HEADING	BUDGET FORECAST 2015/16				RISK INDICATOR
		Total Budget	Forecast Year End Outturn	Variance vs. Total Budget		
		£	£	£	%	
1	Insurance Revenue Account	1,299,800	1,299,800	**0**	0.0%	M
	TOTAL	**1,299,800**	**1,299,800**	**0**	**0.0%**	
	Total Value of Remedial Action (from Analysis Below)		0			
	Total Net Forecast Outturn (after remedial action)	**1,299,800**	**1,299,800**	**0**	**0.0%**	

Note All figures included above exclude Capital Charges and Levies

Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial Action
	TOTAL PROJECTED VARIANCE	**0**	**TOTAL VALUE OF REMEDIAL ACTION**	**0**

Note Remedial Action resulting in savings is shown in brackets

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

PORTFOLIO **Other Expenditure**

BUDGET 20,975,000 Asset Management Revenue Account

TOTAL CASH LIMIT **20,975,000**

CHIEF OFFICER **Michael Lawther**

MONTH ENDED **December 2015**

Risk indicator	
Low	L
Medium	M
High	H

ITEM No.	BUDGET HEADING	Total Budget	Forecast Year End Outturn	Variance vs. Total Budget		RISK INDICATOR
		£	£	£	%	
1	External Interest Paid	18,824,900	18,824,900	**0**	0.0%	H
2	External Interest Earned	(4,084,700)	(4,512,000)	**(427,300)**	(10.5%)	H
3	Net Minimum Revenue Provision	6,234,800	6,234,800	**0**	0.0%	M
	TOTAL	**20,975,000**	**20,547,700**	**(427,300)**	**(2.0%)**	
	Total Value of Remedial Action (from Analysis Below)		0			
	Total Net Forecast Outturn (after remedial action)	**20,975,000**	**20,547,700**	**(427,300)**	**(2.0%)**	

Note All figures included above exclude Capital Charges, Levies and Insurances
Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial Action
2	Improved returns through diversifying the investment portfolio	(427,300)		
	TOTAL PROJECTED VARIANCE	**(427,300)**	**TOTAL VALUE OF REMEDIAL ACTION**	**0**

Note Remedial Action resulting in savings is shown in brackets

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DECEMBER 2015

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2015/16

PORTFOLIO **Other Expenditure**

BUDGET 17,574,600 Miscellaneous

TOTAL CASH LIMIT **17,574,600**

CHIEF OFFICER **Michael Lawther**

MONTH ENDED **December 2015**

Risk indicator	
Low	L
Medium	M
High	H

ITEM No.	BUDGET HEADING	Total Budget £	Forecast Year End Outturn £	Variance vs. Total Budget £	Variance vs. Total Budget %	RISK INDICATOR
1	Precepts	0	0	**0**	-	L
2	Portchester Crematorium	(125,000)	(125,000)	**0**	0.0%	L
3	Compensatory Added Years & Contribution to Prior Years Pension Deficit	6,261,000	6,261,000	**0**	0.0%	L
4	Contingency	5,600,000	870,000	**(4,730,000)**	(84.5%)	H
5	Revenue Contributions to Capital	1,645,700	1,645,700	**0**	0.0%	L
6	MMD Losses	1,874,000	1,874,000	**0**	0.0%	L
7	Off Street Parking Reserve	(1,558,200)	(1,558,200)	**0**	0.0%	L
8	Transfer to / (From) MTRS Reserve	188,000	188,000	**0**	0.0%	L
9	Other Miscellaneous	874,000	874,000	**0**	0.0%	L
10	Other Transfers to / (from) Reserves	2,815,100	2,815,100	**0**	0.0%	L
	TOTAL	**17,574,600**	**12,844,600**	**(4,730,000)**	**(26.9%)**	
	Total Value of Remedial Action (from Analysis Below)		0			
	Forecast Outturn After Remedial Action	**17,574,600**	**12,844,600**	**(4,730,000)**	**(26.9%)**	
	Forecast Transfers To Portfolio Specific Reserves	889,700	889,700			
	Forecast Transfer From Ring Fenced Public Health Reserve	(643,000)	(643,000)			
	Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves	**18,464,300**	**13,734,300**	**(4,730,000)**	**(25.6%)**	

Note **All figures included above exclude Capital Charges, Levies and Insurances**
Income/underspends is shown in brackets and expenditure/overspends without brackets

REASONS FOR VARIATIONS AGAINST TOTAL BUDGET 2015/16

Item No.	Reason for Variation	Variance £	Remedial Action	Value of Remedial Action
	TOTAL PROJECTED VARIANCE	**0**	**TOTAL VALUE OF REMEDIAL ACTION**	**0**

Note **Remedial Action resulting in savings is shown in brackets**

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Portsmouth CITY COUNCIL

Title of meeting:	Cabinet
Date of meeting:	3 March 2016
Subject:	Childcare Early Implementer Status
Report from:	Alison Jeffery, Director of Children's Services
Report by:	Catherine Kickham, Early Support Commissioning Manager
Wards affected:	All Wards
Key decision:	No
Full Council decision:	No

1. Purpose of report

1.1 This report informs Cabinet that Portsmouth is one of eight local authorities awarded the Early Implementer Funding Bid.

2. Recommendations

2.1 It is recommended that the Cabinet agrees :

2.1.1.1 To note the award which will mean Portsmouth is part of the national pilot to work in partnership with its local Early Years providers to develop additional places with the flexibility that working parents need. The pilot will mean Portsmouth can develop 30 hours of free childcare for working parents in advance of the national roll out in September 2017. This childcare will meet the needs of particular communities including those in deprived neighbourhoods, children with SEND providing high quality childcare for all participating 3 and 4 year olds.

2.1.1.2 The involvement in this exciting national pilot will enable the local authority to try out innovative ways of working and enable feedback from Portsmouth Early Years providers and other findings to inform national policy. The grant to support this pilot currently stands at £55,000 but may increase and funding will be paid to the LA through a Section 31 grant. In the event that this is not ring fenced it is recommended that the Cabinet agrees this grant is allocated in full to the service for the implementation of this pilot.

3. Reasons for recommendations

3.1. The funding for this pilot is needed for the implementation of the programme.

4. Equality Impact Assessment (EIA)

4.1. This report does not require an Equality impact Assessment as the proposal does not have any impact upon a particular equalities group.

5. Legal implications

5.1. The City Council's statutory duty to secure prescribed early years provision free of charge is set out in section 7 of the Childcare Act 2006 and in Regulations made under that section.

5.2. There are no legal implications arising from the recommendation in this report.

6. Director of Finance's comments

6.1. Currently the Authority is expected to receive a one-off grant of £55,000 (which may increase) to support the additional costs associated with the implementation of the this Pilot. Due to the time limited nature of the grant, any additional posts required, will be on a temporary or fixed term basis.

6.2. At this stage in the process, we are still awaiting guidance as to the level of funding available to the Authority to pay providers for the extra hours of childcare provision. Additionally, the level of expected take up of these additional hours is unknown. Further work will be undertaken to quantify the financial impact once the detailed information becomes available.

………………………………………………
Signed by:
Director of Children's Services

Appendices:

A Department for Education Early Implementation: 30 hours of free childcare - Expressions of Interest Funding Application Form October 2015

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	**Location**

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by ……………………………… on ………………………………

………………………………………………
Signed by:

Appendix A

Department for Education

Early Implementation:

30 hours of free childcare

Expressions of Interest: Funding Application Form

October 2015

Making a proposal

All prospective bidders should read this form in conjunction with the supporting guidance, recently published policy statement and frequently asked questions document before completing the attached application form.

Deadline
All completed applications must be received by the Department for Education **by email by noon on Friday 20th November.**

Your local authority name and the words ‘early implementers funding bid’ should be included in the email “subject” header.

Completing your bid
A limit on the number of words is stated for each section in brackets next to the title. Any text that exceeds the stated limit will not be assessed.

All applications should be countersigned by the Director of Children’s Services.

Submitting your application
Please email a single **Word** version of your completed proposal to: Early.IMPLEMENTERS@education.gsi.gov.uk . To note, hard copy completed proposals will not be considered.

When you have sent the Department your application form, you will receive an automatic email response letting you know that your application has arrived with us.

Late proposals will not be considered
The Department will not be able to consider applications that miss this deadline as to do so would be to unfairly discriminate against those applicants who submitted their application within the allowed timescale.

Your Proposal

1) Summary of Your Proposal.
(500 words max). Maximum scoring 20 (weighting x4)

- Portsmouth City Council has a proven track record of achieving improved outcomes for our children and families. This pilot programme will allow us to continue our drive to improve children's outcomes, building on our successful initiatives and lessons learnt.
- The programme will be a cornerstone of fulfilling the City's priorities; encourage investment in our city creating economic prosperity and empower our residents to live independently and make the most of their opportunities
- We continue to work in close partnership with local childcare providers who are amongst the best in the country. Our most recent Ofsted profile shows judgements are above national average (England 85%, Portsmouth 89%).
- Children continue to exceed the England average with 68.6% achieving a 'good level of development' at EYFSP.
- Portsmouth was cited in the 2014 HM Chief Inspectors report as 12 of 150 LA's for the 'gap' between disadvantaged and the rest.
- Our 2yr old programme continues to grow with in excess of 70% of eligible children taking free early education with local providers. Outreach ensures robust, effective links with key partners including children's centres and health visiting. We identify and work directly with eligible families, providing brokerage and support to access the right choice of provision for them.
- This pilot will focus its delivery model on partnership working with group-based and childminding settings, allowing us to successfully deliver flexible 'wrap-around' care, delivering the 30hr offer to all eligible parents. Additionally, we will be able to extend our work with settings to robustly support eligible children with SEND.
- We will build on and extend our successful work in improving children's outcomes. This pilot programme will be linked to the Portsmouth Early Language Programme provided by the Teaching Schools Alliance and Local Authority.
- Portsmouth has a history of success when engaging with national programmes:
  - Achieving all targets set as part of the early year's 'payment by results' initiative
  - Every child a talker
  - EYPP take-up which has exceeded the target data provided to the LA
  - Successfully hitting our targets as an initial 2yr funding pilot in 2006 and exceeding national average for take-up in 2014-15.
- Portsmouth commissions a 'volunteer support programme', delivered locally by HomeStart with 75 volunteers currently completing an accreditation 'pathway', enabling them to effectively support service delivery. The training, supervision and work experience in this programme ensures volunteers are equipped to move into work. We will apply this successful model in our pilot to incentivise the journey back to work.
- Portsmouth has secured more than 1100 new childcare places since 2013; working creatively with community venues to maximise the impact of the limited funding. A range of providers have been engaged to extend existing high quality settings or to establish new provision. This includes extended and new school led provision, redevelopment of local community facilities to accommodate provision and remodelling of existing settings to extend capacity.

As part of the assessment for question 1, please include any key facts on:

- Why you want to be an early implementer – what do you hope to achieve and gain?
- Your track record of driving innovation and ensuring sufficiency in your LA area, in particular to make sure your local market meets the need of working parents.
- How all or part of the additional 15 hours could be provided to act as a work incentive and should parents choose, offered in more flexible ways.
- Your track record of delivering for diverse needs and areas e.g. deprivation, rurality, children with SEND, in working homeless families and BME communities.
- Your track record on two-year-old delivery, and;
- Evidence that this is a joint bid between an LA and providers

2) Project delivery and outcomes (800 words max) Maximum scoring 20 (weighting x4)

- The local authority's annual childcare sufficiency review will provide robust data for occupancy, take-up and projected demand; clearly defining sufficiency challenges and allowing the council to target resources.
- There is provider capacity within the current system; a number of new and expanding businesses are seeking innovative ways to increase occupancy.
- The pilot will be governed by the 'Childcare Sufficiency Advisory Group' (CSAG); a multi-agency group which oversees the sufficiency action plan and has allocated grant awards. The Group will expand to include thirteen 'named providers' who will form a sub-group responsible for the design and delivery of the operational aspects of the pilot. A full list of providers and a rationale for their inclusion can be found in appendix A.
- Flexible approaches across our childcare market include; 'shift work contract', a stretched offer across up to 51 week, holiday provision and growing use of childminders for early education funded places, 'wrap-around' care and 'out of hours' provision. The named providers will be responsible for sharing this good practice, advocating the business benefits of delivering it and will establish even greater flexibility across the market.
- Portsmouth's innovative and creative partnerships with key stakeholders has delivered improved outcomes across the City which this pilot will build on. These include:
    - Children's centres, an integral part of the City's early support pathway; delivering high quality services with 100% judged 'good or better' by Ofsted. Our centres work closely with partners to increase take-up and engagement in their reach areas, enhancing support for the most vulnerable families, with clear impact on outcomes.
    - The City-wide 'Work and Well-being Strategy' pathway enables families to enter the workplace by proactively identifying the skills parents need to be work ready e.g. confidence, good parenting skills, basic maths and English. It provides services to meet these needs and outlines a clear progression into employment.
    - We work directly with the EC Roberts Centre, a locally based charity providing 'supported tenancies' for our most vulnerable, chaotic families. Their staff have regular one to one contact with residents, enabling them to move into permanent accommodation and employment. We will use the extended free early education to further incentive their clients into work.
    - Ark Academy Schools Trust is committed to work with us to both develop their existing local provision in one of our most disadvantaged wards and contribute to shared learning as the pilot moves forward.
    - We will work with the National Careers Service who deliver services from our children's centres. This will enable those seeking employment to access childcare, which will further incentivise the return to work.
    - This pilot will enhance existing strategies and infrastructures which improve outcomes for children. For example, the community led 'Paulsgrove Community Strategy', which focuses on developing 'community assets' in one of our most disadvantaged areas. It seeks to develop community resilience and increase educational attainment and the number of working households. The pilot will enhance this work by providing more flexible childcare and incentives to work.

- The 'online headcount' and '2yr old eligibility' portals will be our key mechanisms which ensure streamlined processes, reducing the admin burden on our childcare providers and enabling them to focus more on service delivery and quality.
- Our local authority 'early year's traded services', launched in November 2015, has fundamentally transformed how we work with childcare providers. Settings are in the driving seat and have a greater say in the challenge and support they access. This builds on the market led approach to quality improvement, established over the past 3 years and will make sure that LA services are fully funded.
- Portsmouth's SEND reforms and our implementation of the Education, Health and Care Plans are a national exemplar. This pilot will build on existing good practice, including the work of the multi-agency Early Years SEND resource panel to enhance children's experience in childcare and to extend opportunities for children with the most complex needs.
- Portsmouth has a growing BME community, along with a successful track record of engagement. For example, our children's centres have a successful Polish group operating in one of the most disadvantaged areas of the City and a growing proportion of these children are now accessing free early education.
- Our existing 'process measures' demonstrate a high take-up of free early education for 2, 3 and 4yr olds, with an above national average percentage accessing 'good' provision. As a core target for this pilot we will increase the number of families accessing their full entitlement at high quality provision. Further 'process measures' will confirm increased numbers of parents who are tracked into employment, training and volunteering.
- Our outcome measures will include improved outcomes for children at periodic measures, 2 and 3yr check (in conjunction with health visiting) and periodic summary reports for children accessing free early education.

As part of the assessment for question 2, please set out how you intend to:

- Ensure <u>sufficient</u> childcare places are available, including your plans for mapping demand and supply; how you will fill supply gaps.
- Work with providers to develop additional places with the <u>flexibility</u> that working parents need, including those needing childcare during school holidays and in non-standard hours.
- Meet the needs of particular communities including those in deprived neighbourhoods; rural communities, children with SEND; homeless working families; BME communities; families on low incomes.
- Drive efficiency and innovation into a reformed LA delivery model
- Deliver ‘high quality childcare’ for all participating three- and four-year-olds;

3) Monitoring, evaluation, and shared learning (300 words max) Maximum scoring 15 (weighting x3).

- Take-up will be monitored alongside existing termly reports which feed our robust performance management systems. These include joint work between the 2yr funding team and each children's centre. Monthly data identifies take-up, along with a list of eligible children, enabling children's centres and their partners, including health visitors, to target specific families.
- The CSAG will challenge and support the pilot programme outcomes and will feed directly into the Schools Forum with an update report.
- From 1 April Portsmouth will introduce a new 'Multi-agency Team' structure (MAT's). This will bring together 0-19yrs services; children's social care, family intervention team, youth services, Health Child Programme and children's centres. The co-located teams and integrated management structure will focus on targeted work with families, identifying specific, eligible families and will target resources in the most beneficial way to support their journey to employment. This cross-cutting team will access a wide range of data and resources; secured through robust information sharing protocols and shared working practices.
- In addition, we will build on existing structures for shared learning both nationally and regionally. These include the Knowledge Hub, networking events and 'guided visits'. Portsmouth hosted a 'guided visit', facilitated by the Achieving 2yr Olds Programme, sharing our successful approach to monitoring and evaluation of the 2yr programme.
- We will continue to work in partnership with the Teaching School Alliance Early Year's Hub that prioritises language development and language for our most vulnerable and disadvantaged families.
- Portsmouth prioritises Department requests for data and information, particularly with regard to 2yr funding. This will continue under the extended hours pilot, working closely with providers to ensure the inclusion of family specific data as described below.

As part of the assessment for question 3, please set out:

- How you plan to monitor take-up among working parents and how this will be carried out
- How you will work with others (e.g. health care professionals, practitioners, children’s centres, schools, CMAs and providers) to share your learning and experiences from early implementation.
- Please also confirm that you would be willing to participate in a process of national evaluation with other areas to share your learning and experience from the early implementer trials. This is likely to include asking parents who receive a 30-hours funded place to, on a voluntary bases, provide information about how their working patterns changed (or not) when they access a place.

4) Staffing, Governance and Risks – (200 words max.) Maximum scoring 15 (weighting x3)

- Portsmouth Local Authority Early Years' Service will continue to lead this new programme and will remain the primary contact for the Department.
- Following investment, we have capacity in the market, infrastructure within the LA effective admin and quality assurance systems in place and are 'pilot' ready. The Local Authority, working with partners, has the required knowledge and expertise in place to deliver this. Additional funding to support delivery of the programme for the duration of the project will be key to our success. Project support will include 1 project officer costed at £35,000, along with an operational budget requirement of £20,000 to support delivery.
- Multi-agency governance will be through the CSAG which will maintain and review a risk register as part of their monthly meetings. The structure and rationale for this is reflected in section 2.

As part of the assessment for question 4, please set out how you plan to manage the trial, including:

- Management and governance arrangements, including who would be responsible for contact with the Department and shared learning activities.
- Key risks including your outline plans for managing and mitigating them. These should include arrangements to meet your equality duties and safeguarding vulnerable children (where this is applicable); and
- How you will involve local providers and/or partnerships in management and governance arrangements.

DECLARATION	
I confirm that the information given in this application is true and complete and that, if successful, the local authority will administer any grant in accordance with the letter supplied by the Department for Education.	
Name (block capitals):	CATHERINE KICKHAM
Position (Job Title):	Early Support Commissioning Manager
Date:	20 November 2015
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[Signatures redacted]