Portsmouth CITY COUNCIL

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NOTICE OF MEETING

CABINET

THURSDAY, 22 SEPTEMBER 2016 AT 1.00 PM

THE EXECUTIVE MEETING ROOM - THIRD FLOOR, THE GUILDHALL

Telephone enquiries to Joanne Wildsmith, Democratic Services Tel 9283 4057
Email: joanne.wildsmith@portsmouthcc.gov.uk

Membership

Councillor Donna Jones (Chair)

Councillor Luke Stubbs
Councillor Ryan Brent
Councillor Jim Fleming
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 July 2016** (Pages 1 - 6)

A copy of the record of the previous decisions taken at Cabinet on 8 July 2016 are attached.

RECOMMENDED that the record of decisions taken at the Cabinet meeting held on 8 July 2016 be approved as a correct record to be signed by the Chair.

4 **HSC Scrutiny review 'Support Services for young people living in isolation'** (Pages 7 - 36)

The Chief Executive will present the response report which is attached along with the Housing and Social Care Scrutiny Panel's published report which reviewed support services for people aged 16-25 living in isolation. The HSC Scrutiny Panel was chaired by Councillor Darren Sanders.

RECOMMENDED that Cabinet notes the comments in relation to the Scrutiny Panel's recommendations at section 4 of the response report.

5 **Key Future Approaches for Children's Services** (Pages 37 - 52)

The report by the Director of Children's Services seeks approval from the Cabinet for the "Stronger Futures" strategy to improve outcomes for children and families in Portsmouth through consistent application of effective, targeted, empowering approaches to helping families.

RECOMMENDED that Cabinet agree:

(1) The "Stronger Futures 10 point plan" set out at appendix 1 for effective, proportionate support for children and families around health, wellbeing and safeguarding.

(2) That the Cabinet Member for Adult Social Care and Public Health and the Cabinet Member for Children's Social Care are authorised to review and agree within the next three months the provider model and procurement process as appropriate for a refreshed integrated City Council early intervention offer bringing together current VCS contracts, Children's Centres and Public Health delivery.

(3) That the council's contracts with Solent NHS for Health Visiting, School Nursing and Family Nurse Partnership are extended for a period of two years subject to the Cabinet Member for Adult Social Care and Public Health receiving a risk appraisal prepared by the Procurement Manager and City Solicitor; and that over the span of the Stronger Futures programme, arrangements are agreed to integrate delivery of these services operationally with the refreshed City Council early intervention offer.

6 **Standing Order 58 - Urgent Action - Extending Council Authorised Limit for External Debt** (Pages 53 - 56)

The necessary consultation with the relevant councillors took place before this urgent decision was taken by the Chief Executive on 24 June 2016. Details of the authorising memo are attached.

RECOMMENDED that the Cabinet note the urgent decision taken by the Chief Executive in response to the above matter in accordance with Standing Order 58 of the council's procedure rules.

7 **Treasury Management Outturn Report 2015/165** (Pages 57 - 80)

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code requires local authorities to calculate prudential indicators before the start of and after each financial year. Those indicators that the Council is required to calculate at the end of the financial year are contained in Appendix A of the report by the Director of Finance and Section 151 Officer.

The CIPFA Code of Practice on Treasury Management also requires the Section 151 Officer to prepare an annual report on the outturn of the previous year. This information is shown in Appendix B of the report.

RECOMMENDED TO COUNCIL that the following recommendations relating to Appendices A and B of this report be approved:

Appendix A - that the following actual prudential indicators based on the unaudited draft accounts be noted:

(a) The actual ratio of non-Housing Revenue Account (HRA) financing costs to the non HRA net revenue stream of 11.9%;
(b) The actual ratio of HRA financing costs to the HRA net revenue stream of 13.1%;
(c) Actual non HRA capital expenditure for 2015/16 of £115,276,000;
(d) Actual HRA capital expenditure for 2015/16 of £27,437,000;
(e) The actual non HRA capital financing requirement as at 31 March 2016 of £280,516,000;
(f) The actual HRA capital financing requirement as at 31 March 2016 of £154,734,000;
(g) Actual external debt as at 31 March 2016 was £490,378,035 compared with £462,566,096 at 31 March 2015.

<u>Appendix B</u> - That the following actual Treasury Management indicators for 2015/16 be noted:

(a) The Council's gross debt less investments at 31 March 2016 was £118,551,000;
(b) The maturity structure of the Council's borrowing was

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Actual	1%	1%	2%	4%	18%	10%	22%	42%

(c) The Council's sums invested for periods longer than 364 days at 31 March 2016 were:

	Actual £m
31/3/2016	196
31/3/2017	106
31/3/2018	33

(d) The Council's fixed interest rate exposure at 31 March 2016 was £220m, ie. the Council had net fixed interest rate borrowing of

£220m

(e) **The Council's variable interest rate exposure at 31 March 2016 was (£186m), ie. the Council had net variable interest rate investments of £186m.**

8 **Treasury Management Mid-Year Review 2016/17** (Pages 81 - 102)

The purpose of the report by the Director of Finance and Section 151 Office is to review the current treasury management position and strategy and make recommendations to improve the strength and performance of the treasury management operation. This report seeks to further diversify the Council's investment portfolio by increasing the number of countries that the Council can invest in and by allowing investments with a BBB credit rating. Appendix A aims to inform members and the wider community of the Council's current Treasury Management position and of the risks attached to that position.

The recommendations 1-9 need Council approval.

9 **4 Year Local Government Finance Settlement - Multi Year Settlements** (Pages 103 - 110)

The report by the Director of Finance & Information Service (S151 Officer), which is **also submitted to Council**, considers the government's offer of a four year funding settlement up to and including 2019/20 to any council that wishes to take it up. Conditional upon acceptance by Government is the publication of an Efficiency Plan on the Council's website and the link being notified to the Department of Communities and Local Government (DCLG) by 14 October 2016.

RECOMMENDED that:

(1) **The government offer of a multi-year settlement to 2019/20 announced on 17 December 2015, be accepted**
(2) **That in accepting the offer of a multi-year settlement, the Efficiency Plan clearly states that the Plan outlines the method by which the Council will pursue its necessary savings in response to both its cost pressures and government funding reductions but that there is no implied acceptance that those cost pressures and government funding reductions can be achieved through efficiencies alone without significant detriment to service provision.**

10 **Efficiency Plan (response to 4 year funding settlement)** (Pages 111 - 126)

The report by the Director of Finance & Information Service (S151 Office) considers the Council's Efficiency Plan which is proposed for endorsement and is required to be published on the Council's website and the link notified to the Department of Communities and Local Government (DCLG) by 14 October 2016 should the Council choose to accept the government's offer of a four year funding settlement up to and including 2019/20 (elsewhere on this agenda). The Efficiency Statement also includes a "Flexible Use of Capital Receipts Strategy" for endorsement.

RECOMMENDED that the Efficiency Plan is endorsed.

11 **Revenue Budget Monitoring 2016/17 (1st Quarter) to end June 2016** (Pages 127 - 136)

The report by the Director of Finance & Information Service updates members on the current Revenue Budget position of the Council as at the end of the first quarter for 2016/17 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 9th February 2016.

(The recommendations will need to be forwarded to Council for approval)

12 **Exclusion of Press and Public**

"That, under the provisions of Section 100A of the Local Government Act, 1972 as amended by the Local Government (Access to Information) Act, 1985, the press and public be excluded for the consideration of the following item on the grounds that the report(s) contain information defined as exempt in Part 1 of Schedule 12A to the Local Government Act, 1972".

The public interest in maintaining the exemption must outweigh the public interest in disclosing the information.

Under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012, regulation 5, the reasons for exemption of the listed item is shown below.

Members of the public may make representation as to why the item should be held in open session. A statement of the Council's response to representations received will be given at the meeting so that this can be taken into account when members decide whether or not to deal with the item under exempt business.

(NB The exempt/confidential committee papers on the agenda will contain information which is commercially, legally or personally sensitive and should not be divulged to third parties. Members are reminded of standing order restrictions on the disclosure of exempt information and are invited to return their exempt documentation to the Local Democracy Officer at the conclusion of the meeting for shredding.)

Item	**Paragraph**
Sale and Leaseback - White Hart Road	**3**

(Paragraph 3 relates to information relating to the financial or business affairs of any particular person or authority)

13 **Sale and Leaseback - Property in White Hart Road** (Pages 137 - 142)

To seek authority to enter into a 'sale and leaseback' transaction in relation to the Council's legal interest in land on White Hart Road, leased to Wightlink Ltd as depicted on the plan at appendix 1.

RECOMMENDED that Cabinet authorises:

(1) The grants a new headlease and leaseback in land on White Hart Road, Portsmouth

(2) A delegated authority to the Director of Property and the Director of Finance & Section 151 Officer, taking advice from the City Solicitor, and in consultation with the Leader of the City Council, to approve the completion of disposal in (1) above.

(3) The reinvestment of the Capital receipt produced by the transaction into the property investment strategy, in order to spread risk and deliver an improved financial return.

Members of the public are now permitted to use both audio visual recording devices and social media during this meeting, on the understanding that it neither disrupts the meeting or records those stating explicitly that they do not wish to be recorded. Guidance on the use of devices at meetings open to the public is available on the Council's website and posters on the wall of the meeting's venue.

CABINET

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

Present

Councillor Donna Jones (in the Chair)

Councillors Luke Stubbs
Ryan Brent
Jim Fleming
Robert New
Linda Symes
Steve Wemyss
Neill Young

27. Apologies for Absence (AI 1)

Apologies for absence were offered for Councillor Lee Mason.

28. Declarations of Interests (AI 2)

There were no declarations of members' interests.

29. Record of Previous Decision Meeting - 9 June 2016 (AI 3)

DECISION: that the record of decisions of the Cabinet Meeting held on 9 June 2016 be agreed as a correct record, to be signed by the Leader.

30. Council Tax Support Consultation (AI 4)

Louise Wilders, the Director of Community & Communication, presented her report, which set out the current cost of £12.3m per year and the £17.m funding gap which needed to be addressed. The timetable within her report set out the planned review and the formal consultation which would take place in the autumn to report back to Council in November 2016. The consultation would be inclusive of disabled groups and social landlords.

Councillor Gerald Vernon-Jackson, whilst supporting going out to consultation, was concerned about the possible effect on disabled residents and those on sickness benefits.

Councillor Donna Jones, as Leader, was supportive of reviewing to make savings but wanted to ensure that the most vulnerable are protected, particularly the disabled. This would therefore be looked at further, once the consultation had been undertaken and she encouraged residents to participate in this exercise. Councillor Luke Stubbs referred to examples of reductions offered by other councils, such as at Brighton where a lower rate is charged for the disabled.

DECISIONS:
(1) Cabinet noted the provisional timetable for review of the current Council Tax Support policy (see page 5 of the report);

(2) Cabinet noted that in order to consult with the Council's precept Authorities and the residents of Portsmouth on the changes to the local scheme and the financial implications for them, it will be necessary to take decisions on the Council Tax Support scheme before the Council's annual budget for 2017/18 is ratified and to allow sufficient time for implementation for April 2017;

(3) Cabinet noted that changes to the council tax support scheme will have the potential to impact on the overall collection of council tax.

31. Protocol for Demise of Senior National Figure (AI 5)

Claire Looney, Partnership & Commissioning Manager, presented her report on behalf of the Director of Culture & City Development. This had been drawn up to ensure an appropriate protocol was in place and the Communications Team and Lord Mayor's Office had been involved in its production.

Councillor Donna Jones, as Leader, felt that it was important for this to be in place as Portsmouth was a significant military city which attracted media coverage for national commemorations.

The cabinet members discussed whether the list appended to the report needed any additions before agreeing the list unamended.

DECISIONS:
(1) That the Protocol be adopted to be used in the circumstances of the death of a senior national or significant local figure.

(2) Members requested an annual review of the protocol by officers to ensure that it is kept up to date, relevant and correct within relevant legislation and heraldic rules.

32. Safer Portsmouth Partnership (SPP) - Partnership Plan (AI 6)

Lisa Wills, the Strategy & Partnership Manager, presented her report on behalf of the Director of Regulatory Services & Community Safety. This represented a significant update to a 5 year plan, and was based on both analysis and residents' views in response to a survey. The Safer Portsmouth Partnership was reducing the number of priorities from 6 to 3. Domestic Abuse was the single most significant driver for violent crime in the city and was present in 60% of child protection cases. A new priority was in the area of complex cases as it was known that in the majority of longstanding Anti-Social Behaviour cases there were complex needs identified.

Councillor Rob New, as Cabinet Member for Environment & Community Safety, thanked Lisa Wills and her team for producing the refresh of the

Partnership Plan. The strategy had highlighted the need for better data sharing from the police to allow better analysis, as Portsmouth's information is then provided to the region's Police & Crime Commissioner.

Councillor Donna Jones, as Leader of the Council, had met with the new Chief Constable and new Police & Crime Commissioner, and whilst she was pleased that the low level crime figures were down she was concerned by recent incidents of serious crime. It was therefore important to have reliable data and discussions on shared information were taking place between Hampshire authorities. Councillor New confirmed that the Safer Portsmouth Partnership was discussing information sharing with Southampton City Council and Lisa Wills reported that a bid for shared analyst positions pan-Hampshire had been submitted to the Police & Crime Commissioner, which she hoped would be successful.

RECOMMENDED to Council that it endorses the strategic priorities contained in the Safer Portsmouth Partnership Plan 2016 update and aligns the relevant budgets to support activity.

33. Solent Combined Authority Governance Review and Scheme (AI 7)

Councillor Hugh Mason addressed the Cabinet and commented on the need to keep all councillors involved in the progress of the negotiations as there had been a lot of recent press coverage on this subject. He was concerned regarding the recommendations to delegate power to the Leader on such an important matter when all councillors have a key role as policy makers as a Combined Authority would constrain some of the authority's future powers.

Councillor Darren Sanders then spoke and thanked the Chief Executive for briefing members earlier in the week and questioned the extent of the powers that could be lost under a Combined Authority, such as on bus subsidies and housing targets. He suggested that this merited wider consultation via a referendum.

Councillor Gerald Vernon-Jackson CBE also addressed the Cabinet to say that he supported the idea of a Combined Authority he stressed that there needed to be greater public involvement as part of the process, and felt that the timing would allow debate at Council. He referred to Southampton City Council's meeting of Council before a decision was taken by their Cabinet.

David Williams, Chief Executive, explained the background to the report and the process of negotiations between the authorities. There was now a draft devolution deal for consideration and a governance review that had been prepared by the three unitary authorities, Portsmouth, Southampton and the Isle of Wight. There were 5 options to consider, ranging from the status quo, to a joint authority (similar to the PUSH model) through to a mayoral combined authority. If the conclusion of the review is accepted the next step was for the development of a draft scheme to go out to consultation and then report back to the Secretary of State. The report before the Cabinet was asking for agreement that if the Leader is content that the mayoral combined authority is the best mechanism for our geographical area we should go out to wider consultation on our scheme. He confirmed that this was an executive function that could be made by the Cabinet or delegated to the Leader, and one that Southampton City Council's Cabinet were taking rather than full Council.

In response to the issues raised by earlier speakers the Chief Executive expanded on the subsidiarity issues and felt that effective transport routes (which extended beyond the city's boundary) were good reasons for pursuing a combined authority. Public health and adoption were also suitable for collaborative work over a wider area, with work already taking place on the appointment of a joint Director of Public Health with Southampton City Council. He would not favour a referendum but there would be consultation and these responses would be reviewed. The Secretary of State would need to be convinced on our submission showing the benefits of a combined authority and on the validity of the consultation.

Councillor Donna Jones, as Leader, guaranteed that she would not be taking this decision by herself and would ask the Council for their views. She explained that the draft scheme had not been available at the time of publication of papers but this would now be forwarded to all members and this would form the basis of consultation. At Southampton CC their group leaders had debated this and the Isle of Wight had discussed at Council and would go to their Executive the following week.

The consultation would be on all the options and the results would be reported to members before the submission is made to the Secretary of State. A letter had gone from the Leaders of the three authorities to inform the Secretary of State that executive decisions were being taken and that the district councils would be invited to join the combined authority as non-constituent members.

The Leader was keen to keep the group leaders informed of progress, and felt that this had evolved speedily when the pan-Hampshire model had failed and the Treasury had wanted the Solent combined authority model to be resurrected. There would now be wider consultation before the October Council meeting, and she anticipated that this would then be subject to a further 6 months for parliamentary approval in the Spring. Portsmouth CC was still pushing for business rate retention.

Councillor Stubbs, Deputy Leader, supported the move to transfer some powers upwards that were suitable for this such as buses, highways and some public health functions where scaling up would help for the delivery of outcomes. Major transport schemes already went through the Local Enterprise Partnership (LEP) to get regional agreement.

Councillor Jim Fleming as Cabinet Member for Traffic & Transportation recognised that for transport issues this would have a big impact, although a lot of decisions were already being taken at a higher level and for sustainable transport this was best delivered through a combined authority. There were benefits on working on a wider area such as for the A3 bus corridor which needed a joined up approach. He supported the plans to go out to consultation.

The Leader undertook to share the draft scheme with all members and in light of this it was DECIDED that Cabinet:

(1) Noted that a Governance Review is currently underway that is looking at governance arrangements across Southampton, the Isle of Wight and Portsmouth in the context of the efficiency and effectiveness of inter-city, inter-authority economic development, regeneration, transport, and devolved central government functions.

(2) Agreed that the Leader of the Council be given delegated authority to receive the results of the Governance Review and, in conjunction with the Chief Executive, make a decision on how to respond to this review.

(3) Agreed that if the Leader of the Council decides, in response to the Governance Review, that Portsmouth City Council should seek to promote the creation of either a Combined Authority or an Economic Prosperity Board that in conjunction with the Chief Executive she be given delegated authority to approve a draft scheme, prior to a process of consultation over the coming months.

(4) Agreed that an update report be presented to Cabinet in the Autumn.

34. Consultation on proposed changes in governance arrangements for Hampshire Fire & Rescue Authority (AI 8)

Councillor Gerald Vernon-Jackson CBE spoke in support of having 2 Portsmouth CC representatives to keep the knowledge to a wider group and therefore advocated the 18 member model.

Robert Parkin, Deputy City Solicitor, introduced his report on behalf of the Deputy Chief Executive, which set out the outcomes of the working group which had been commissioned to examine the future delivery and governance arrangements for the Hampshire Fire & Rescue Authority. Stakeholders had been invited to respond to Councillor Chris Carter's letter (as appended to the report) with the options for either 18 or 10 councillor members (plus the Police & Crime Commissioner in both cases).

Councillor Luke Stubbs, Deputy Leader, felt that in the future these powers may transfer to the Police & Crime Commissioner but at this point he favoured a smaller body. This would have a broader structure and more frequent meetings but would be less expensive for residents. It was noted that there are not corresponding scrutiny arrangements for this body, but there is a sub-committee structure (as set out in Appendix 2 to Councillor Carter's letter).

Cabinet Members hoped that a reduction would encourage a more strategic approach (as seen with the realigned Safer Portsmouth Partnership structure). It was believed that Southampton and Hampshire Councils were favouring the smaller structure.

DECISION: The Cabinet noted the outcome of the Hampshire Fire & Rescue Authority Governance Review, and would respond that the City Council favours the model of 11 Members (10 councillors plus the Police & Crime Commissioner).

The meeting concluded at 2.07 pm.

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Councillor Donna Jones
Leader of the Council

Portsmouth CITY COUNCIL

Agenda item:

Title of Meeting: Cabinet

Date of Meeting: 22nd September 2016

Subject: Response to the Housing and Social Care Scrutiny Panel - Isolation Report

Report by: David Williams, Chief Executive

Wards affected: All

Key decision: No

Budget & policy framework decision: No

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1. Purpose of report

The purpose of this report is to respond to the Housing & Social Care Scrutiny Panel's review of support services for people aged 16-25 living in isolation.

2. Recommendation

That Cabinet notes the comments in relation to the Scrutiny Panel's recommendations at point 4 below.

3. Background

This review was undertaken by the Housing and Social Care Scrutiny Panel to:

- Identify whether people aged 16-25 in Portsmouth experience feelings of isolation.
- Understand the reasons why people feel isolated.
- Examine the symptoms of isolation
- Assess what support is available
- Assess the possible barriers to accessing support services

4. Responses to the Recommendations made within the Scrutiny Panel report

The Panel raise a range of issues associated with isolation, and whilst the council has no obligations to address 'isolation' per se, members will note the range of activities and practices adopted by the Council which help address causes and consequences. These are outlined in response to each of the Panel's recommendations.

4.1 To consider providing a support mechanism for those young people and their families who have been forcibly isolated and to encourage integrated and cross departmental working.

It is important to note that the term 'forcibly isolated' does not relate to any action by the Council, but is used to describe exceptional circumstances where the family either rejects the young person from the family home or where the family have moved out of the home and left the young person in the property.

A joint working protocol exists between Housing Options and Children's Social Care to deal with young people aged 16 and 17 who present as homeless. This protocol details the assessment and intervention pathways so as to assist young people accessing accommodation and support services that properly meet their needs. Children's Social Care and Housing Options are currently undertaking a comprehensive review of the support services for young people living away from their families. As part of this work, a survey has been completed with children in care and care leavers and a new protocol will be developed outlining assessment and intervention pathways.

Within the Education Service, the Youth Advisory Service, works closely with the two hostels in Portsmouth (All Saints and Portsmouth Foyer) that provide accommodation and support for 16-25 year olds who are homeless, or at risk of homelessness. The Youth Advisory Service takes referrals from the hostels and provides support and advice to ensure young people can access and secure post-16 education, training and employment opportunities and in turn reduce the proportion of young people who are not in education, training or employment (NEET). The service also drops-ins across a variety of community locations in Portsmouth, providing young people with regular opportunities to access support.

4.2 Part of the voluntary sector transition fund be utilised to examine the process to work holistically towards an integrated path by groups (including churches).

The voluntary sector transition fund or public sector challenge fund is part of the council's ongoing drive for savings, which invites innovative partnering solutions through opportunities to involve Voluntary, Community and Social Enterprise organisations (VCS) in redesigning and re-providing core Council service activities.

The Council seeks the expertise of the VCS through Expressions of Interest in re-providing and re-designing services that the council currently provides which demonstrate credible and sustainable service models but crucially, produce real savings to City Council budgets.

It is unlikely that this piece of work will meet the criteria for this fund unless adjustments are made to the criteria.

4.3 The council to continue to work with private sector landlords to encourage the take up of younger tenants.

The housing options team have and will continue to explore options with private sector landlords, to encourage them to accommodate young people, especially those from the supported housing pathway, who have proven their ability to live independently.

There is funding available to cover rent deposits and reasonable tenancy set up costs, but the reality is that most private sector rents are unaffordable for young people and landlords are not prepared to take risks on the rent being paid.

Local research has been undertaken to explore the barriers to accessing the private sector from the supported housing pathways, which should give clarity to the barriers in place which may be useful in identifying solutions.

4.4 The council should work proactively with other agencies to manage the impact of legal highs in our accommodation.

The Psychoactive Substance Act 2016, which came into force in May, now makes it an offence to produce, supply, offer to supply, or possess with the intent to supply any substance that is capable of producing a psychoactive effect (previously known as legal highs).

It also includes provisions for civil sanctions which has enabled the Police and local authorities to respond to the supply of psychoactive substances.

Whilst it is too early to conclude that this will assist in the management of psychoactive substances misuse within the supported housing pathway for young people it does provide the legislation and penalties which can be used to try and stem the problem.

The situation will continue to be monitored and a multi-agency approach taken if needed and appropriate.

4.5 Provide further training to enable teachers, youth workers, and health visitors to identify and tackle the 'hidden isolated' in schools and classrooms.

The Education Service commissions The Harbour School (THS) to provide support for young parents in Portsmouth working closely with teachers, youth workers and health visitors.

It is important to note the links with Future in Mind and the review in Portsmouth which is focusing on how mental health services are provided to children and young people and their families across the city. An investment of £2m has been secured over the next 5 years which will be used to transform the way mental health services are organised, commissioned and provided. As part of this review, the Education Service has agreed a secondment with Priory School to work with schools and look at whole school strategies to promote wellbeing resilience in children and young people. A follow up stakeholder event is being held on 28th September 2016.

Whilst the report does not specifically mention young people with learning difficulties and disabilities or Autism, this is a cohort vulnerable to poor outcomes and isolation. The SEND reforms provides a mechanism for joint planning for young people with SEND which includes health care and housing needs as well as support to access training, education and employment. The Portsmouth SEND Strategy is one of 4 priorities within the Children's Trust Plan and has recently been refreshed to cover the period 2016 to 2019. The overall aim of the strategy remains the same: to promote inclusion and improve the outcomes for Portsmouth children and young people aged 0-25 years with SEND and their families. The outcomes that this strategy is aiming to improve are: to increase the percentages of children and young people with SEND who are able to:

- Be included within their local community
- Lead healthy lives and achieve wellbeing
- Learn and make progress
- Make and maintain positive relationships within their family and community
- Participate in education and training post-16 and prepare for employment

There are six strands of the SEND Strategy:

Strand A: Promote good inclusive practice to improve outcomes
Strand B: Successful implementation of the SEND reforms
Strand C: Effective joint commissioning to improve outcomes
Strand D: Co-production, embedded as a way of working with children, young people and their parents and carers
Strand E: Early identification and early support for children with SEND and their families
Strand F: Effective preparation for adulthood and smooth transitions to adult services

4.6 Schools are encouraged to teach more life skills within PHSE and publish how much they are currently doing on the council's website

Within the Public Health service, and supported by the Education service, staff have been working with primary and secondary schools to deliver a bespoke PSHE programme for Portsmouth which has included a traded services offer, PSHE training and termly meetings with school PSHE leads. From September 2016 the service is launching the *Public Health Portsmouth Schools and Colleges Health Programme* which includes PSHE as a key component. Six schools will be piloting the programme ahead of a wider roll out across Portsmouth. Life skills will form an important part of the programme and will be covered under 'healthy lifestyles' and 'healthy relationships'.

4.7 The council to work with partners to explore the feasibility of allowing access to support service and advice under one roof, ideally using existing facilities. Services like those provided at the Foyer to be available elsewhere in the city.

This is already being actioned. The Society of St James, who are commissioned to provide supported accommodation for young people are looking for appropriate funding to enable them to provide an advice & support service to young people who are not resident in their service.

This is something that will also be considered in future service specifications when commissioning support services for young people.

4.8 Young cares to be included in any decision affecting respite care which may impact on them

Children's Social Care currently supports two young carer's groups across the city - one that runs in the evening and the other that runs at the weekend. In addition to this the young carers groups offer activities during school holidays. There are 2 workers who organise these groups, and these members of staff are able to advocate on behalf of a young carer receiving a service.

The recent Care Act 2015 and the Children and Families Act 2014 have specified that young carers must be assessed and consequently our assessments are becoming more robust. We are working with approximately 500 young carers across the city.

If a young carer's needs are such to require respite care an assessment would be completed by a qualified social worker and this would include seeking the views and wishes of the child. At this time our corporate audit team are auditing a sample of assessments to determine the level of compliance with procedures. This will include checking evidence that children and young people are contributing to the decisions that affect them. Whilst this audit will not be specific to young carers it will pick up issues for children and young people generally.

Within the Public Health service, staff are working with primary and secondary schools and colleges to identify young carers and support them appropriately within their provision and this work is funded by the CCG. In addition to this there are specialist substance misuse and mental health workers who adopt 'whole family' approaches so as to be alert to the needs of isolated young carers.

4.9 The council to assess the impact for charging affordable market rent.

The links between housing and poverty are complex and whilst there is research available on this subject, there is nothing linked directly to affordable rents. To assess the financial impact for tenants of moving from social rents to affordable rents would need a specific piece of work which would need to be planned and resourced.

………………………………………………
Signed by:

Appendices: Report by the HSC Scrutiny Panel (24 March 2016)

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 Cabinet on 22 September 2016.

………………………………………………
Signed by:

HOUSING AND SOCIAL CARE SCRUTINY PANEL

AN ASSESSMENT OF SUPPORT SERVICES FOR PEOPLE AGED 16-25 LIVING IN ISOLATION

Date published: 24 March 2016

Under the terms of the Council's Constitution, reports prepared by a Scrutiny Panel should be considered formally by the Cabinet or the relevant Cabinet Member within a period of eight weeks, as required by Rule 11(a) of the Policy & Review Procedure Rules.

PREFACE

Isolation among the elderly has, understandably, attracted a lot of attention in recent years. There is a lot of great work going on around Portsmouth in this area, although more can always be done.

Isolation among 16-25 year olds is less remarked upon, but nonetheless real. That is why this Panel chose this topic.

We would like to thank everyone who has taken part in this exercise. Panel members have heard from a wide range of organisations and people about the real problems that face young adults.

The Panel has been clear that it wanted to look at the reasons for isolation, the barriers that stop services being as good as they could be and what can be done to improve them. We want to pay tribute to everyone working in this field for their work in the current challenging climate.

Some of the answers they gave us make uncomfortable reading; others are truly inspiring. Many are included in this report. The Panel is clear that we need to come up with deliverable solutions and we would like to thank Owen Buckwell and Robb Watt for leading challenge sessions that have helped us do that, we believe.

I would like to thank all the panel members who have taken part: Gemma New, Ryan Brent, Alicia Denny, Phil Smith, Sandra Stockdale and Margaret Foster. I would also want to pay special thanks to our Scrutiny Officer, Lucy Wingham, for her conscientiousness and endless patience with all of us.

Councillor Darren Sanders
Chair, Housing and Social Care Scrutiny Panel.
Date: 24 March 2016

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EXECUTIVE SUMMARY.

1. To identify whether people aged 16-25 living in Portsmouth experience feelings of isolation.

The panel heard from a number of partners who are involved in the care and support of young people living in Portsmouth aged between 16 and 25, and also visited a supported housing facility for residents who are homeless and evidence showed that young people who are experiencing feelings of isolation are often experiencing a family relationship breakdown.

2. To understand the reasons why people feel isolated.

Isolation can refer to the lack of social or family contact, community involvement or access to services. Young people can often feel isolated because of their personal circumstances. For example; experiencing a family relationship breakdown, becoming a young parent, being a young carer. The majority of issues for young people have a root cause, which can often lead to mental health issues, alcohol or drug misuse.

3. To examine the symptoms of isolation.

Isolation is the sense of feeling alone, the experience of being separated from others, such as the family. The internet, phone and video games all contribute to the lack of social interaction with other people, which can cause feelings of being alone as they replace face to face contact.

4. To assess what support is available.

Youth clubs and adventure playgrounds provide a valuable refuge from life at home for many young people. They are often located in areas of deprivation. Children's centres are also an essential base for young people to access support services and to meet other young people who are experiencing similar feelings.

The network of support, and accommodation, provided at The Foyer is essential to enable young people to develop life skills required to moving forward in their lives.

5. To assess the possible barriers to accessing support services.

The housing benefit rules state that young people under the age of 35 can only go into shared accommodation, a bed-sit or a single room. Rent is often required in advance.

It was noted that there are fewer services for young people to access north of the city. There are plenty in the city but many young people cannot afford the bus ride into the city.

CONCLUSIONS.

Based on the evidence and views it received during the review process the panel has come to the following conclusions:

- Recognised that young people can feel isolated for a number of reasons but particularly if they are separated from their families and their peers.

- Noted that the council has made the decision to end the council funding of the non-statutory elements of the current Integrated Youth Support Service (ITYSS). This service supported 13-19yrs, and up to 25 with special needs, by providing advice and guidance about issues affecting young people.

- Was pleased to note that there are many types of support from various agencies for young people. Community wardens and the Youth Offending Team as well as other agencies can be involved. The council has a high support unit in Victoria Road South.

- Is concerned that trying to find private sector housing for vulnerable young people is really difficult and often a guarantor is needed to secure a tenancy.

- Noted that the Portsmouth Foyer provides a unique community for vulnerable and disadvantaged young people aged 16-25. It provides accommodation and an extensive network of support to enable young people to develop the life skills required to move forward towards independence. The support offered includes education and training programmes, developing and improving life skills and developing self-worth and confidence enabling the young people to move forward with their lives in a positive way. The services provided at the Foyer should be accessible in other areas.

- Recognised the importance of knowing where support services, advice and help can be accessed is important in looking to empower individuals to tackle their issues. Having a positive destination in terms of employment and higher education can have an impact on the emotional health and wellbeing of a young person.

- Recognised that early intervention and prevention is key.

- Accepted that it is impossible to eliminate young people from isolation completely. There will always be the 'hard to reach' who stay in their bedroom playing on gaming equipment on their own. However it is possible to be isolated without being lonely as this can be a result of their choosing.

- Young people need a sense of purpose and a focus.

- Recognised that feeling isolated is a common issue for young carers because they give up many social opportunities, work and leisure activities due to the demands of their caring role.

RECOMMENDATIONS.

The panel made the following recommendations:

- To consider providing a support mechanism for those young people and their families who have been forcibly isolated and to encourage the integrated and cross departmental working.

- Part of any voluntary sector transition fund be utilised to examine the process to work holistically towards an integrated path by groups (including churches).

- The council to continue to work with private sector landlords to encourage the take up of younger tenants.

- The council should work proactively with other agencies to manage the impact of legal highs in our accommodation.

- Provide further training to enable teachers, youth workers and health visitors to identify and tackle the 'hidden isolated' in schools and classrooms.

- Schools are encouraged to teach more life skills within PSHE and publish how much they are currently doing on the council's website.

- The council to work with partners to explore the feasibility of allowing access to support service and advice under one roof, ideally using existing facilities. Services like those provided at the Foyer to be available elsewhere in the city.

- Young carers to be included in any decisions affecting respite care which may impact on them.

- The council to assess the impact for charging affordable market rent.

PURPOSE

The purpose of this report is to present the Cabinet with the recommendations of the Housing and Social Care Scrutiny Panel's assessment of the support services for people aged 16-25 living in isolation in Portsmouth.

BACKGROUND

This review was started by the Housing and Social Care Scrutiny Panel which comprised:

Councillors Darren Sanders (chair)
Alicia Denny
Hannah Hockaday
Phil Smith
Sandra Stockdale
Alistair Thompson

Standing Deputies were: Councillors Michael Andrewes, Simon Bosher, Margaret Foster, Stuart Potter and Gerald Vernon-Jackson.

Following the annual Council meeting on 19 May 2015 Councillor Darren Sanders was re-appointed as chair and the panel comprised:

Councillors Ryan Brent
Margaret Foster
Gemma New
Stuart Potter
Phil Smith

Standing Deputies are: Councillors Dave Ashmore, Jennie Brent, Hannah Hockaday, Ian Lyon, Lynne Stagg and Matthew Winnington.

Following the city council meeting on 13 October 2015 Councillor Sandra Stockdale was appointed to the panel in place of Councillor Phil Smith and Councillor Alicia Denny was appointed in place of Councillor Stuart Potter.

At its meeting on 16 January 2015, the Housing and Social Care Scrutiny Panel (henceforth referred to in this report as "the panel") agreed the following objectives for the review:

- To identity whether people aged 16-25 living in Portsmouth experience feelings of isolation.
- To understand the reasons why people feel isolated.
- To examine the symptoms of isolation.
- To assess what support is available.
- To assess the possible barriers to accessing support services.

The panel met on six occasions between 6 February and 8 October 2015. A list of meetings held by the panel and details of the written evidence received can be found in appendix one. A glossary of terms used in this report can be found in appendix two. The minutes of the panel's meetings and the documentation reviewed by the panel are published on the council's website.

OBJECTIVES

1. The panel invited various witnesses as listed in appendix A, to provide information to identify whether people aged 16-25 living in Portsmouth experience feelings of isolation.

During the review it became apparent that from the evidence gathered the following were experiencing induced feelings of isolation; young parents, young people thrown out of the family home or left by the family, young carers and young people leaving foster care.

1.1 The Housing Options Manger explained to the panel that it is often the case that a teenager is 'just being' a teenager but that the parents cannot tolerate disruptive behaviour. The parents do not know how to deal with the young person so relationships tend to break down in the family unit. The council has had some cases where the family have actually moved out and left the young person in the property. The troubled families' services can support families with parenting issues but both the parents and the young person need to engage with the support offered for the situation to be capable of improvement. If there is a lack of engagement, the support is ineffective. If families can be kept together and support can be provided whilst the children are growing up, the council could save money in the long term.

1.2 The Manager of the Young Persons Support Team ("YPST") informed the panel that there is usually a history attached to the family. There will have been involvement with various agencies over a period of time and it is usually the case that the behaviour of the young person is not being managed. That behaviour tends to get worse once the young person leaves the family, particularly if they are placed in a hostel with other young people with behavioural issues. It is quite often down to the parents, not setting boundaries and not dealing with the situation. Sometimes there may be mental health problems with family members, domestic abuse or substance misuse.

1.3 The Operations Director representing All Saints Young Persons Hostel informed the panel that many of the young people have experienced chaos in their family life or substance misuse. Benefits are only paid to young people if they are in employment, education or training. It is often difficult for the young people to commit to something and to continue with it because of their background. They might not have had any ambition instilled in them nor had any boundaries set.

1.4 The Positive Family Futures Transformation Team ("PFFTT") explained to the panel that 'the team' have been working in Paulsgrove since May 2014 following some work sponsored by the Public Service Board, which brings key partners in the city together. Despite a huge amount of money being spent on families there is sometimes very little positive change in the family status. One particular family had up to 50 professionals involved. The Public Services Board sponsored a team to look at services from a family perspective using the Vanguard Method. The Troubled Families programme was seen as an opportunity to understand what happens for families before they become troubled.

1.5 Feelings of isolation can also be experienced by families when they first arrive in the community. If they are not connected with the local services then things can quite quickly start to unravel. This is seen as a 'wobble point'. If they are not registered with a GP then the family might find it difficult to access any health support. The system then introduces a single case holder, from existing services, which will ensure that the right service and support is available for the family, known as the Navigator. The Housing Service now undertakes a welcome visit and identifies any support necessary at the very earliest point of concern. As an example, parents are advised about the Children's Centres, community centres and youth groups etc. Families now feel linked in and know where to go for support. The Navigator becomes a positive contact for these families. Both Radian and First Wessex housing associations are also keen to work with the council. This model maximises support for families in the community from, universal services which are already in place to support residents. This is a simple model based around one visit which then introduces people into the community which will reduce any feelings of isolation.

2. To understand the reasons why people feel isolated.

2.1 The Housing Options Manager explained that family breakdown is the biggest contributory issue to young people experiencing feelings of isolation. This could be relationship issues often around teenage behaviour but it could also be property related such as overcrowding. The welfare benefit system and how it works for young people can also have an effect. The housing benefit rules state that young people under the age of 35 can only go into shared accommodation, a bed-sit or a single room. Rent is often required in advance which is a barrier. Young people are often evicted from hostels because they do not adhere to the requirements of residency, ie going into training so therefore the job seekers allowance stops and they then get into arrears. The aim is to try to motivate young people to keep them in accommodation and help them to prepare for future life. Drug use in the hostels in the city is also an issue. Portsmouth does have a high level of accommodation for young people compared to other areas. There are approximately 90 bed spaces for under 25s, mainly accommodating those in the 16-21 year old bracket. The council does try to encourage these young people to follow a pathway, hostel accommodation>training>addressing identified support needs>leading to more suitable long term housing solutions. When placements are failing, a panel of experts will look at every possible alternative to prevent evicting a young person. Unfortunately the council cannot prevent every single eviction.

2.2 The Housing Options Manager continued to explain that overcrowding in accommodation is a big issue in the city. The council does not have enough three and four bedroom properties. People's expectations are difficult to meet. The council has a large amount of stock which is under occupied. Some families do not want to move from social housing into privately rented accommodation or areas despite the fact that this would immediately alleviate overcrowding issues and/or relationship issues primarily because social housing offers more security. In the private sector rents could be higher, properties often have a garden and are bigger but they are not offered long term lets. Landlords, understandably, are not keen to offer anything other than a six-month term tenancy initially to a new tenant, due to possible risks. Although most private sector landlords are looking for long term tenants, tenants are naturally concerned about the lack of known security. There is an affordability issue too, with private rents being higher than social rents, although the new affordable rents are not much lower than private sector rents. Higher rents increase the risk of living in poverty.

2.3 The Positive Activities and Participation Manager explained that it is often a shock to young people that at 18, support is not automatically provided. They have to use their own resources to pull themselves together and some cannot do this. More affordable rents are required to assist young people. For young people in work, the levels of rent in supported housing services is a barrier to taking lower paid employment. Many young people only get part time working hours.

2.4 The Leasehold and Commercial Services Manager, for the council's Housing and Property Services explained that the youth clubs do try to attract and keep young people so that as many as possible are supported and tracked. However when young people reach 16 there becomes a period of calm in their lives. They go from being in the school environment, of having to attend every day and being taught in a classroom, to suddenly not having to do either. Young people need guidance. It is essential for these young people to have a support network. Young people living in a stable family environment are more likely to continue on a structured path with the involvement of their parents encouraging them to either attend college or find work. Young people from care and supported living often reach 16 and just want to leave services alone.

2.5 The young carers and young adult carer workers informed the panel that social isolation is a common issue for carers as many young carers give up social opportunities, work and leisure activities due to the demands of their caring role. Many carers also struggle to share how they feel about their caring role as they do not wish to sound critical or complain about supporting their family member or friend. Some fear that people who are not carers will not understand the pressures and challenges of a caring role and therefore become isolated because they do not wish to discuss the situation.

2.6 The PFFT team explained from the 'check' phase of this work, the team identified that a family would often loop round, rather than move forward after a service was delivered to help the family make changes. Often, the same service would be re-delivered and so on, with little impact on the outcomes for the family. So the transformation team tried to look at something different. The Substance Misuse services in the city developed the use of Acceptance and Commitment Therapy (ACT) with people engaged with recovery services and delivers ACT based community groups to help sustain positive behaviour change in relation to their recovery, so the PFFT team looked at whether this could also apply to 'general' family life issues, including anxiety and isolation. As an example, the PFFT have been working with one particular family and have seen a huge shift with the parent who is now engaging with the community, taking responsibility for their life and making real sustained changes. Relationship building between practitioner and parent has shown itself to be vital in the initial stages of this process. Starting with what is important to the family is also crucial. With earlier intervention, the PFFT can make a positive shift much sooner. This model also helps to promote their ownership and empowerment. There are a lot of single mums living in Paulsgrove who feel or are isolated from the community, who are concerned about what might happen if they ask for help from services.

2.7 It was noted that the 'ACT' model is in its very early stages with the PFFT team work, however, at a recent workshop hosted by the PFFT team, over 16 representatives from community based services including schools, housing and child development had attended and were looking at how to work with families, using this approach to enable to develop this model further.

2.8 The manager of the Young Parents Support Services ("YPSS") explained to the panel that YPSS provides support to young people who become pregnant whilst at school or in further education. The service supports young parents through a positive pregnancy, parenting and future life chances, by working with schools so that they do not become disadvantaged. The service will pick up a young parent up to the end of Year 11 and will support them through further education, with childcare etc., to help keep their aspirations alive. Young parents can often experience feelings of isolation from their peers who are moving on with their lives. If support services are not available young parents can fall into isolation. There are easy things for schools to do to support young mums at school during their pregnancy as they are at high risk of feeling isolated. Many young mums suffer from anxiety and mental health problems particularly with drink or drug issues in the family. There has been a lot of preventative work undertaken in schools with sex education and the teenage pregnancy figures have reduced significantly. However, there has been an increase in school age dads. This can be very hard for the boys especially if they do not tell anyone. They have the same thoughts and anxieties as the girls do. Young parents do need direct support. They need someone to go along with them to an appointment as they are unsure of where to go, how they will be treated by staff etc. This all breeds anxiety and isolation. There is a need to recognise these concerns early on and to work out how to support them.

3. To examine the symptoms of isolation.

3.1 The Operations Manager of the All Saints Hostel explained to the panel that many tenants have undiagnosed mental health issues. Although these are often identified by hostel staff it can be difficult for access to the appropriate services to be arranged within the six months that they live at the hostel. It is even more difficult if there are other issues with substance misuse involved because there are very few dual diagnosis services. One 17year old was evicted from the family home and the hostel was asked to 'teach her some rules and boundaries'.

3.2 The young carers and young adult carer workers informed the panel that carers often give up work or education to prioritise their caring role. They may struggle to maintain friendships as they have less time for social engagements. Carers often experience poor health in comparison to their non-caring peers, this may manifest as poor physical or mental health. The age group most affected by poor health is young male carers.

4. To assess what support is available.

4.1 The Operations Director representing All Saints Young Persons Hostel informed the panel that the Society of St James, which is based in Hampshire, provides substance misuse and mental health services, a care home for older people with an alcohol dependency as well as supported accommodation for 15-25 year olds at the All Saints Hostel. A snapshot taken in February 2015, there are currently 22 tenants in the hostel, most of who are between 15 and 17 years old. The looked after children are funded separately. The hostel has clusters of four bedrooms with a shared kitchen where the young people cook for themselves. A life skills education programme is provided, which includes advice on budgeting, nutrition and drugs. The rent is set by First Wessex at £170 per week and is for the room only. If the young person is working their housing benefit is reduced and they are liable for most or in some cases all of their rent. It can be difficult for young people to see the value of working if their unemployed peers are doing nothing but are still having their rent paid. 24 hour support staff cover is funded by Supporting People and the landlord provides day reception from 9am-4pm and night cover for housing management issues from 10pm-6am.

4.2 The Operations Director explained to the panel that the young people are expected to stay for a maximum of six months and then move onto the Foyer or other supported lodgings, where they receive progressively less support, so at the end they are independent. However, some return two or three times. Most young people do grow out of their challenging behaviour. However, the use of legal highs is a serious problem for the tenants of the hostel. It can make people seriously ill, cause long-term mental health issues and be a gateway for taking other drugs. First Wessex does work with the hostel staff regarding tenants' behaviour but as it does not ban the use of legal highs, which are often the cause of the unacceptable behaviour, which includes abuse and damage to the property, this is not addressed.

4.3 The Manager of the YPST explained that there is often a lot of multi-agency support available. Community wardens and the Youth Offending Team as well as other agencies can be involved. The families tend to be known to services throughout their life. However it is often the case that services will stop when the family reaches a certain level but sometimes a consistent low level of support is needed rather than a short term, higher level of support. This is difficult to manage when services are working with budgetary constraints and certain criteria/procedures. The YPST do try to access services at the earliest stage but it is often about changing the mind set of both families and the young people.

4.4 The Manager of the YPST informed the panel that when young people come from being 'looked after' whether it is from a family or foster care, they do struggle living alone. The council does have a high support unit in Victoria Road South and other housing pathways for young people. However, some young people do struggle with their tenancy. Some may have been evicted from The Foyer or All Saints and trying to find private sector housing for these young people is really difficult and often a guarantor is needed to secure a tenancy. A great deal of time is spent trying to help these troubled young people but there does reach a point where there has to be consequences for their actions and the behaviour. Some behaviour is dangerous not only to the individuals concerned but also to others. The service does try to support them and find them accommodation, and to work with them in small steps. Many young people have a number of problems including mental health issues, some drug use or just low aspirations and motivation. Most young people do want to go back to their families. There is a feeling of isolation not being part of the family. The YPST support the young person on a pathway, based on assessment and planning.

4.5 The Operations Director from the All Saints Hostel explained that finding accommodation can be difficult as landlords are often reluctant to rent out their properties to young people, particularly those who have been homeless in the past. Young people are referred from the Housing Panel which meets regularly and plans are tailored to suit the individual. It is acknowledged that it is often hard for young people to take responsibility for themselves at such a young age. However, for rent arrears and unacceptable behaviour, three warnings are given to the person concerned and 28 days' notice to quit. If the tenants' behaviour improves these can be rescinded. There has been some discussion regarding the possibility of purchasing a shared house for tenants who do not feel able to live with a large number of people.

4.6 The Positive Activities and Participation Manager explained to the panel that many people use the youth clubs, which are often located in areas of deprivation. These can be a valuable refuge from home. In some areas, where there has been a club for many years, generations of families attend.

4.7 The Portsmouth Young Persons' Services Manager, Two Saints Ltd explained that the Portsmouth Foyer provides accommodation and a network of support for homeless young people. The support network is essential to enable young people to develop life skills required to move forward in their lives. The young people can be care leavers or come from a challenging dysfunctional family, and go from the school environment to a hostel environment. The Foyer allocates a community involvement worker to an individual who will tailor a package (pathway) to their individual needs and their personal interests. The Foyer offers support in many ways from education and training programmes, developing and improving life skills and developing self-worth and confidence.

4.8 The following are anonymous case study examples (2015):

Child A is a 14year old male living in Paulsgrove who is too old for holiday clubs. He doesn't want to attend Hillside Youth Club due to the reputation of the troubled youngsters who use the facility. His is basically 'on his own' either at home feeling isolated or hanging around getting into trouble during the school holiday period. His school does not provide any holiday services. This is a crucial period i.e. 14-16yr old age and child A could quite easily take the wrong path, purely due to boredom and the lack of facilities and services available to this age group.

Child B is from a stable family background but dropped out of college and didn't know what they wanted to do. She experienced pressure from her parents to return to college or find work. She chose to volunteer at her local riding stables which she knew well. This gave her the confidence to pursue further higher education.

4.9 Two social work students who were based at the Portsmouth Foyer and attended one of the scrutiny panel meetings offered their views from their work place experiences which included the following points:

- They did not feel that services are accessible to young people.
- Young People often have an aspiration but do not know how to access that service to get involved.
- There are also fewer services for young people to access north of the city. There are plenty in the city but many young people cannot afford the bus ride into the city.
- The services which are provided at The Foyer should be accessible in other areas.
- There is a pocket of children which early intervention misses. There needs to be something for them to do to prevent them from taking the wrong path.

- They felt that there is a Facebook/Xbox generation who although are on their own in their home they are interacting with other peers.
- In their opinion the challenging behaviour in one of the council's children's homes was not challenged or managed, it was accepted behaviour.

4.10 The Leasehold and Commercial Services Manager, for the council's Housing and Property Services explained that both Hillside Youth Club and the Paulsgrove library are well attended by young people, some of whom do not interact well and do not attend school regularly. The youth club does attract some troubled young people but they are able to access services at the centre. The library is now run by volunteers and offers young people access to personal computers. The Leasehold and Commercial Services Manager felt that if an external influence can be added to the lives of young people they have far more chance of succeeding and taking the right path. The Army Cadet Corps and the Scout Association are good examples of this. They are very active in the council's housing areas and encourage young people to actively join in. This gives them the opportunity to interact with others, gain confidence and engage in new activities/adventures. It is a known fact that young people need a focus. Putting young people on the Somerstown community group PATCH and getting them involved has given them a sense of purpose. The school council is another avenue which gives young people a voice. With 30 plus pupils in a class, there will always be a group of pupils whose behaviour is particularly challenging and then those in the middle - the hidden isolated ones. These are the ones who just get on with it but no-one recognises them.

6.11 The National Citizen Service is another way for 15-17year olds to make friendships, learn skills they are not taught in a classroom and go on a residential. The young people learn budgeting skills, volunteering and as a result grow in confidence. There is a minimal cost of £50. Liberty Gas also takes on young people from deprived areas in the city as apprentices. These young people are working on properties they live in, are learning a trade and then going to work. This is changing the benefit mind-set of many and stopping the sit at home mentality.

6.12 Hostel Visit

On the 23rd March 2015 the panel visited the All Saints Hostel and were met on site by the Operations Manager. It was an opportunity to understand the role of the hostel and the services it provides to its users. It was explained to the panel that All Saints is a supported housing facility for residents who are homeless or at risk of homelessness with high support needs that lie between those at the Foyer and those at Victoria Road South. The people in the target group used to be able to turn up and ask to be admitted. However, this is now conducted through a housing panel that allocates provision based on need. There are procedures in place to deal with those who present themselves outside of normal office hours and these are led by the council's housing options team. Entrants are asked to pay two weeks rent upfront (£10.74) as part of its tenancy arrangements. First Wessex operate a policy whereby if anyone residing in any of the three centres who is in arrears, even if it is less than £100, cannot be transferred to any of the other centres regardless of need. Since the Southwark judgement a few years ago which allowed teenagers who had been evicted from their parents' home the right to approach the local authority for a home and to be given it if they were deemed to need 'Looking After', the number of 16 and 17 year olds at the centre has increased. Previously it was usual to see two or three 16 or 17 year olds a year. Now there are times when almost all 22 residents are 16 or 17.

6.12.1 The Operations Manager continued to explain that some young people arrive at the hostel because their parents have said that they are old enough to look after themselves and they don't want to have to. Sometimes they want the hostel to teach their son/daughter the life skills they did not. In other cases, there has been abuse or neglect by the parents, leading many of the young people to be lacking boundaries in what they can and cannot do in life. Part of the role of the staff at the hostel is to teach them these.

6.12.2 The All Saints Hostel comprises of a communal room on the ground floor and three floors of bedrooms, 22 in all. Each floor has a kitchen and showers for those living there. The ground floor can be used for people with some physical disabilities. Each room has a small sink, a work desk, bed, room to hang clothes and drawers. First Wessex provides bedding and a starter pack with plates and cups to get the young people started. All kitchens should contain pots and pans for cooking. Staff are on duty to support the young people 24/7 and regular checks of the building are made to maintain safety. It is imperative that staff undertaking these checks are not viewed as security guards constantly invading the residents personal space. Residents are able to come and go as they please with some limits imposed. Alcohol and tobacco are allowed but other drugs are not.

6.12.3 It was noted that sometimes, people with mental health conditions will self-isolate so they need extra services, which the hostel provides. Especially in the early stages, staff are in regular contact with residents, often multiple times in a day, and will work on a plan to get them back into some form of mainstream life. Bearing in mind that staff are dealing with people who have often been let down by the ones that they love and thought they trusted. This makes many of them angry, especially when they see complete strangers offering to help. All staff are very sensitive to that and try to put together plans with them early on. Although it is often the case that other key aspects are discovered along the way.

6.12.4 There are some things which could reduce isolation among residents whilst they are staying in the hostel. One of which would be to have access to the CCTV in the building. Under the Data Protection Act only the landlord is able to access the CCTV footage, which means staff at the hostel are less able to spot trouble. This is particularly noticeable on the floor which does not have the office on it. The second would be to have full disclosure of information at the start of the process. This has not always happened and staff have discovered things after an individual has been sent to the hostel that affects how individuals are handled. This can be very frustrating for staff.

6.12.5 Ideally, and if funding were available, all cases would remain open to social care for the first couple of weeks after young people arrive at the hostel so as to be able to provide consistent support and to be able to respond to issues as they arise. This would help the staff at the hostel and at the council to assess properly what help is needed and whether the work the hostel provides is right for them. It would also be helpful to have a financial system that helps people with the sort of chaotic lifestyles experienced by many people who come to the hostel. The Society of St James' has set up a fund to pay the upfront rent First Wessex requires. This means people who need help cannot be turned away by the landlord because they cannot pay the rent in advance at the point they become homeless because they have no income in place. Instead now the St James' Society will pay the rent in advance to the landlord to enable them to access homeless accommodation quicker and reduce the level of stress associated with being young and homeless. Ideally the hostel would also like to provide a 'grace period' of up to six weeks, whereby the young people who arrive can receive the sort of benefits they would if they were at college while a plan is agreed with them. Too often, they cannot go out because they have no money when they arrive and are being told to get training and a job the second after they have been told to leave their parents' home, a really traumatic experience. That makes them sink into themselves. If they could have a transitional period where the finance arrangements are more favourably arranged, then they will be able to find their feet without this extra stress. The fact that the hostel has to go through a Housing Panel, rather than having direct access to the accommodation, minimises the possibility of fraud.

6.13 The Positive Activities and Participation Manager for the council explained that one recent positive change is that the Personal, Social and Health Education (PSHE) agenda in schools has recently been invigorated. Young people want more PSHE in schools.

6.14 The Chief Executive of Motiv8 explained to the panel that over the 10 years he had been involved with the organisation it has grown. However, now it is massively contracting as there has been a significant change in funding for the organisation. Motiv8 covers three areas: Gosport/Fareham, Havant and Portsmouth. It also runs Bicycle Recycling, a social enterprise which offers repairs and servicing of bicycles, and training and employment opportunities to local young people and volunteers. Bicycle Recycling has two shops, in both Gosport and in Portsmouth. Bicycle Recycling in Gosport is also a training venue which is situated next to the Gosport ferry and the Portsmouth venue is situated in the Community Cycle Hub, Winston Churchill Avenue.

6.15 The Chief Executive of Motiv8 continued to explain to the panel that as an example of budget cuts affecting services and the lives of young people, the ITYSS service contract had been terminated. This service was for young people (13-19yrs) and up to age 25 for those with special needs, who were able to get advice and guidance about issues which young people face. The 'You Choose' service is also at risk. You Choose provides age appropriate positive activities, focusing on areas that have the highest need, deprivation and concentration of children and young people. The Chief Executive also felt that it was easier to be a young person living in a deprived housing area rather than the rental sector because the support and facilities for young people run by the housing service in council estates is great. He continued to explain that there are three main issues which he felt can affect young people: not having a stable place to live, not having relationships of trust and not having something positive to do (e.g. work and/or activities). Removing one of these would lead to isolation. Motiv8 provide support and coaching to help focus and move young people to make the right life choices. Early intervention and prevention is key.

6.16 The young carers and young adult carer workers informed the panel that anyone who is actively caring for someone who lives in Portsmouth can access support from the Portsmouth Carers Centre from the age of five upwards. The type of support will depend on the level of caring, the impact the caring role is having and what is appropriate to that carer as an individual. Typical services provided are access to an assessment (restricted to over 18's until a new young carers assessment is in place next year), information and advice, emotional support, access to training, access to group support or positive activities (for young carers) and access to a break. Early support from the Carers Centre enables carers to stay in employment and prevents financial difficulties. It is often the case that carers minimise the impact that caring has on their life and wellbeing-they may not be coping as well as it may seem. Emotional support, carer's breaks and peer support have a positive effect on carers' mental health.

6.17 The Teenage Pregnancy Reintegration Officer explained that the team provides an outreach service for young parents including working with young dads. A group meets on a Wednesday at the children's centre in Cosham. Young parents are taught PSHE (personal social health and economic education) life skills to help support healthy eating, activities, education. Young people can attend these sessions from when they are pregnant up until Year 11. The schools support their attendance at these sessions. New mums are entitled to 18 weeks maternity leave from school but this is not encouraged as it would have a detrimental effect on their education. 'New' mums are encouraged to return to school within six weeks of their baby being born as this is a really significant period in their schooling. However, this does depend on childcare and how the delivery went. The team offers one-to-one work with individuals and mentoring if required. Home visits are also undertaken as it is often the case that the parents of these young parents also need some support to alleviate those fears of being a parent at such a young age. It might take a little more navigation but the young person can still achieve their aspirations. Paid childcare is available up to the age of 20. Peer influence is a factor in the feeling of isolation in young parents. Young mums often come back to the Wednesday group who are in college with their child in nursery, taking the course they want etc. which gives the new parents something to aspire to, to see for themselves what they can achieve as young parents. The future can be positive for the young parent and their child. Young parents can also access other support services from the council's children's centres as they get to know what else is available. Young dads feel that they need to get a job, leave school etc. The team always suggest that perhaps weekend work to help support financially in a small way whilst continuing school or college for the longer term. Their peer group do not understand how they feel as new parents. They need to know about labour, pain control, what to expect at the birth. Young dads are given authorisation from school to go to scan appointments and a few days off from school after the birth. Peer support is very important for young dads. As an example, when one young dad who thought he was the only 'young dad' in the city, was told he was one of three he was really surprised. He has been offered the opportunity to meet with the other dads so that they can talk about their feelings etc. Being able to share how they feel is incredibly important and reduces feelings of anxiety and isolation.

6.18 The Family Nurse Partnership ("FNP") is a service for first time mothers aged 19 and under in Portsmouth which offers a free and structured home visiting service by specially trained nurses from Solent NHS Trust, the local provider of community and mental health services. Launched in November 2011 the FNP is an intensive and structured home visiting service. It is offered in the early stages of pregnancy and all the way through to the child turning two years old offering up to 64 weekly/fortnightly visits. FNP is delivered by specially trained nurses who work intensively with the families and this helps build relationships with new parents. The Family Nurse works in partnership with the client, developing an intensive therapeutic relationship, exploring behaviour change, looking to optimise health outcomes for the client and her child and breaking down intergenerational cycles of disadvantage. The programme content for each client includes: personal health, environmental health, life course development, maternal role and family and friends. The FNP is a licensed evidenced based programme and is monitored locally and by the FNP National unit. The FNP supports teenage mothers to break the cycle of disadvantage for themselves and their children, to improve long term health outcomes.

7 To assess the possible barriers to accessing support services.

7.1 The Chief Executive of Motiv8 felt that recent personnel changes at the council had meant the council had closed the main services providing support to large numbers of young people, the most recent being ITYSS. He envisaged greater acceptance of alternative ways of working that could deliver good services for less money. An example he had given was to have relatively small (approximately 5% of specific budgets) innovation and development grants, to fund early intervention and prevention alongside the core statutory delivery. He hoped that in future there would be greater dialogue with voluntary groups about such alternatives, as many of them felt that, especially in the last couple of years, this had been lacking.

7.2 The young carers and young adult carer workers informed the panel that barriers may be presented by the demands of the caring role for example having to have time out to access services, the location of the service or the time provision is offered can also present barriers.

8 Equalities Impact Assessment.

A Preliminary Impact Assessment (EIA) has been completed for this report, setting out the equalities issues considered during the review, and a full EIA is not required at this stage.

9 Legal Comments.

There are no legal comments.

10 Finance Comments.

For Health & Social Care, the only financial implications relate to possible resource implications for health visitors. As health visitors are now part of the Public Health grant funding and are also under the Multi Agency Teams project, any additional resource requirements will need to be approved in advance by the Director of Public Health.

For Housing, there are no financial implications.

Budget and policy implications of the recommendations

The following table highlights the budgetary and policy implications of the recommendations being presented by the panel:

	Recommendation	Action By	Budget & Policy Framework	Resource Implications
1	To consider providing a support mechanism for those young people and their families who have been forcibly isolated and to encourage integrated and cross departmental working.	Relevant teams of the council	Within policy framework.	There are no resource implications.
2	Part of any voluntary sector transition fund be utilised to examine the process to work holistically towards an integrated path by groups (including churches).	Relevant teams of the council	Within policy framework.	There are no resource implications.
3	The council to continue to work with private sector landlords to encourage the take up of younger tenants.	Director of Housing and Property	Within policy framework.	There are no resource implications.
4	The council should work proactively with other agencies to manage the impact of legal highs in our accommodation.	Relevant teams of the council	Within policy framework.	There are no resource implications.
5	Provide further training to enable teachers, youth workers and health visitors to identify and tackle the 'hidden isolated' in schools and classrooms.	Public Health and Children's Services and Education	Within policy framework.	Possible resource implications for schools and health visitors.
6	Schools are encouraged to teach more life skills within PHSE and publish how much they are currently doing on the council's website.	Public Health and Children's Services and Education	Within policy framework.	Ongoing within existing resources.
7	The council to work with partners to explore the feasibility of allowing access to support service and advice under one roof, ideally using existing facilities. Services like those provided at the Foyer to be available elsewhere in the city.	Director of Housing and Property	Within policy framework.	There are no resource implications.
8	Young carers to be included in any decisions affecting	Adult Social Care	Within policy	There are no

	Recommendation	Action By	Budget & Policy Framework	Resource Implications
	respite care* which may impact on them.	Carers/Independence and Well-being Team	framework.	resource implications.
9	The council to assess the impact for charging affordable market rent.	Director of Housing and Property	Within policy framework	There are no resource implications.

APPENDIX ONE

Meeting Date	Witnesses	Documents Received
6 February 2015	Elaine Bastable, Housing Options Manager Mark Rodwell, manager of the Young Persons Support Team	
27 February 2015	Jane Smith, Operations Director, representing All Saints Young Persons Hostel Sarah Reed, Positive Activities and Participation Manager	
20 March 2015	Leon Runham-Cuenca, Portsmouth Young Persons' Services Manager, Two Saints Ltd, Portsmouth Foyer Sarah McLean and Natasha Chaplin, Social Work Students currently based at the Portsmouth Foyer Jo Bennett, Leasehold and Commercial Services Manager, Housing and Property Services	
23 March 2015 Visit by the chair of the panel to All Saints Hostel.	Jane Spencer, Manager, Society of St James', All Saints Hostel	
25 September 2015	Charlie Adie, Chief Executive of Motiv8	Motiv8 Annual review 2014, ITYSS leaflet, You Choose leaflet and various Communi8 editions.
8 October 2015	Sharon George and Teresa O'Toole, Positive Family Future Transformation Team Kay Crockford, Teenage Pregnancy Reintegration Officer Lisa Caine, Manager of the Young Parents Support Service	'Customers Joining A Community' diagram. Written submission from the Carers Centre and specifically young carers and young adult care workers.

Appendix 2 - A glossary of terms used within the report

ACT	Acceptance and Commitment Therapy
FNP	Family Nurse Partnership
ITYSS	Integrated Targeted Youth Support Service
PATCH	A charity which promotes the physical regeneration of the Somerstown/North Southsea area.
PFFTT	Positive Family Futures Transformation Team
PSHE	Personal, Social and Health Education
YPSS	Young Parents Support Services
YPST	Young Persons Support Team

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Portsmouth CITY COUNCIL

Title of meeting:	Cabinet
Date of meeting:	22nd September 2016
Subject:	Key future approaches for children's services
Report From:	Director of Children's Services
Report by:	Kelly Nash, Corporate Performance Manager
Wards affected:	All
Key decision:	Yes
Full Council decision:	No

1. Purpose of report

1.1. To seek approval from the Cabinet for the "Stronger Futures" strategy to improve outcomes for children and families in Portsmouth through consistent application of effective, targeted, empowering approaches to helping families.

2. Recommendations

2.1. Cabinet is recommended to agree:

a) The "Stronger Futures 10 point plan" set out at appendix 1 for effective, proportionate support for children and families around health, wellbeing and safeguarding.

b) That the Cabinet Member for Adult Social Care and Public Health and the Cabinet Children's Social Care are authorised to review and agree within the next three months the provider model and procurement process as appropriate for a refreshed integrated City Council early intervention offer bringing together current VCS contracts, Children's Centres and Public Health delivery.

c) That the council's contracts with Solent NHS for Health Visiting, School Nursing and Family Nurse Partnership are extended for a period of two years subject to the Cabinet Member for Adult Social Care and Public Health receiving a risk appraisal prepared by the Procurement Manager and City Solicitor; and that over the span of the Stronger Futures programme, arrangements are agreed to integrate delivery of these services operationally with the refreshed City Council early intervention offer.

3. Background

3.1 Considerable work has been undertaken to consider how the outcomes for children and families in Portsmouth can continue to be improved in a way that is effective and sustainable in the longer term. The conclusions of this work are that in order to ensure continued effective support and safeguarding for children we need a "whole system" approach which both ensures a consistent approach to working with families across different services and also looks at how services are configured in order to secure best value and optimum effectiveness.

3.2 The whole system for children and families in the city is significant in size and complexity, so clear parameters have been placed around the definition of the system for the purposes of this paper.

3.3 Firstly, in recognition of school autonomy, the separate budgeting regime, and the changing educational landscape, spending in schools has been excluded from this work. This is not to downplay the significant contribution of schools in supporting outcomes for children and young people, and for providing specific support for some of the children and families in greatest need; rather it recognises that the relationship with schools is one of influence and partnership, and that they are not under the commission of the authority. The relatively small amount of funding associated with supporting school improvement activity is not part of this discussion paper, as this is directed to supporting schools, not children and families directly. Similarly, activity associated with the local authority's statutory duties in respect of school resources, sufficiency and participation is excluded.

3.4 The analysis in this paper also omits elements of activity and spending related directly to children and young people with special educational need and disabilities (SEND).

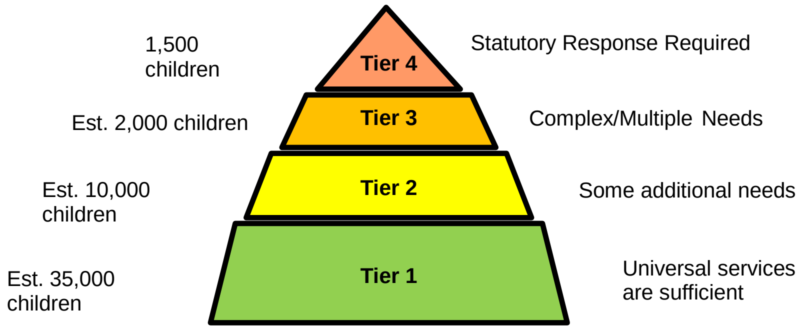
3.5 The proposals focus chiefly on areas commissioned by the City Council, including through Public Health. There are elements of CCG commissioning, in particular maternity and mental health services, which are also very relevant. Discussions have taken place with commissioners and providers of these services and there is broad agreement about how they can contribute to the direction of travel recommended in this paper.

3.6 The areas of local authority activity that this paper is concerned with are largely in relation to social and environmental support to children and families, and encompass:

- Children's social care (including the Youth Offending Team)
- Public Health Delivery Team working with children and young people
- Public Health commissioned contracts for health visiting, school nursing and the Family Nurse Partnership programme
- The Troubled Families programme
- Children's Centres
- Parenting support programmes

3.7 For many children and families in the city, interaction with these services will be minimal. Most children are well cared for and thrive, with little or no intervention. Some families require some low-level support at various points, and others need some very specifically targeted intervention. These levels of need, and the responses, are generally described as "tiers" and in Portsmouth the picture is as described in figure 1, below. The services described above are those most substantially involved in identifying and addressing need.

Fig 1: Tiers of Need



4. Recent developments

4.1 For around 18 months, there has been a programme to develop multi-agency teams (MATs) to deliver support for children and families. The aim of the Multi-Agency Teams is to bring together, co-located in locality-based teams, professionals working with families across tiers of need; including social workers, health visitors, school nurses, family intervention workers. The co-location is intended to improve professional dialogue between teams working with families, and build stronger awareness, as well as mitigate against a culture of referral (and cost-shunting). The intention from the outset was to combine the co-location with a shared outcomes framework, an identification tool to ensure support is targeted appropriately (the Early Help Profile) and workforce development to ensure families receive a consistent but differentiated offer of support along a shared practice model.

4.2 Co-location of the teams was achieved in June 2016, with three bases split across Medina House (North) and the Civic Offices (Central and South). The teams retain their separate management and supervision lines; at an operational level, however, there have been some very positive examples of co-location enabling closer working to ensure appropriate responses to family needs. Senior managers working within the localities are working together to ensure the shared priorities and practice are embedded across the localities.

5. Building on assets - where we want to go next

5.1 The intention has always been for MATs to develop, into a second phase that sought to rationalise complicated budget, commissioning and management arrangements; to address areas that need strengthening (particularly targeted Early Help) and to influence wider aspects of the system such as the schools pastoral workforce and the voluntary and community sector. This "phase 2" has been articulated in the "Stronger Futures" programme for Portsmouth. The "10 point plan" for the programme, attached as Appendix 1, has a focus on: broadening and targeting support for vulnerable families; encouraging communities and families to self-help; developing volunteering; and providing a balance of high support and high challenge to families. A key element running through it is a change in the culture across all services, with much more emphasis on empowering families, enabling them to draw on their immediate and wider networks to find solutions to problems and make the changes they need to make in order to improve their lives.

6. Preparing for the future - the longer term landscape

6.1 The policy landscape around children's services is fluid, and there are a significant number of national policy drivers that we need to be prepared to respond to. In addition to the national policy on academisation of schools (which nevertheless still leaves local authorities with a significant list of statutory responsibilities around education provision), the Government is promoting innovation across different aspects of children's social care. The recent Department for Education Policy Paper *Putting Children First: Delivering our vision for excellent children's social care* sets out the terms of a review (to be conducted by Alan Wood CBE) to consider three broad questions:

a) what the future role and responsibilities in relation to children and young people should be;
b) what powers and levers local authorities will need to carry out those responsibilities effectively; and
c) what transition and implementation arrangements will be needed to help local authorities manage change over the coming months and years.

6.2 Alongside this, the government continues to develop a programme exploring different delivery models for services, including mutualisation and community interest companies. Existing models such as those in Doncaster, Kingston-upon-Thames and Richmond-upon-Thames and the London tri-borough arrangements are receiving interest, as are other delivery models involving "high performing" authorities providing support.

6.3 There is keen interest in the DfE in the relationship between local devolution deals and combined authority models, and the models that are proposed for local service delivery in these arrangements. The next round of Innovation Funding, likely to be launched in September, is expected to focus on the development of new models.

6.4 The government continue to promote a broad "life chances" agenda, with a fuller strategy expected in the autumn. The role of parenting, the early years, opportunities for looked after children, and supporting families with problems including domestic abuse, substance misuse or mental health will all feature in this approach.

6.5 The broad direction of travel towards closer integration with colleagues in health services - including at a commissioning level but also across public health, primary and community care - is also a key driver. The expectation is that this is worked through on different geographical footprints through regional Sustainability and Transformation plans. The current STP covering Portsmouth does not deal in any detail with children's services, but they do feature in its local expression, in the "blueprint" for health and care in Portsmouth.

8. Next Steps

8.1 To give effect to the broad Stronger Futures strategy set out above and in appendix 1, we propose the following steps over the next 12 months:

(i) To carry out targeted engagement over the Autumn to advance the programme, including research with families to understand what they need, and with the market to understand opportunities available. This work will build on learning already derived from the systems review "Positive Family Futures" (Appendix 2).
(ii) To bring together the preventative and early help services provided and commissioned across city council children's services and Public Health to form a combined, refreshed, targeted early intervention offer for more vulnerable families. A decision needs to be taken about whether some or all of this service offer is outsourced; we recommend that this decision is delegated to the Cabinet Members for Children's Social Care and for Adult Social Care and Public Health together.
(iii) To extend for two years the council's contracts with Solent NHS Trust for the delivery of health visiting, school nursing and the Family Nurse Partnership programme and to explore opportunities within this period to step up the integration of the delivery of these services with the refreshed city council early intervention offer as part of the local programme of integration for health and social care (the Portsmouth Blueprint).
(iv) To invest in the short term in a finite programme of workforce development to underpin the proposed system change. We recommend that funding allocations for this programme are agreed by the Cabinet Member for Adult Social Care and Public Health.

9. Reasons for recommendations

9.1 To improve outcomes for children and families in the city we need to look at how we strengthen early intervention, particularly through cultural change, empowering families more.

9.2 The paper is underpinned by a financial strategy that seeks gradually, where possible, to rebalance investment over time towards effective early intervention so that the system as a whole can be sustainable. Estimates of the extent to which cost reduction is possible, however, need to take into account the benchmark comparisons highlighted in paragraph 12.1 below around current activity and cost in children's social care, Equality impact assessment (EIA)

10.1 A preliminary EIA was completed for the document and concluded that there will be no negative impact on any of the protected characteristics arising from the strategy. Any individual projects or measures arising from the strategy will be subject to impact assessments in their own right. The preliminary EIA is attached as Appendix 3.

11. Legal Implications

11.1 The review referred to in recommendation 2.1b) will require consideration of a range of implications arising from procurement law, the Council's statutory duty of Best Value and potentially (in particular if outsourcing of any part of the service offer is contemplated) employment law/staffing implications.

11.2 The proposed extension of the Solent NHS contracts (recommendation 2.1 c)) should be appropriately risk-assessed and approved in accordance with the Council's Contract Procedure Rules in the usual way before being implemented by officers.

12. Director of Finance and Information Services comments

12.1 The largest proportion of spend on children's services is within statutory social care. A forensic approach has been taken to explore opportunities for reducing costs and a number of initiatives are being pursued. Comparative work and modelling have demonstrated that that children's social care in Portsmouth has a low number of referrals compared with statistical neighbours, reflecting relatively high thresholds for service (albeit still assessed by Ofsted as safe). Compared with statistical neighbours the city has relatively low numbers of children formally categorised as "in need", and of children looked after. Placement costs are comparatively low, and staffing at managerial and caseholding levels is lean. This means that savings can only be made by remodelling the wider system to prevent escalation of need; and to target services according to need. In addition, as noted in paragraph 9.2, estimation of the extent of savings possible needs to take into account conclusions from the benchmarking analysis.

12.2 Detailed modelling on the Stronger Futures strategy has fed into a financial strategy which will inform a series of proposals for savings and investments in the coming months, including for some short term investment to support workforce development and service reconfiguration. These proposals will be considered across the portfolios of Children's Social Care and Adult Social Care and Public Health, and in consultation with the s151 officer and Acting Director of Public Health.

Signed by: Alison Jeffery, Director of Children's Services

Appendices:
Appendix 1 - Stronger Futures - affordable and even better support for children, young people and families
Appendix 2 - Positive Family Futures
Appendix 3 - Preliminary EIA

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: Name and Title

Appendix 1

Stronger Futures

Affordable and even better support for children, young people and families

INTRODUCTION

We can be proud of some of the steps we have taken in Portsmouth in the last few years to strengthen the way we support vulnerable children, young people and families.

New ways of working and a more joined up approach in midwifery, health visitors, early years, schools, public health and social care teams have given us a secure platform on which to build for the future.

We know however through indicators on issues such as child health and school attendance that we still need to do more work to support our children so they can enjoy the best future possible. The continued reductions in funding for public services also provide a significant challenge in maintaining and developing our offer to families in the city, so we know we need to find different ways of doing things.

WELCOME TO STRONGER FUTURES

Stronger Futures is a new strategy that aims to provide affordable and even better support for families that will enable and empower them to build good futures and improve the quality of their lives.
It has been agreed by the Portsmouth's Children Trust and forms part of the wider transformation under the Health and Care Portsmouth programme which is delivering the blueprint for the integrating health and social care services in the city.

WHAT STRONGER FUTURES AIMS TO ACHIEVE

Stronger Future aims to build a system of support for children, young people and families which gets the balance right so that we do not put more pressure on statutory services in the long term.

It is based on an approach which empowers families, drawing on the strengths which even the most vulnerable families possess. Support will be targeted very carefully, aiming to build a system which is affordable and sustainable in the long term.

If we get this right, we will provide better and more effective support for children, young people and families.

We will empower families more effectively so that they know how to get the information and advice they need and can face problems without needing external support. We will also reduce the number of days which children spend in alternative care, and improve the experiences of young people leaving that care, so that they spend more time with families and are better able to face future challenges.

TEN POINT PLAN

Our ten point plan for Stronger Futures is to:

1. **Target our support more**
   Further target the support provided through current universal services, including health visiting, public health and Children's Centres. For families whose need our support less, we will increasingly signpost them to information, advice and guidance online. We will explore ways of promoting more proactive and confident use by families of the information which is already available to them and enhance information, advice and guidance provided.

2. **Step up guidance for universal services**
   Encourage early years' settings and schools to continue and wherever possible, step up the significant support which they already offer to children, young people and families

3. **Encourage volunteering**
   Encourage more people in local communities to volunteer their time, so that open access activities can continue, for example, in Children's Centres. We will support people to use volunteering as a route to better mental health, stronger social networks and employment.

4. **Rationalise and coordinate support for more vulnerable families**
   Use our new Multi Agency Teams, and links with the wider workforce, to make sure that staff can support each other as flexibly and effectively as possible. We will roll out a "team around the worker" approach which reduces the number of different individual professionals involved in supporting families where possible.

5. **Provide varied, flexible support according to need**
   Provide a wider, more flexible and better coordinated range of support options for more vulnerable families, from a dedicated lead professional/keyworker supporting the whole family, to group activities including peer group support..

6. **Draw on strengths of families**
   Draw more heavily on the strengths which all families, even the most vulnerable possess through their immediate family and wider social networks, across both targeted early help and statutory social care. To search out ways in which people can be effectively supported by their families and friends and helping them to identify sustainable ways of improving their lives together.

7. **Promote a restorative approach**
   Promote a strong, consistent approach to supporting families, with an approach called 'restorative'. This involves providing high levels of support and challenge to families so that they take full responsibility for improving their own

lives as quickly as possible. Restorative approaches put the emphasis on how everyone involved in a family's life feels about the situation they are in and how feelings can be restored to a healthy state through practical actions. They are not judgemental and do not involve doing things to a family and do not attempt to do things for them in a way which treats them as incapable or in need of permanent support. Instead restorative approaches are about doing things with families, which build their resilience and enable them to face future challenges without support.

8. Quickly provide alternative care

To provide alternative care for children as quickly as possible where we have to use statutory powers so that any damage to children from unacceptably bad care is minimised. To make it a priority to reduce the length of time it takes to find permanent alternative care arrangements for children where they are needed, whether that is through adoption or fostering.

9. Quickly reunify families

To support the reunification of families whenever we can as soon as possible. Supporting families to resume the care of children they have previously been unable to care for, as long as they are genuinely able to offer good loving care, is very positive for everyone especially the children themselves. To provide practical and emotional support to parents who have not been able to care effectively enough for a child so that children can remain with them in the future.

10. Strengthen support to young care leavers

To continue our efforts to strengthen the support provided to young people leaving care, so that despite the challenges they have faced, they can take their place in the world as confident, resilient adults, able to find the support they need from within their communities and to parent the next generation with confidence, generosity and love.

Portsmouth CITY COUNCIL

Appendix 2

Positive Family Futures (Paulsgrove)

1. **Background**

1.1 In May 2013 the Public Service Board (PSB) sponsored a review to investigate and understand why families become 'troubled' and to test the hypothesis that a focus on the earlier points of intervention could prevent families reaching the point of classification as 'troubled.'

1.2 A multi-agency team was formed and they were supported by Vanguard Consultancy Ltd. Information was gathered to plot the 'journeys' of eight families. The 'Journey's' were costed and the additional cost to the multiple agencies involved could reach as much as £0.5million per family.

1.3 By using the 'Vanguard Method' aka 'Systems Thinking', the technique the team used enabled them to identify missed opportunities for the families whereby issues could have been 'nipped in the bud' and not escalated.

1.4 It was found that some families were actively asking for help but failing to reach current intervention thresholds (meaning they later reached crisis point), others who needed support were not being recognised early enough.

1.5 The prevalent culture was to 'refer and assess' rather than to provide support that would bring about genuine change.

1.6 Following a presentation of this work to the PSB in July 2013, the PSB requested that the team continue with the work and a short period of 're-design' took place in the Charles Dickens ward in Portsmouth.

1.7 A further presentation in November 2013 had an outcome of the PSB endorsing a further piece of work to 'scale up' the work and take the learning into a geographical area in the City. The area selected was Paulsgrove & Wymering and the work there commenced in late spring 2014.

1.8 The team were branded as Positive Family Futures (PFFT) and was kept deliberately small as the learning was to use and maximise the latent resource that exists in Universal Services and not to create another team that referrals could be made into.

2. Delivering Differently in Neighbourhoods

2.1 In March 2015 the PFFT were awarded funding from the Department of Communities and Local Government (DCLG) as part of their Delivering Differently in Neighbourhoods (DDN) initiative. The funding was £90k and was available from April 2015 until March 2016. The funding has been used to investigate and explore the earliest point of intervention for customers also known as a 'wobble point', behaviour change for customers and practitioners, local co-ordination of services, coproduction and greater understanding of communities and the possibility of the creation of a 'Zone' around a location within a geographical area. The work has been supported by an Oversight Group who have provided challenge, scrutiny and shared their individual expertise with the PFFT. Members of Oversight Group were invited to participate based on their individual areas of expertise.

2.2 The learning by the PFFT is that there is an opportunity when customers join a community to identify 'wobble points' and to share with customers the universal services and community resources that are available to them. The visit also ascertains whether the customer(s) have registered with Universal Services e.g. GP, school as the learning has been that non-registration is a 'wobble point' and requires further investigation. Housing Officers undertake a 'Welcome Visit' to all PCC customers soon after they move in. The Housing Officer is the person that the customer will have an ongoing consistent relationship with. The work started in Paulsgrove and Wymering but has now been implemented citywide. All new customers receive this visit not just those with children as the learning also indicated that within a community, family members, neighbours and friends are influential and supportive. Feedback from both customers and Housing Officers has been extremely positive.

2.3 Although the work started with PCC local authority customers, work is well underway to include other Registered Social Landlords and Private Owner/Occupiers.

3. Concluding Comments

3.1 The roll out of the customer joining the community model mainstreams practice and is linked to existing posts and management structures within the services that deploy the 'welcome visit'.

3.2 Techniques that have emerged during the work, for example mapping families' journey through services over time will be used where appropriate in other work. An example of that is the use of the technique by the Safer Portsmouth Partnership to understand how complex 'cases' reach a point of intense intervention.

3.3 The broader learning from the review about families journey has been presented to various partnerships throughout the City and has been made available to support the City's integration agendas such as the development of Multi-Agency Teams for Families and Children.

3.4 The oversight group established in Paulsgrove will continue to meet to support other initiatives in the area including the local community plan.

3.3 The mainstreaming of the learning, interest from the DCLG in using the learning to inform a national model and legacy in utilising the techniques elsewhere are testimony to the success of the approach.

Portsmouth CITY COUNCIL

Equality Impact Assessment

Preliminary assessment form v5 / 2013

www.portsmouth.gov.uk

The preliminary impact assessment is a quick and easy screening process. It should:

- identify those policies, projects, services, functions or strategies which require a full EIA by looking at:
  - negative, positive or no impact on any of the equality groups
  - opportunity to promote equality for the equality groups
  - data / feedback
- prioritise if and when a full EIA should be completed
- justify reasons for why a full EIA is not going to be completed

Directorate: Director of Children's Services

Function e.g. HR, IS, carers: Children's services

Title of policy, service, function, project or strategy (new or old) :

Key future approaches for children's services

Type of policy, service, function, project or strategy:

- ☐ Existing
- ★ New / proposed
- ☐ Changed

Q1 - What is the aim of your policy, service, function, project or strategy?

Considerable work has been undertaken to consider how the "children's system" in Portsmouth can deliver improved outcomes. This is in response to earlier work to understand the likely trajectory of demand this area, . The conclusions are that there is a need to consider working with children and families, under commission of the local authority, as a single system and consider the process of budget setting, including investment and disinvestment accordingly, to ensure there is long-term sustainability and improved outcomes for families.

Q2 - Who is this policy, service, function, project or strategy going to benefit or have a detrimental effect on and how?

The vision of the work is to improve the parenting and care of children, leading to better outcomes; whilst maintaining an temphasis on longer term cost reduction through demand management. However, the assumption set out in the paper, and supported by the analysis underpinning the strategy, is that remodelling can achieve savings without detriment to the outcomes achieved for families.

Q3 - Thinking about each group below, does, or could the policy, service, function, project or strategy have a negative impact on members of the equality groups below?

Group	Negative	Positive / no impact	Unclear
Age		★	
Disability		★	
Race		★	
Gender		★	
Transgender		★	
Sexual orientation		★	
Religion or belief		★	
Pregnancy and maternity		★	
Other excluded groups		★	

If the answer is "negative" or "unclear" consider doing a full EIA

Q4 - Does, or could the policy, service, function, project or strategy help to promote equality for members of the equality groups?

Group	Yes	No	Unclear
Age	★		
Disability	★		
Race	★		
Gender			★
Transgender			★
Sexual orientation			★
Religion or belief			★
Pregnancy or maternity	★		
Other excluded groups	★		

If the answer is "no" or "unclear" consider doing a full EIA

Q5 - Do you have any feedback data from the equality groups that influences, affects or shapes this policy, service, function, project or strategy?

Group	Yes	No	Unclear
Age	★		
Disability	★		
Race	★		
Gender	★		
Transgender		★	
Sexual orientation		★	
Religion or belief		★	

Pregnancy and maternity	★		
Other excluded groups			★

If the answer is "no" or "unclear" consider doing a full EIA

Q6 - Using the assessments in questions 3, 4 and 5 should a full assessment be carried out on this policy, service, function or strategy?

☐ yes ★ No

Q7 - How have you come to this decision?

At the strategic level, the proposals set out do not have a negative impact on any of the protected characteristics; and indeed the proposals are geared to improve outcomes for children and families, particularly those experiencing disadvantage. What we do recognise is that in developing the detail of measures to support the wider strategic direction set out in the paper, wide consultation with service users and the community will be necessary; and very specifically that the consultation needs to take place with children and families, including some of the most vulnerable. Proposals for consultation are set out, and the findings will inform service design proposals which will themselves be subject to EIAs.

If you have to complete a full EIA please contact the Equalities and diversity team if you require help Tel: 023 9283 4789 or email:equalities@portsmouthcc.gov.uk

Q8 - Who was involved in the EIA?

Kelly Nash, Corporate Performance Manager, PCC

This EIA has been approved by: Alison Jeffery

Contact number: 023 9283 1201

Date: 18th August 2016

Please email a copy of your completed EIA to the Equality and diversity team. We will contact you with any comments or queries about your preliminary EIA.

Telephone: 023 9283 4789

Email: equalities@portsmouthcc.gov.uk

URGENT DECISION BY CHIEF EXECUTIVE

Decision Relating to: Extending Council Authorised Limit for External Debt

Date of Urgent Decision: 24 June 2016

Reason for Urgency: Refer to report below.

Urgent Cabinet decision taken by Chief Executive in response to the above matter in accordance with Standing Order 58 of the Council's Procedure Rules.

Prior to exercising Standing Order 58 the Chief Executive has delegated the process of consultation to Chris Ward and he has taken account of the views of:

Leader of the Council: Cllr Donna Jones

Leader of the Opposition: Cllr Gerald Vernon-Jackson

Chair of Governance and Audit and Standards Committee: Cllr Ian Lyon

and is satisfied that it is necessary to invoke Standing Order 58 in the interests of the efficient administration of the Council's services to exercise any of the powers of the Council .

Signed Chief Executive: ....
David Williams

Note: All such decisions shall be reported to Cabinet at the next meeting.

To	**David Williams**	**Chief Executive**
cc	**Stewart Agland**	**Local Democracy Manager**
From	**Chris Ward**	**Director of Finance and IS (S151 Officer)**
Date	**24th June 2016**	

Background

1.1. This report seeks approval to increase the borrowing limit by £50m from an Authorised Limit for External Debt of £567.849m to a revised Authorised Limit of £617.849m. **(Note increase in the Authorised Borrowing limit approved by the City Council in March 2016 from 2015/16 and 2016/17 was £69.263m)**

1.2. The Chief Executive requests that delegated authority be given to the Director of Finance and IS (S151 Officer) to approve the revised Authorised Limit for External Debt of £617.849m

1.3. Borrowing decisions are delegated to the Director of Finance & IS (S151 Officer) within the Authorised Limit approved by the City Council each year. This report seeks the approval to increase that Authorised Limit for External Debt. The actual decision to borrow will only be taken by the Director of Finance & IS (S151 Officer) after a thorough financial evaluation and proper appraisal of risk.

1.4. Public Works Loans Board (PWLB) rates (i.e. borrowing rates) have fallen to exceptionally low levels following the uncertainty arising from the E.U Referendum result. It is unclear how long this level of uncertainty will remain and therefore how long borrowing rates will remain at such depressed levels.

1.5. The Council has an approved Capital Programme which is predicated on requiring an overall Authorised Limit for External Debt of £567.849m. The Council however, has a strategy to pursue more entrepreneurial activities as a mechanism to generate income and therefore avoid cuts to public services throughout this austerity period.

1.6. Opportunities currently exist which have yet to be approved but will likely require additional levels of borrowing. This includes the extension of the Council's Property Investment Portfolio, future development at Dunsbury Hill Farm and the creation of Arms Length Organisations for other Employment Space and Housing Development opportunities.

2. Risks

2.1. That interest rates fall further and there is the opportunity cost of not securing the lowest rate possible.

2.2. That, in the event that the borrowing is undertaken, that the Capital Investment from which any return may be made does not take place in the short term and that in the interim period, the Council invests those funds but that investment rates remain low for a prolonged period of time resulting in a "cost of carry" (i.e. net cost to the Council) causing a budgetary pressure.

2.3. In the interim period between borrowing funds and then investing those funds into new Capital Investment to make a return, funds will be invested with approved counterparties in accordance with the Council's risk framework.

There is a risk that any investment with a counterparty could default (known as "credit risk"). This is mitigated through such actions as limiting investments to those with strong credit ratings as well as maintaining sectoral and geographical limits. It is unlikely that a default would result in a complete loss of the sum invested.

3. **Reason for Urgency**

3.1. It is unclear whether rates will continue at these low levels and if so for how long in the future. Interest rates may also rise in the future from current levels. This represents an opportunity to "lock into" historically low interest rates.

3.2. Borrowing decisions are long-term decisions and low interest rates will secure low cost finance for the Council for typically 25 years and over.

4. **Consultation**

4.1. The Director of Finance and IS on behalf of the Chief Executive has consulted and obtained the support of:

Leader of the Council:	Cllr Donna Jones
Leader of the Opposition:	Cllr Gerald Vernon-Jackson
Chair of Governance and Audit and Standards:	Cllr Ian Lyon

5. Approval request

5.1. The Director of Finance and IS (S151 Officer) be authorised to increase the Authorised Limit for External Debt of £567.849m to a revised Authorised Limit of £617.849m.

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Title of meeting:	Governance and Audit and Standards Committee Cabinet City Council
Date of meeting:	Governance and Audit and Standards Committee 16 September 2016 Cabinet 22 September 2016 City Council 11 October 2016
Subject:	Treasury Management Outturn Report 2015/16
Report by:	Director of Finance and Information Services (Section 151 Officer)
Wards affected:	All
Key decision:	No
Full Council decision:	Yes

1. Purpose of report

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code requires local authorities to calculate prudential indicators before the start of and after each financial year. Those indicators that the Council is required to calculate at the end of the financial year are contained in Appendix A of this report.

The CIPFA Code of Practice on Treasury Management also requires the Section 151 Officer to prepare an annual report on the outturn of the previous year. This information is shown in Appendix B of the report.

2. Recommendations

That the following recommendations relating to Appendices A and B of this report be approved:

Appendix A - that the following actual prudential indicators based on the unaudited draft accounts be noted:

(a) The actual ratio of non-Housing Revenue Account (HRA) financing costs to the non HRA net revenue stream of 11.9%;

(b) The actual ratio of HRA financing costs to the HRA net revenue stream of 13.1%;

(c) Actual non HRA capital expenditure for 2015/16 of £115,276,000;

(d) Actual HRA capital expenditure for 2015/16 of £27,437,000;

(e) The actual non HRA capital financing requirement as at 31 March 2016 of £280,516,000;

(f) The actual HRA capital financing requirement as at 31 March 2016 of £154,734,000;

(g) Actual external debt as at 31 March 2016 was £490,378,035 compared with £462,566,096 at 31 March 2015.

Appendix B - That the following actual Treasury Management indicators for 2015/16 be noted:

(a) The Council's gross debt less investments at 31 March 2016 was £118,551,000;

(b) The maturity structure of the Council's borrowing was

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Actual	1%	1%	2%	4%	18%	10%	22%	42%

(c) The Council's sums invested for periods longer than 364 days at 31 March 2016 were:

	Actual £m
31/3/2016	196
31/3/2017	106
31/3/2018	33

(d) The Council's fixed interest rate exposure at 31 March 2016 was £220m, ie. the Council had net fixed interest rate borrowing of £220m

(e) The Council's variable interest rate exposure at 31 March 2016 was (£186m), ie. the Council had net variable interest rate investments of £186m

3. Background

The Local Government Act 2003 requires local authorities to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities.

The Prudential Code requires local authorities to adopt the CIFPA Code of Practice for Treasury Management in the Public Sector, which the City Council originally adopted in April 1994. Under the Code of Practice for Treasury Management an Annual Policy Statement is prepared setting out the strategy and objectives for the coming financial year. The Council approved the policy statement for 2015/16 on 17 March 2015. The Council approved the following revisions to the policy statement on 10 November 2015:

- Changing the method of calculating the minimum revenue provision (MRP) for the repayment of debt for post 1 April 2008 self-financed General Fund borrowing (with the exception of finance leases, service concessions and borrowing to fund long term debtors) from the equal instalment of principal method to the annuity method effect from 2015/16
- To allow investments to be made in enhanced or cash plus money market funds on the basis of a single credit rating
- Some investment counter party limits were revised to reflect changes to credit ratings

The Code of Practice also requires the Section 151 Officer to prepare an annual report on the outturn of the previous year. This information is shown in Appendix B of the report.

This report is based on the Council's unaudited draft accounts as the audit is not due to be completed until the end of September. Basing the report on the unaudited draft accounts will enable the report to be considered in the September / October meeting cycle rather than in November.

4. Reasons for Recommendations

The net cost of Treasury Management activities and the risks associated with those activities have a significant effect on the City Council's overall finances.

5. 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.

6. Director of Finance & Information Services (Section 151 Officer) comments

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

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

Appendices:

Appendix A: Prudential Indicators
Appendix B: Treasury Management Outturn

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 outturn	Financial Services
2		

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the Cabinet on 22 September 2016.

………………………………………………
Signed by: the Leader of the Council

APPENDIX A

ACTUAL PRUDENTIAL INDICATORS

1. RATIO OF FINANCING COSTS TO NET REVENUE STREAM 2015/16

This ratio reflects the annual cost of financing net debt as a proportion of the total revenue financing received. It therefore represents the proportion of the City Council's expenditure that is largely fixed and committed to repaying debt. The higher the ratio, the lower the flexibility there is to shift resources to priority areas and/or reduce expenditure to meet funding shortfalls.

For the General Fund, this is the annual cost of financing debt and as a proportion of total income received from General Government Grants, Non Domestic Rates and Council Tax. The ratios of financing costs to net revenue streams for the General Fund in 2015/16 were as follows:

	Original Estimate	**Actual**
	£'000	£'000
Financing Costs:		
Interest Payable	17,100	17,790
Interest Receivable	(2,244)	(3,858)
Provision for Repayment of Debt	7,018	6,335
Total Financing Costs	**21,874**	**20,267**
Net Revenue Stream	**167,190**	**169,893**
Ratio of Financing Costs to Net Revenue Stream	**13.1%**	**11.9%**

Interest payable was £0.7m more than the original estimates. The Council borrowed £33m in 2015/16 which had not been included in the original estimates in order to take advantage of relatively low interest rates. Although this should reduce the amount of interest payable in the long term it did result in an additional £0.3m cost in 2015/16. The Housing Revenue Account's (HRA) contribution towards interest payable was 0.3m lower than anticipated. This was because the original capital program provided for £7.2m of HRA capital expenditure to be financed from borrowing whereas no HRA capital expenditure was actually financed from borrowing.

Interest Receivable was £0.7m more than the original estimates. This was due to the Council having more cash to invest than had been anticipated and the interest rates on the Council's investments being higher than had been anticipated.

The provision for the repayment of debt was £0.8m less than the original estimate. This is mainly because of the Councils decision to change the the method of calculating the minimum revenue provision (MRP) for the repayment of debt for post 1 April 2008 self-financed General Fund borrowing (with the exception of finance leases, service concessions and borrowing to fund long term debtors) from the equal instalment of principal method to the annuity method with effect from 2015/16 to General Fund

The ratio of Housing Revenue Account (HRA) financing costs to net revenue stream is shown below. For the HRA, this is the annual cost of financing capital expenditure, as a proportion of total gross income received including housing rents and charges.

	Original Estimate	Actual
HRA	13.4%	13.1%

The actual percentage of HRA financing costs to net revenue stream is lower than anticipated. This was because the original capital program provided for £7.2m of HRA capital expenditure to be financed from borrowing whereas no HRA capital expenditure was actually financed from borrowing.

2. ACTUAL CAPITAL EXPENDITURE 2015/16

There has been significant under spending against the original budget. Much of this was due to slippage or funding not being available. This does not represent additional capital resources. Actual capital expenditure in 2015/16 was as follows:

	Estimate £'000	Actual £'000
Culture & Leisure	4,355	1,360
Children's & Education Services	11,905	9,408
Environment & Community Safety	12,321	6,135
Health & Social Care (Adults Services)	5,243	407
Resources	5,798	3,550
Planning, Regeneration & Economic Development	22,759	43,995
Commercial Port	6,432	3,559
Traffic & Transportation	17,594	9,304
Housing General Fund	1,859	2,575
Local Enterprise Partnership	48,739	34,983
Total Non HRA	**137,005**	**115,276**
Housing Revenue Account (HRA)	41,720	27,437
Total	**178,725**	**142,713**

Actual capital expenditure was £36.0m below the original capital programme. The main variances were as follows:

Culture & Leisure - £3.0m Underspend

This underspend was due to slippage on the D Day Museum refurbishment and the development of the Hotwalls ARTches Studios. There were delays in obtaining funding from the Heritage Lottery Fund for the D Day Museum refurbishment. Much of the ARTches site is an ancient monument with the remainder being grade 1 listed. There were delays in consulting with Historic England and other agencies to ensure that the appropriate consents were obtained and planning conditions discharged.

Children's & Education Services - £2.5m Underspend

This underspend was due to slippage of £0.8m on the Goldsmith and Brambles Nursey expansion and £1.7m on the development of the Vanguard Centre. The Goldsmith and Brambles Nursey expansion was delayed due to finding asbestos on the site, uncertain ground conditions and contractor delays. The process of selecting a contractor for the Vanguard Centre development took longer than anticipated.

Environment and Community Safety - £6.2m Underspend

Much of this underspend is due to slippage on flood defence works. Works at Anchorage Park took longer than anticipated and the design phase of the Southsea flood works has taken longer than anticipated due to delays in obtaining approval from the Environment Agency.

Health and Social Care (Adults Services) - £4.8m Underspend

This underspend is due to the East Lodge scheme being put on hold due to the contract tender pricing being considered to be too high.

Resources - £2.2m Underspend

There was significant slippage in preparing the specifications for business intelligence, landlord's maintenance, utilities management and channel shift. In addition the residual budget for the Windows 7 upgrade was not required.

Planning, Regeneration and Economic Development - £21.2m Overspend

£32.5m was spent on acquiring commercial properties which was not included in the original budget. This was partly mitigated by an underspend of £6m on City Centre road improvements due to delays in securing funding & an underspend of £7m on the City Deal due to delays in reaching an agreement to purchase land from the private sector at Tipner West.

Commercial Port - £2.9m Underspend

The main reason for the significant underspend on the port's 2015/16 capital programme against the original estimate is because of the Floating Dock Jetty, Berth Extension and Passenger Facilities Scheme. In terms of the demolition of the Floating Dock Jetty, the contractor's original pile extraction methodology was unsuccessful which meant the scheme slipped into 2016/17. In addition, works associated with extending Berth 2 are still to commence because the feasibility study and business case identified a number of complications that still need to be resolved.

Traffic and Transportation - £8.3m Underspend

A number of capital schemes in the Traffic and Transportation Portfolio have slipped including Dunsbury Hill Farm Access Road, rebuilding the Hard Interchange, the City Centre Development Road and the Local Transport Plan. The slippage on rebuilding the Hard Interchange was particularly severe at £2.7m due to a retendering process. In addition there were a number of events within the city throughout the year which added extra pressures to the teams.

Local Enterprise Partnership (LEP) - £13.8m Underspend

The £3m Red Funnel scheme financed by the Growing Places Fund has slipped due to delays in obtaining planning permission. The £8m Solent Futures Fund has not been spent due to a significant delay in processing projects. In addition the Government has clawed back much of the uncommitted funding as part of the spending review.

Housing Revenue Account (HRA) - £14.3m Underspend

This variance is made up of two main elements: the new build programme for houses (£9.1m), and the major repairs to dwellings (£5.3m).

The building of new houses within the HRA has underspent by £9.1m, compared to the original estimate. Following the 2015 DCLG legislation on rent setting, which reduced rents for four years, the build programme had to be revised because of the reduction of available funds. This resulted in postponements and revisions of the majority of housing schemes, whilst funding sources were investigated and sought before proceeding.

The variance within the major repairs to dwellings area was mainly caused by three schemes: Hawthorn Crescent (£1m) - Works were delayed due to the lack of surveying resources; Grosvenor House (£1.6m) - Extent of the works were reviewed after 2015 new legislation introduced around rent reductions - the scheme will be on site in 2016/17, and Wilmcote House (£2.1m) - the contractor is six months behind the programme or works which has affected the cash flow and spend forecasts.

3. ACTUAL CAPITAL FINANCING REQUIREMENT

This 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 capital financing requirement also forms the basis of the calculation of the amount of money that has to be set aside for the repayment of outstanding General Fund debt. The capital financing requirement is increased each year by any new borrowing and reduced by any provision for the repayment of debt. Broadly, the higher the capital financing requirement, the higher the amount that is required to be set aside for the repayment of debt in the following year.

The actual capital financing requirements as at 31st March 2016 were as follows:

	Original Estimate	**Actual**
	£'000	£'000
Non HRA	260,185	280,516
HRA	170,166	154,734
Total	430,351	435,250

The non HRA capital financing requirement is higher than had been originally estimated due to the acquisition of commercial properties which was not included in the original budget.

The HRA capital financing requirement is lower than the original estimate due to less capital works financed by borrowing being undertaken in 2014/15 which led to a lower than anticipated opening capital financing requirement at 1 April 2015 and further underspending on capital works financed by borrowing in 2015/16.

4. ACTUAL EXTERNAL DEBT

At 31 March 2016, the City Council's level of external debt amounted to £490,378,035 consisting of the following:

- Long Term Borrowing £406,119,768
- Finance leases £2,149,010
- Service concessions (including PFI schemes) £82,109,257

The overall level of debt, excluding debt managed by Hampshire County Council, has increased between 2014/15 and 2015/16 by £27,811,939.

5. CODE OF PRACTICE

The Prudential Code requires local authorities to adopt CIPFA's Code of Practice for Treasury Management in Local Authorities. The City Council has complied with this code.

TREASURY MANAGEMENT DECISIONS 2015/16

1. GOVERNANCE

Treasury management activities were performed within the Prudential Indicators approved by the City Council.

Treasury management activities are also governed by the Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy approved by the City Council.

2. FINANCING OF CAPITAL PROGRAMME

The 2015/16 capital program was financed as follows:

Source of Finance	Anticipated £'000	Actual £'000
Corporate Reserves (including Capital Receipts)	19,800	5,223
Grants & Contributions	100,862	68,095
Revenue & Reserves	31,158	28,040
Long Term Borrowing	26,905	41,355
Total	178,725	142,713

There was significant slippage in the capital programme and some schemes were curtailed or abandoned. This meant that less capital resources were used to finance the capital programme.

Financing from long term borrowing is higher than had been originally estimated due to the acquisition of commercial properties which was not included in the original budget.

3. ECONOMIC BACKGROUND

Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in the UK surged strongly during both 2013/14 and 2014/15 to make the UK the top performing advanced economy in 2014. However, 2015 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling materially. These rates continued at very low levels during 2015/16.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

The ECB had announced in January 2015 that it would undertake a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015. The anti-austerity government in Greece, elected in January 2015 eventually agreed to implement an acceptable programme of cuts to meet EU demands after causing major fears of a breakup of the Eurozone. Nevertheless, there are continuing concerns that a Greek exit has only been delayed.

As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

On the international scene, concerns have increased about the slowing of the Chinese economy and also its potential vulnerability to both the bursting of a property bubble and major exposure of its banking system to bad debts. The Japanese economy has also suffered disappointing growth in this financial year despite a huge programme of quantitative easing, while two of the major emerging market economies, Russia and Brazil, are in recession. The situations in Ukraine, and in the Middle East with ISIS, have also contributed to volatility.

The UK elected a majority Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

4. GROSS AND NET DEBT

The Council's net borrowing position at 31 March 2016 excluding accrued interest was as follows:

	1 April 2015	31 March 2016
	£'000	£'000
Borrowing	376,471	406,120
Finance Leases	3,027	2,149
Service Concession Arrangements (including PFIs)	83,068	82,109
Gross Debt	**462,566**	**490,378**
Investments	(321,917)	(371,827)
Net Debt	**140,649**	**118,551**

The Council has a high level of investments relative to its gross debt due to a high level of reserves, partly built up to meet future commitments under the Private Finance Initiative schemes and future capital expenditure. The £84m of borrowing taken in 2011/12 to take advantage of very low PWLB rates has also temporarily increased the Council's cash balances. The Council's investments increased by £49.9m in 2015/16. This was mainly due to borrowing £33m from them Public Works Loans Board (PWLB) in 2015/16 to fund future capital expenditure and slippage in the capital programme.

The current high level of investments increases the Council's exposure to credit risk, ie. the risk that an approved borrower defaults on the Council's investment. In the interim period where investments are high because loans have been taken in advance of need, there is also a short term risk that the rates (and therefore the cost) at which money has been borrowed will be greater than the rates at which those loans can be invested. The level of investments will fall as capital expenditure is incurred and commitments under the Private Finance Initiative (PFI) schemes are met.

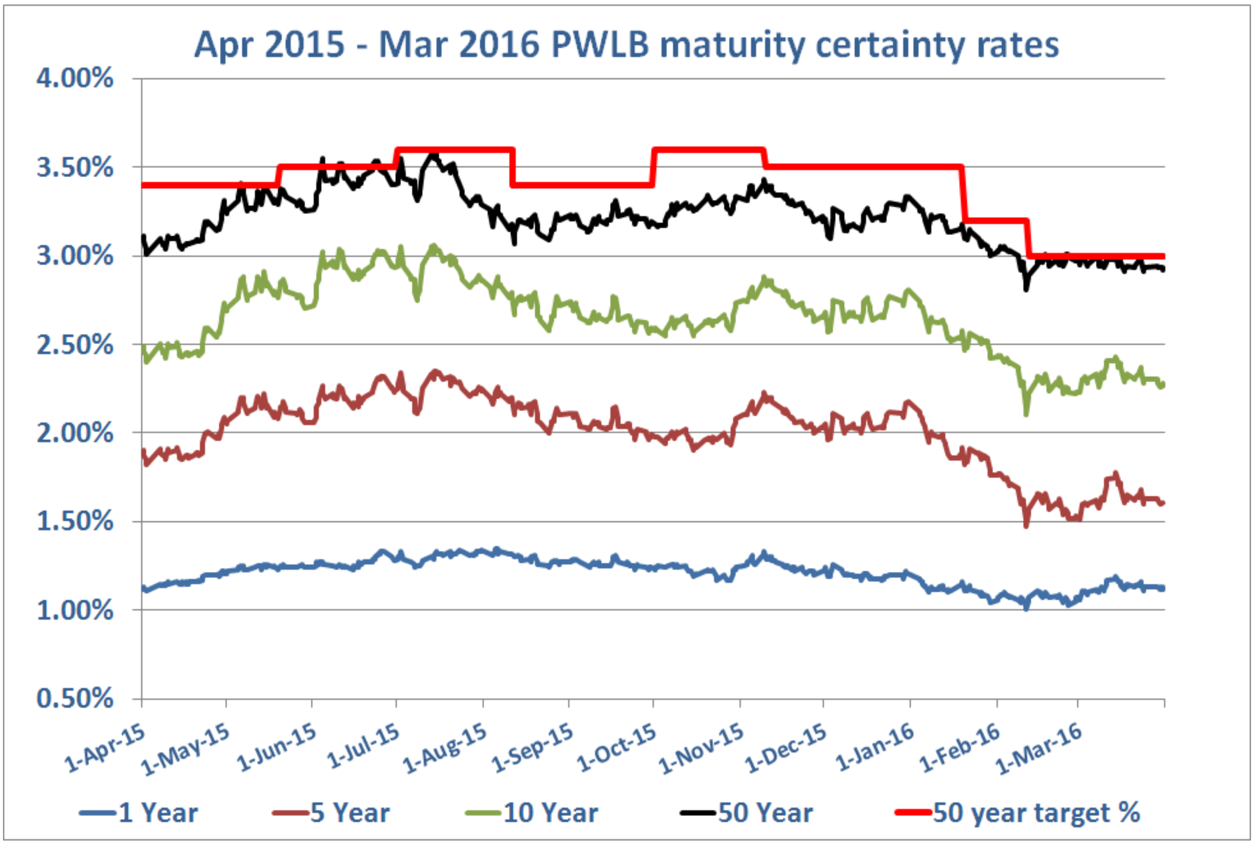
5. DEBT RESCHEDULING

Under certain circumstances it could be beneficial to use the Council's investments to repay its debt. However this normally entails paying a premium to the lender, namely the Public Works Loans Board (PWLB). Debt rescheduling is only beneficial to the revenue account when the benefits of reduced net interest payments exceed the cost of any premiums payable to the lender. Debt rescheduling opportunities have been limited in the current economic climate and by the structure of interest rates following increases in PWLB new borrowing rates in October 2010.

No debt rescheduling was undertaken in 2015/16.

6. BORROWING ACTIVITY

The table below shows the PWLB's certainty rates in 2015/16.



There were many small movements in PWLB rates in 2015/16, both upwards and downwards, but overall rates rose until June and then followed a downward trend. Any one of the movements upwards could have marked the start of an upward trend which was expected, but in the event, did not happen. PWLB rates were below the target rate recommended by the Council's advisors, Capita Asset Services, for considering new borrowing for most of the year. Consequently £9m was borrowed from the PWLB for 15 years at the project rate of 2.73% repayable at maturity in August 2015. A further £9m was borrowed from the PWLB for 15 years at the project rate which was then 2.76% repayable at maturity in December 2015. The project rate is 0.20% below the certainty rate. These loans were taken out to fund the City Deal and the development of Dunsbury Hill Farm. In February 2016 after PWLB rates had fallen the Council borrowed a further £15m for 50 years repayable at maturity at the certainty rate of 2.94% to fund future capital expenditure.

This borrowing, in addition to £88.6m borrowed at National Loans Fund Rates to fund the HRA Self Financing payment in March 2012, has resulted in the Council's external debt exceeding its capital financing requirement by £55.1m.

7. REFINANCING RISK

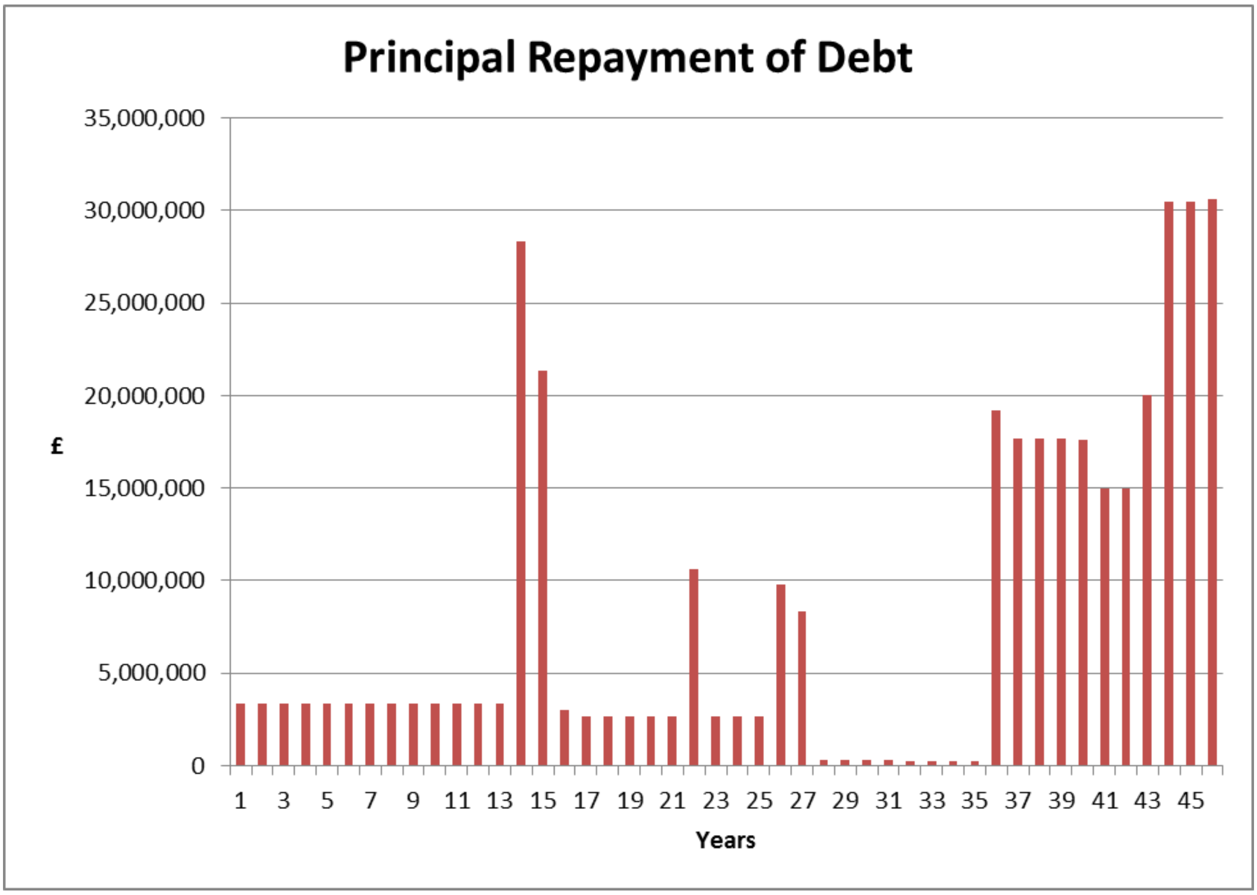
In recent years the cheapest loans have often been very long loans repayable at maturity.

During 2007/08 the Council rescheduled £70.8m of debt. This involved repaying loans from the Public Works Loans Board (PWLB) early and taking out new loans from the PWLB with longer maturities ranging from 45 to 49 years. The effect of the debt restructuring was to reduce the annual interest payable on the Council’s debt and to lengthen the maturity profile of the Council’s debt.

£50m of new borrowing was taken in 2008/09 to finance capital expenditure. Funds were borrowed from the PWLB at fixed rates of between 4.45% and 4.60% for between 43 and 50 years.

A further £173m was borrowed in 2011/12 to finance capital expenditure and the HRA Self Financing payment to the Government. Funds were borrowed from the PWLB at rates of between 3.48% and 5.01%. £89m of this borrowing is repayable at maturity in excess of 45 years. The remaining £84m is repayable in equal instalments of principal over periods of between 16 and 26 years.

As a result of interest rates in 2007/08 when the City Council rescheduled much of its debt and interest rates in 2008/09 and 2011/12 when the City Council undertook considerable new borrowing 64% of the City Council’s debt matures in over 30 years' time.



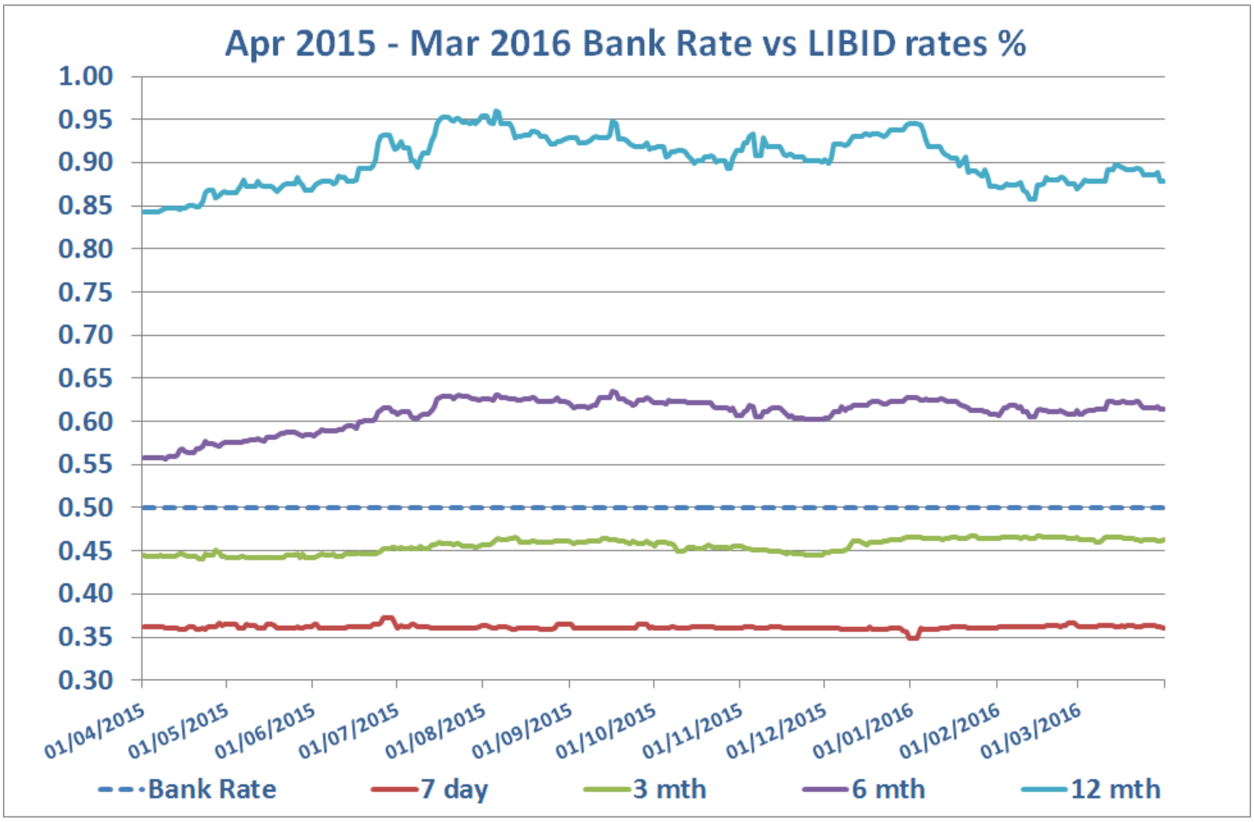
The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper and lower limits for the maturity of borrowings in defined periods. The Council's performance against the limits set by the City Council is shown below.

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Lower Limit	0%	0%	0%	0%	0%	0%	0%	0%
Upper Limit	10%	10%	20%	20%	40%	40%	40%	50%
Actual	1%	1%	2%	4%	18%	10%	22%	42%

8. INVESTMENT ACTIVITY

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising.

London inter-bank lending rates in 2015/16 are shown in the graph below:



The average return on the Council's investments was 0.97% in 2015/16 which was an improvement to the average return of 0.76% in 2014/15. This was achieved through lengthening the average duration of the portfolio (longer investments generally offer better returns) and reducing the amount invested in local authorities which offer very secure investments but low returns.

The City Council's investment activities are benchmarked by Capita Asset Services against its other clients. The graph below shows the councils' weighted average rates of return (WARoR) as at 31 March 2016 compared to a model WARoR taking account of duration risk and credit risk. The returns on Portsmouth's investment portfolio are in line with where they should be given the risks inherent in the portfolio.

	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Portsmouth City Council	1.11%	1.05%	0.05%	1.00%	1.11%	Inline

Portsmouth is slightly above the model band width indicating that Portsmouth's returns are a little better than would be expected for the degree of credit and duration risk inherent in the portfolio.

9. SECURITY OF INVESTMENTS

The risk of default has been managed through limiting investments in any institution to a maximum £30m, setting investment limits for individual institutions that reflect their financial strength and spreading investments over countries and sectors.

The 2015/16 Treasury Management Policy approved by the City Council on 17 March 2015 and amended by the City Council on 10 November only permitted deposits to be placed with the Council's subsidiaries, namely MMD (Shipping Services) Ltd, the United Kingdom Government, other local authorities and institutions that have the following minimum credit ratings:

Short Term Rating

F2 (or equivalent) from Fitch, Moody's (P-2) or Standard and Poor (A-2)

Long Term Rating

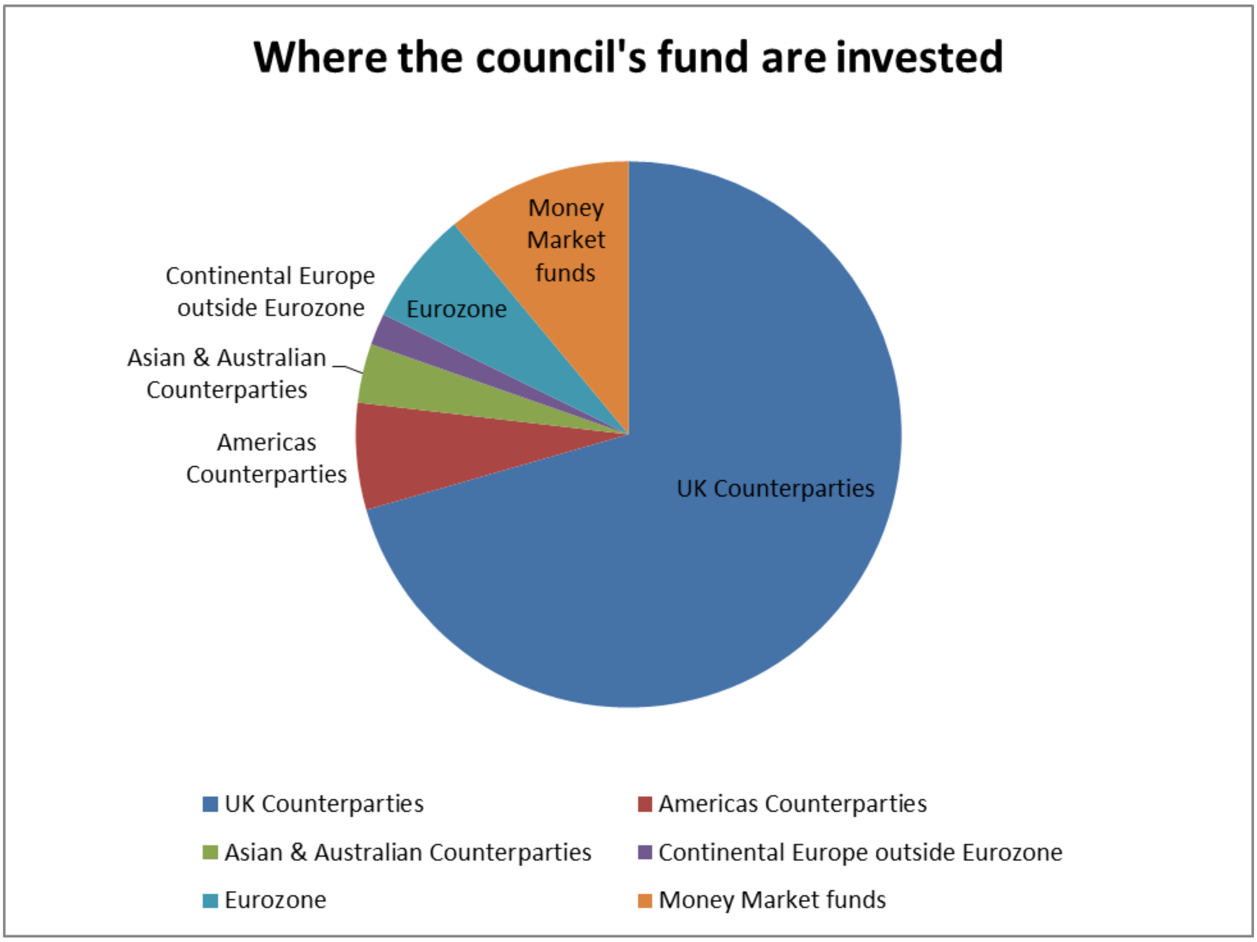
BBB

In addition the 2015/16 Treasury Management Policy approved by the City Council on 17 March 2015 also permitted deposits to be placed with the stronger unrated building societies.

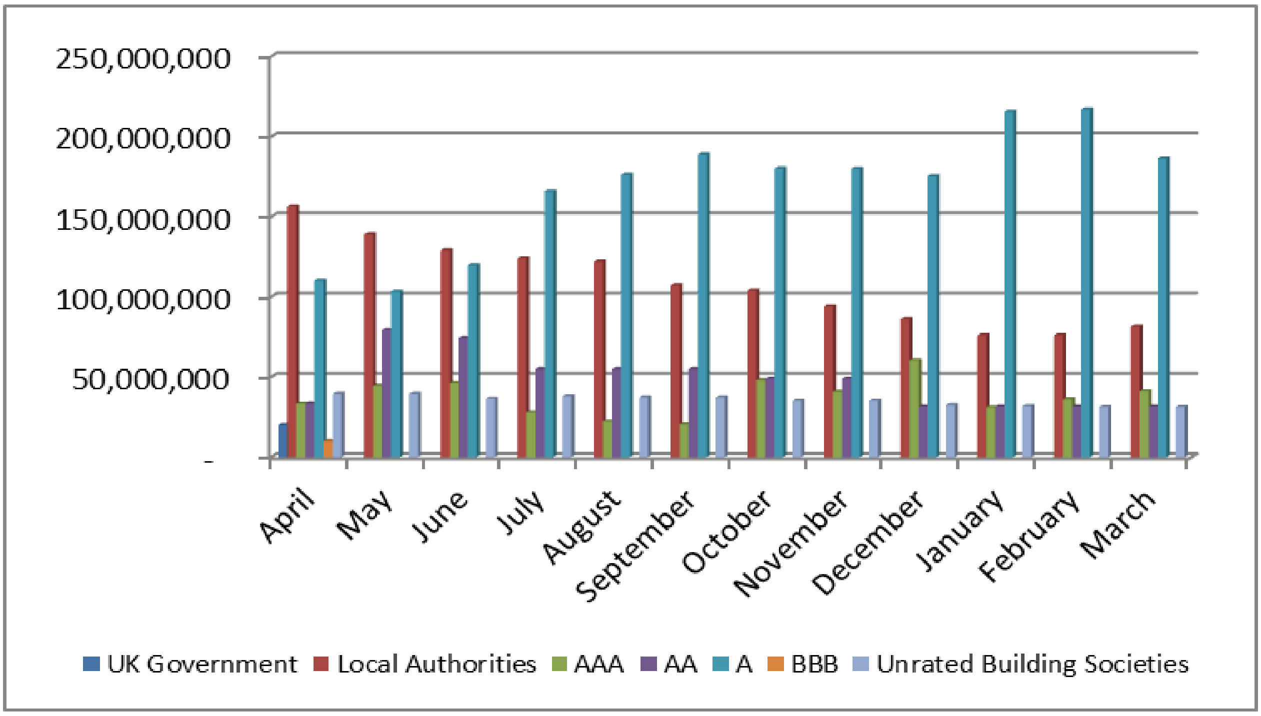
At 31 March 2016 the City Council had on average £6.8m invested with each institution.

Credit risk also exists from the Council's current bank accounts. This arises not only from the Council's overnight current account bank balances, but also from settlement risk, ie. the Council's intra-day exposure can temporarily exceed the balance on the accounts after all transactions have been processed. This counter party exposure is in addition to the Council's investment limits.

The chart below shows how the Council’s funds were invested at 31 March 2016.



The chart below shows how the Council's investment portfolio has changed in terms of the credit ratings of investment counter parties over 2015/16.

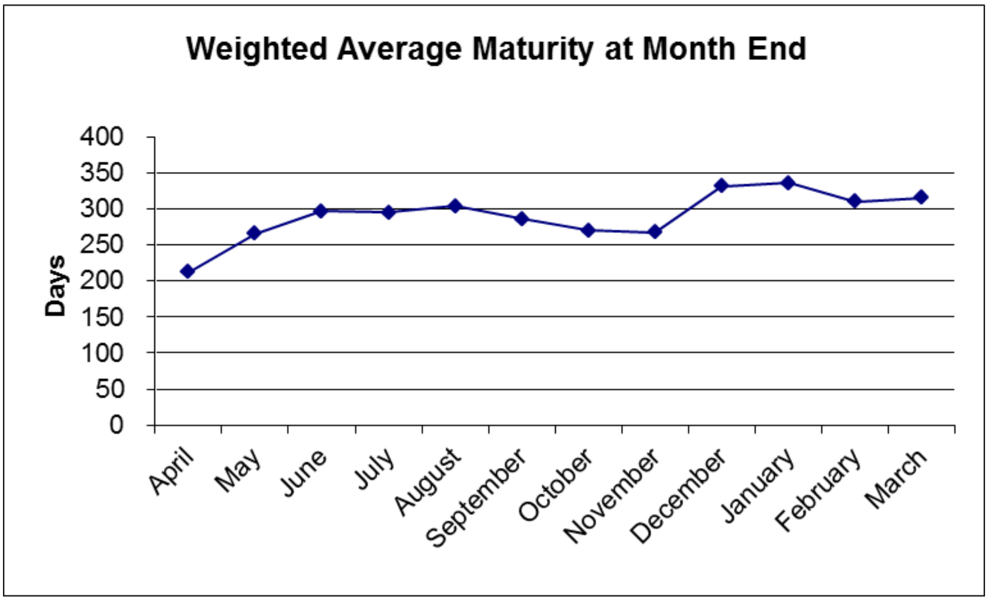


It can be seen from the graph above that investments in local authorities have declined over 2015/16. These investments have largely been replaced by investments in A rated private sector counter parties which generally offer a better return than investments in local authorities.

10. LIQUIDITY OF INVESTMENTS

The 2015/16 Treasury Management Policy seeks to maintain the liquidity of the portfolio, ie. the ability to liquidate investments to meet the Council's cash requirements, through maintaining at least £10m in instant access accounts. At 31 March 2016 £41.6m was invested in instant access accounts. Whilst short term investments provide liquidity and reduce the risk of default, they do also leave the Council exposed to falling interest rates.

The weighted average maturity of the City Council's investment portfolio started at 212 days in April and rose to 315 days in March. Investment rates are expected to fall further and the longer maturity pattern of the investment portfolio will delay the effect that this will have in diminishing the returns on the Council's investments. This is shown in the graph below.



Under CIPFA's 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 in order to ensure that sufficient money can be called back to meet the Council's cash flow requirements. The Council's performance against the limits set by the City Council is shown below.

	Limit **(Not Exceeding)** £m	**Actual** £m
31/3/2016	243	196
31/3/2017	231	106
31/3/2018	228	33

11. INTEREST RATE RISK

This is the risk that interest rates will move in a way that is adverse to the City Council's position.

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. Fixed interest rate borrowing exposes the Council to the risk that interest rates could fall and the Council will pay more interest than it need have done. Long term fixed interest rate investments expose the Council to the risk that interest rates could rise and the Council will receive less income than it could have received. However fixed interest rate exposures do avoid the risk of budget variances caused by interest rate movements. The Council's performance against the limit set by the City Council as at 31 March 2016 is shown below.

	Limit **£m**	**Actual** **£m**
Maximum Projected Gross Borrowing – Fixed Rate	395	406
Minimum Projected Gross Investments – Fixed Rate	(91)	(186)
Fixed Interest Rate Exposure	304	220

Although the Council ended the year with more fixed rate gross borrowing than had been allowed for it also had a far greater level of long term fixed rate investments than had been anticipated leaving the Council well within its fixed interest rate exposure limit.

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes also require local authorities to set upper limits for variable interest rate exposures. Variable interest rate borrowing exposes the Council to the risk that interest rates could rise and the Council's interest payments will increase. Short term variable interest rate investments expose the Council to the risk that interest rates could fall and the Council's investment income will fall. Variable interest rate exposures carry the risk of budget variances caused by interest rate movements. The Council's performance against the limit set by the City Council is shown below.

	Limit £m	Actual £m
Minimum Projected Gross Borrowing – Variable Rate	-	-
Maximum Projected Gross Investments – Variable Rate	(278)	(186)
Variable Interest Rate Exposure	(278)	(186)

12. REVENUE COSTS OF TREASURY MANAGEMENT ACTIVITIES IN 2015/16

Expenditure on treasury management activities against the revised budget is shown below.

Interest 2015/16

	Revised Estimate 2015/16 £000	Actual 2015/16 £000	Variance +/- £000
PWLB – Maturity Loans	11,595	11,635	40
PWLB - E.I.P Loans	3,699	3,697	(2)
Other Long Term Loans	512	516	4
HCC Transferred Debt	439	442	3
Interest on Finance Lease	302	302	-
Interest on Service Concession Arrangements (including PFIs)	8,920	8,901	(19)
Interest Payable to External Organisations	16	1	(15)
	25,483	25,494	11
Deduct			
Investment Income	(4,670)	(5,318)	(648)
	20,813	20,176	(637)
Provision for Repayment of Debt	9,259	9,206	(53)
Debt Management Costs	465	398	(67)
	30,537	**29,780**	**(757)**

Net treasury management costs were £0.8m below the revised budget mainly due to investment returns being higher than had been anticipated.

Agenda Item 8

Title of meeting:	Governance and Audit and Standards Committee Cabinet City Council
Date of meeting:	Governance and Audit and Standards Committee 16 September 2016 Cabinet 22 September 2016 City Council 11 October 2016
Subject:	Treasury Management Mid-Year Review 2016/17
Report by:	Director of Finance and Information Services (Section 151 Officer)
Wards affected:	All
Key decision:	Yes
Full Council decision:	Yes

1. Purpose of report

The purpose of the report is to review the current treasury management position and strategy and make recommendations to improve the strength and performance of the treasury management operation. This report seeks to further diversify the Council's investment portfolio by increasing the number of countries that the Council can invest in and by allowing investments with a BBB credit rating. Appendix A aims to inform members and the wider community of the Council's current Treasury Management position and of the risks attached to that position.

2. Recommendations

1. That the operational boundary be increased by £50m from £549.5m to £599.5m

2. That the geographic investment limits applied to regions outside the United Kingdom be increased as follows:

Region	Current Limits	Recommended Revised Limits
Asia & Australia	£60m	£80m
Americas	£60m	£80m
Eurozone	£30m	£60m
Continental Europe outside the Eurozone	£30m	£60m

3. That the limits placed on total sums invested for periods longer than 364 is increased as follows:

Sums invested beyond:	**Current Limits**	**Recommended Revised Limits**
31/3/2017	£196m	£288m
31/3/2018	£123m	£199m
31/3/2019	£90m	£90m

4. That investments should only be placed with institutions based in either the United Kingdom or sovereign states with at least an AA credit rating (the current strategy requires at least an AA+ credit rating)

5. It is recommended that investments be permitted in counter parties that do not meet the Council's credit criteria if the investment is secured against assets that do meet the Council's investment criteria

6. That investments in counter parties with long term credit ratings of BBB+ / Baa1 and short term credit ratings of F2 / P-3 / A3 be permitted for periods up to 364 days with an individual counter party limit of £7m

7. That up to £8m is invested in corporate bond funds where the underlying investments have an average credit rating of at least BBB+ but may include lower rated investment grade holdings

8. That up to £10m be invested in bonds issued by Hampshire Community Bank providing the bonds can be secured against good quality assets owned by the Bank

9. That the following actual Treasury Management indicators for July 2016 be noted:

(a) The Council's debt at 31 July was as follows:

	Original Prudential Indicator	**Revised Prudential Indicator Under Standing Order 58**	**Recommended Prudential Indicator**	**Position at 31/7/16**
Authorised Limit	£567.8m	£617.8m	£617.8m	£582.4m
Operational Boundary	£549.5m	£549.5m	£599.5m	£582.4m

(b) The maturity structure of the Council's borrowing was:

	Under 1 Year	**1 to 2 Years**	**3 to 5 Years**	**6 to 10 Years**	**11 to 20 Years**	**21 to 30 Years**	**31 to 40 Years**	**41 to 50 Years**
Lower Limit	0%	0%	0%	0%	0%	0%	0%	0%
Upper Limit	10%	10%	10%	20%	30%	30%	30%	40%
Actual	1%	1%	4%	7%	22%	12%	18%	35%

(c) Sums invested for periods longer than 364 days at 31 July 2016 were:

Maturing after	**Limit** £m	**Actual** £m
31/3/2017	196	168
31/3/2018	123	90
31/3/2019	90	25

(d) The Council's interest rate exposures at 31 July 2016 were:

	Limit £m	**Actual** £m
Fixed Interest	358	289
Variable Interest (Net Investments)	(444)	(288)

3. Background

CIPFA's Treasury Management Code requires a Treasury Management Mid-Year Review to be considered by the City Council. The Council's treasury management position at 31 July and the risks attached to that position are reported in Appendix A.

Following the referendum result to leave the EU there was a sharp fall in Public Works Loans Board (PWLB) rates as investors anticipated that there would be further quantitative easing in the form of purchases of gilts in the coming months. In order to take advantage of the low rates on offer the Chief Executive made an urgent decision under Standing Order 58 to increase the authorised limit for external debt by £50m from £567.8m to £617.8m.

The Council's investment portfolio has increased by 35% in 2016/17 from £371.8m on 1 April to £500.7m as at 31 July largely due to borrowing £94m to take advantage of low interest rates. Consequently the Council has invested up to its geographical limits in Europe. Despite this there have only been limited opportunities to place investments with counter parties based in Asia, Australia and the Americas. The geographic counter party limits for these regions have yet to be fully utilised.

Investment rates have fallen since the referendum decision to leave the EU. The optimal investment period is now 2 years with investment rates now being around 0.65% for 1 year, 0.85% for 2 years and 0.90% for 5 years.

Following the result of the referendum on EU membership, the sovereign credit ratings of the UK Government have been cut as follows:

Agency	Pre Referendum Credit Rating	Current Post Referendum Credit Rating
Fitch	AA+	AA
Moody's	AA+	AA+
Standard and Poor's	AAA	AA

One of the lending objectives of the Treasury Management Strategy is to make funds available for the regeneration of Hampshire. Hampshire Community Bank is seeking to raise £5m to £10m through a corporate bond issue. The bond would offer up to 3.5% interest and would enable the bank to lend to small and medium sized entities at rates from 5.5%.

4. Reasons for Recommendations

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. In addition to the authorised limit, the Council also sets an 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 being breached. The Council's external debt on 5 July 2016 after the Council last undertook long term borrowing was £582.4m which exceeds the current operational boundary of £549.5m. It is recommended that the operational boundary be increased by £50m from £549.5m to £599.5m in line with the increase in the authorised limit so that the operational boundary can continue to act as a warning mechanism.

In order to ensure that the Council's exposure to regions outside the United Kingdom can be maintained on a proportionate basis it is recommended that the geographic investment limits be increased. It is recommended that the geographic investment limits for Asia and Australia, and the Americas be increased in line with the overall increase in the investment portfolio from £60m to £80m each. It is recommended that the geographic limits for the Eurozone and continental Europe outside the Eurozone be increased by a greater amount from £30m to £60m each to compensate for the difficulties experienced in placing investments with counter parties based in Asia, Australia and the Americas

It is recommended that the limits for sums invested for over 364 days be increased as follows to take account of the current cash flow forecast and facilitate investing for the optimal period of two years.

Sums invested beyond:	Current Limits	Recommended Revised Limits
31/3/2017	£196m	£288m
31/3/2018	£123m	£199m
31/3/2019	£90m	£90m

Sovereign credit ratings are driven by the ability of countries to collect tax to repay their debts. This is largely a reflection of the strength of a country's economy. For many years the Council has had an implied policy of only investing in institutions that are based in countries that have at least as strong a credit rating as the UK, ie. with economic prospects that are at least as good as the UK's. Now that two of the three main credit rating agencies rate the UK as AA it would be appropriate to include institutions based in other countries with an AA credit rating as approved investments. This would allow the Council to invest in banks and commercial companies based in Belgium, France and Qatar including BNP Paribas, Credit Agricole, Credit Industriel et Commercial and Societe Generale in France, and Qatar National Bank. Increasing the number of available investment counter parties will increase diversification and increase the opportunities to earn good rates of interest.

There are a number of other recommendations that should increase diversification and increase the opportunities to earn good rates of interest.

Investing in counter parties that do not meet the Council's credit criteria if the investment is secured against assets that do meet the Council's investment criteria will increase the number of counter parties the Council can invest in and may increase investment returns. Although this will increase the risk of defaults, it should not increase the risk of investment losses provided that the contracts are properly drawn up and the assets offered as security pass to the Council.

Investing up to 364 days in investments with a long term credit rating of BBB+ / Baa1 and a short term credit rating of at least F2 / P-3 / A3 would diversify the portfolio by enabling investments to be made in more commercial companies such as British Telecom. The risk of an investment defaulting is driven by the credit quality of the investment counter party and the duration of the investment, ie. the amount of time that credit quality can deteriorate over. An investment counter party rated BBB+ is more likely to default than an investment counter party rated A-. However an 18 month investment is more likely to default than a 12 month investment. Therefore a 12 month investment rated BBB+ can offer a lower probability of default than an 18 month investment rated A-. Therefore investing up to 364 days in investments rated BBB+ would diversify the portfolio by enabling investments to be made in more commercial companies without increasing the risk of default. Such investments could also achieve investment returns in excess of 0.9%.

Further diversification could be achieved by investment in a corporate bond fund. Investing in a corporate bond fund where the average credit rating of the underlying investments is BBB+ could yield 1.92% after fees. Such funds could include underlying investments with BBB- credit ratings although each investment would amount to no more than 4% of the fund. If one of the underlying investments did default the Council's holding in the fund could be worth less than what it paid into the fund, ie. the Council could make a loss. It is therefore recommended that total investments in such funds be restricted to £8m.

Purchasing a bond in Hampshire Community Bank (HCB) would contribute to the regeneration of Hampshire and offer interest of up to 3.5%. Investing in HCB would carry greater risk than the other approved investments contained in the Council's Annual Investment Strategy as HCB is a new entity that is in the process of developing its business, and currently has neither a banking license nor a credit rating. However HCB may be able to offer assets as security to cover a corporate bond. These assets would consist of good performing loans secured against tangible assets. The loan assets offered as security would pass to the Council In the event of HCB defaulting. It is recommended that investments in HCB of up to £10m be permitted provided that HCB can offer adequate security.

5. Equality impact assessment (EIA)

The contents of this report do not have any relevant equalities impact and therefore an equalities impact 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 2015 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. Director of Finance’s comments

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

…………………………………………………………………….
Signed by Director of Financial Services & IS (Section 151 Officer)

Appendices:
Appendix A: Treasury Management Mid-Year Review 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 treasury management strategy and performance	Financial Services
2		

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the Cabinet on 22 September 2016.

……………………………………………

Signed by: Leader of the Council

TREASURY MANAGEMENT MID YEAR REVIEW OF 2016/17

1. GOVERNANCE

The Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy approved by the City Council on 22 March 2016 provide the framework within which Treasury Management activities are undertaken.

2. ECONOMIC UPDATE

UK gross domestic product (GDP) growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country. However, the 2015 growth rate finally came in at a disappointing 1.8% so this shows that growth had slowed down, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to +0.7% but fell back again to +0.4% (2.0% y/y) in quarter 1 of 2016. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme and uncertainty created by the Brexit referendum.

Following the Brexit referendum a new Prime Minister was appointed and there was a major Cabinet reshuffle including the appointment of a new Chancellor. The new Chancellor has said he will do "whatever is needed" to promote growth. The Chancellor could seek to promote growth through fiscal policy, for example cutting taxes and increasing investment allowances for business, and / or increasing government expenditure on infrastructure and housing etc.

On 4 August the Bank of England (BoE) announced the following measures:

- Cut the base rate from 0.50% to 0.25%
- New gilt purchases of £60bn
- High quality corporate bond purchases of £10bn
- Term Funding Scheme to provide £100bn of cheap funding to banks

The last three measures will boost the amount of quantitative easing from £375bn to £545bn.

The Bank of England Governor, Mark Carney, has provided forward guidance that there could be a further cut in the base rate to near zero, if data comes in as forecast. Mark Carney has dismissed ideas of negative interest rates and helicopter money.

The August Inflation Report which was released at the same time showed the BoE left its growth forecasts unchanged at 2% for 2016 as the economy expanded faster in the first half of 2016 than it had expected in May. The forecast for 2017 has been revised down significantly to 0.8% from a previous estimate of 2.3%.

Forecast for inflation was revised up sharply as a result of a big drop in sterling since the EU referendum result, with inflation forecast to rise above the MPC's 2% target in 2018 to about 2.3%.

A number of geopolitical risks are arising including:

- Under capitalisation of Italian banks poses a major risk with state aid firmly ruled out by the EU as a potential way out
- October 2016 Italian constitutional referendum on reforming the Senate and reducing its powers has also become a confidence vote on Prime Minister Renzi who has said he will resign if there is a ‘no’ vote; this could destabilise Italy and stop progress to fundamental political and economic reform which is urgently needed to deal with Italy’s core problems, especially low growth
- Nov 2016 US presidential election
- 2017: French Presidential election April – May and German Federal general election between August and October could be affected by significant shifts in voter intentions as a result of terrorist attacks and a rise in anti EU sentiment
- Core EU principle of free movement of people within the EU is a growing issue leading to major stress and tension between EU states

The US economy is growing strongly. The next rate rise is now likely to be postponed until December 2016. Then sharper increases will cause Treasury yields to also rise. This should give rise to a growing gap between Treasury and gilt yields over time.

There is lack lustre economic growth in the EU (our biggest trading partner), which could be negatively impacted by political developments.

Japan is bogged down in anaemic growth and making little progress on fundamental reform of the economy

Chinese economic growth is weakening.

3. INTEREST RATE FORECAST

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities.

Apart from the uncertainties already explained above, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Federal Reserve rate increases, causing a further flight to safe havens (bonds).
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than currently anticipated.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Federal Reserve funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Now	Dec 16	Mar 17	Jun 17	Sep 17	Dec 17	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19
Base Rate	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.50
3 month LIBID	0.29	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.30	0.40	0.50	0.60
6 month LIBID	0.40	0.30	0.30	0.30	0.40	0.40	0.50	0.50	0.50	0.60	0.60	0.70
12 month LIBID	0.61	0.50	0.50	0.60	0.60	0.70	0.70	0.70	0.80	0.80	0.80	0.90
5 year PWLB	1.01	1.00	1.00	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.30
10 year PWLB	1.54	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80
25 year PWLB	2.33	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60
50 year PWLB	2.10	2.10	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.40

4. NET DEBT

The Council's net borrowing position excluding accrued interest at 31 July 2016 was as follows:

	1 April 2016	31 July 2016
	£'000	£'000
Borrowing	406,120	499,278
Finance Leases	2,149	1,869
Service Concession Arrangements (including Private Finance Initiative)	82,109	81,285
Gross Debt	**490,378**	**582,432**
Investments	(371,827)	(500,682)
Net Debt	**118,551**	**81,750**

The Council has a high level of investments relative to its gross debt due to a high level of reserves, partly built up to meet future commitments under the Private Finance Initiative schemes and future capital expenditure. However these reserves are fully committed and are not available to fund new expenditure. £84m of borrowing taken in 2011/12 and £94m of new borrowing taken in 2016/17 to take advantage of the very low PWLB rates has also temporarily increased the Council's cash balances.

The current high level of investments increases the Council's exposure to credit risk, ie. the risk that an approved borrower defaults on the Council's investment. In the interim period where investments are high because loans have been taken in advance of need, there is also a short term risk that the rates (and therefore the cost) at which money has been borrowed will be greater than the rates at which those loans can be invested. The level of investments will fall as capital expenditure is incurred and commitments under the Private Finance Initiative (PFI) schemes are met.

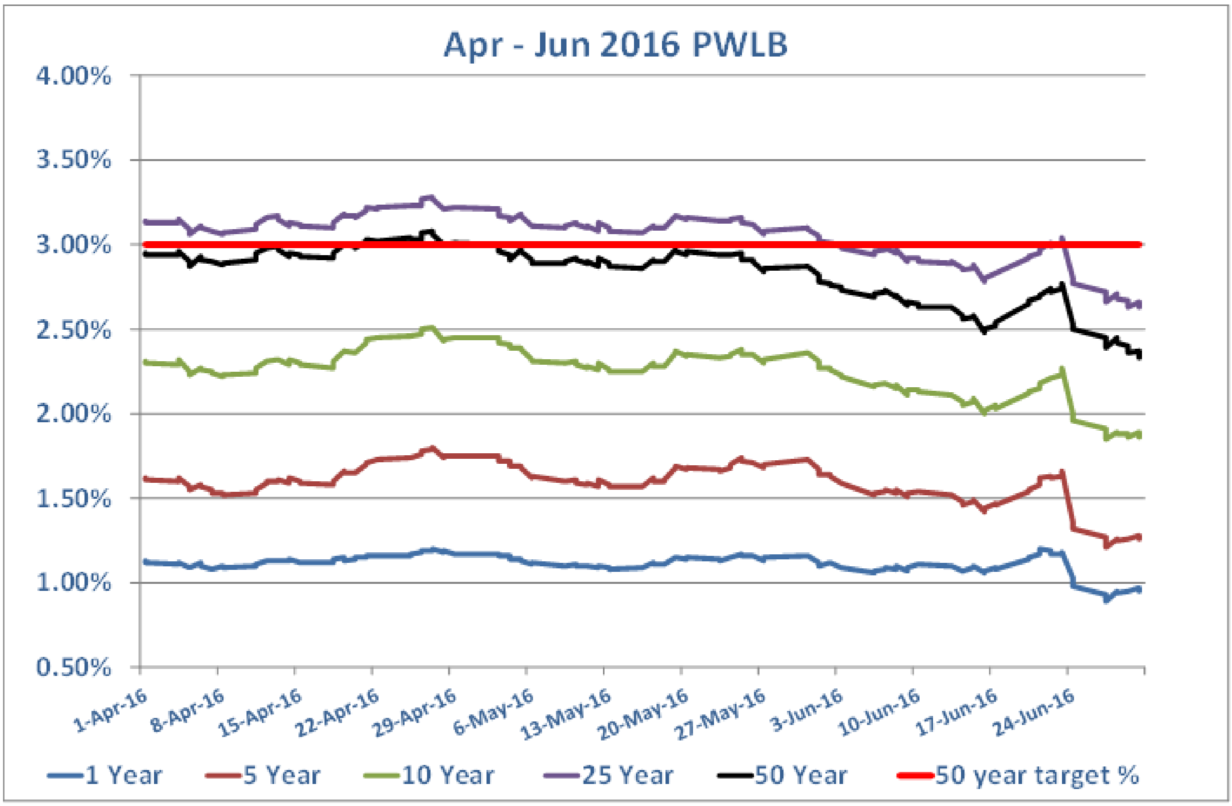
5. DEBT RESCHEDULING

Under certain circumstances it could be beneficial to use the Council's investments to repay its debt. However this normally entails paying a premium to the lender, namely the Public Works Loans Board (PWLB). Debt rescheduling is only beneficial to the revenue account when the benefits of reduced net interest payments exceed the cost of any premiums payable to the lender. Debt rescheduling opportunities have been limited in the current economic climate and by the structure of interest rates following increases in PWLB new borrowing rates in October 2010.

No debt rescheduling was undertaken in 2016/17.

6. BORROWING ACTIVITY

The graph below shows the PWLB's certainty rates in the first quarter of 2015/16.



There were many small movements in PWLB rates in the first three months of 2015/16, both upwards and downwards, but overall the general trend has been an increase in interest rates during April but then a fall during the rest of the quarter. PWLB rates were below the target rates for new borrowing supplied by Capita for most of the quarter.

The Council took three loans from the PWLB repayable in equal instalments over 25 years prior to the EU referendum as follows:

- £25m on 11 May at 2.57%
- £30m on 8 June at 2.42%
- £9m on 17 June at 2.34%

Following the referendum result to leave the EU there was a sharp fall in Public Works Loans Board (PWLB) rates as investors anticipated that there would be further quantitative easing in the form of purchases of gilts in the coming months. In order to take advantage of the low rates on offer the Chief Executive made an urgent decision under Standing Order 58 to increase the authorized limit for external debt by £50m from £567.8m to £617.8m. This enabled the Council to borrow £25m at 2.24% on 28 June and £5m at 1.97% on 5 July. Both loans are repayable in equal instalments over 25 years.

The Council's debt at 31 July was as follows:

	Original Prudential Indicator	**Revised Prudential Indicator Under Standing Order 58**	**Recommended Prudential Indicator**	**Position at 31/7/16**
Authorised Limit	£567.8m	£617.8m	£617.8m	£582.4m
Operational Boundary	£549.5m	£549.5m	£599.5m	£582.4m

7. MATURITY STRUCTURE OF BORROWING

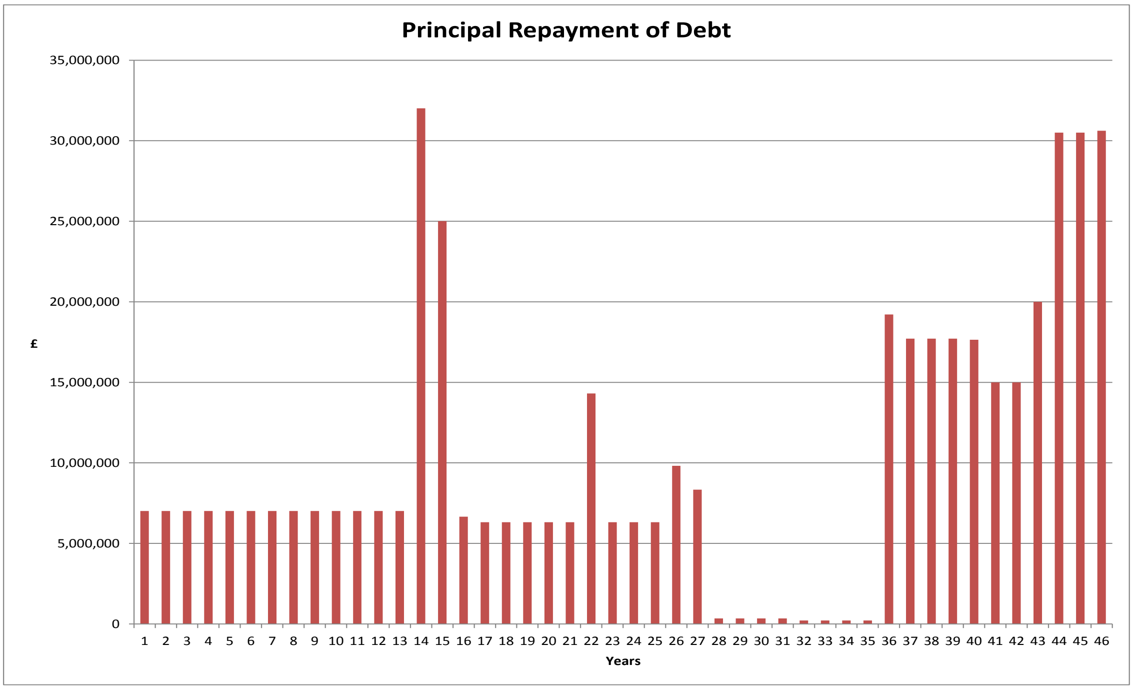
In recent years the cheapest loans have often been very long loans repayable at maturity.

During 2007/08 the Council rescheduled £70.8m of debt. This involved repaying loans from the Public Works Loans Board (PWLB) early and taking out new loans from the PWLB with longer maturities ranging from 45 to 49 years. The effect of the debt restructuring was to reduce the annual interest payable on the Council's debt and to lengthen the maturity profile of the Council's debt.

£50m of new borrowing was taken in 2008/09 to finance capital expenditure. Funds were borrowed from the PWLB at fixed rates of between 4.45% and 4.60% for between 43 and 50 years.

A further £173m was borrowed in 2011/12 to finance capital expenditure and the HRA Self Financing payment to the Government. Funds were borrowed from the PWLB at rates of between 3.48% and 5.01%. £89m of this borrowing is repayable at maturity in excess of 48 years. The remaining £84m is repayable in equal installments of principal over periods of between 20 and 31 years.

As a result of interest rates in 2007/08 when the City Council rescheduled much of its debt and interest rates in 2008/09 and 2011/12 when the City Council undertook considerable new borrowing 60% of the City Council's debt matures in over 30 years' time. This is illustrated in graph below.



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. The limits set by the City Council on 22 March together with the City Councils actual debt maturity pattern are shown below.

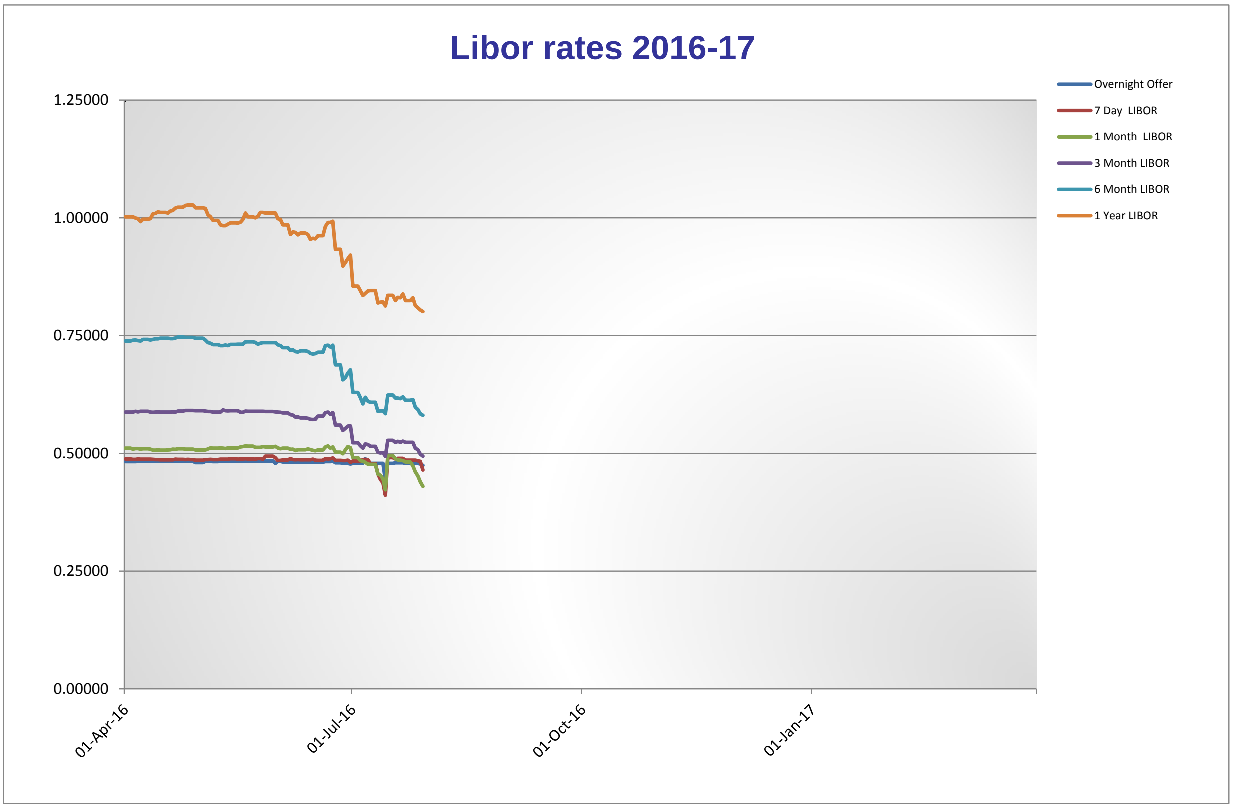
	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Lower Limit	0%	0%	0%	0%	0%	0%	0%	0%
Upper Limit	10%	10%	10%	20%	30%	30%	30%	40%
Actual	1%	1%	4%	7%	22%	12%	18%	35%

8. INVESTMENT ACTIVITY

In accordance with the Government's statutory guidance, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

Investment rates available in the market were broadly stable until mid-May but then took a slight downward path in the second half concluding with a significant drop after the referendum on a sharp rise in expectations of an imminent cut in Bank Rate and lower for longer expectations thereafter.

Short term market interest rates for the first four months of 2016/17 are shown in the graph below:



The Council's investment portfolio has increased by 35% in 2016/17 from £371.8m on 1 April to £500.7m as at 31 July largely due to borrowing £94m to take advantage of low interest rates. Consequently the Council has invested up to some of its geographical limits. In addition it is becoming harder to find counter parties that will accept the Council's investments and pay good rates of interest.

The overall investment portfolio yield for the first four months of the year is 1.09%.

The Council's budgeted investment return for 2016/17 is £3,184k, and performance for the year to date is £588k above budget. This is due to having more cash to invest than had been anticipated and improved investment returns.

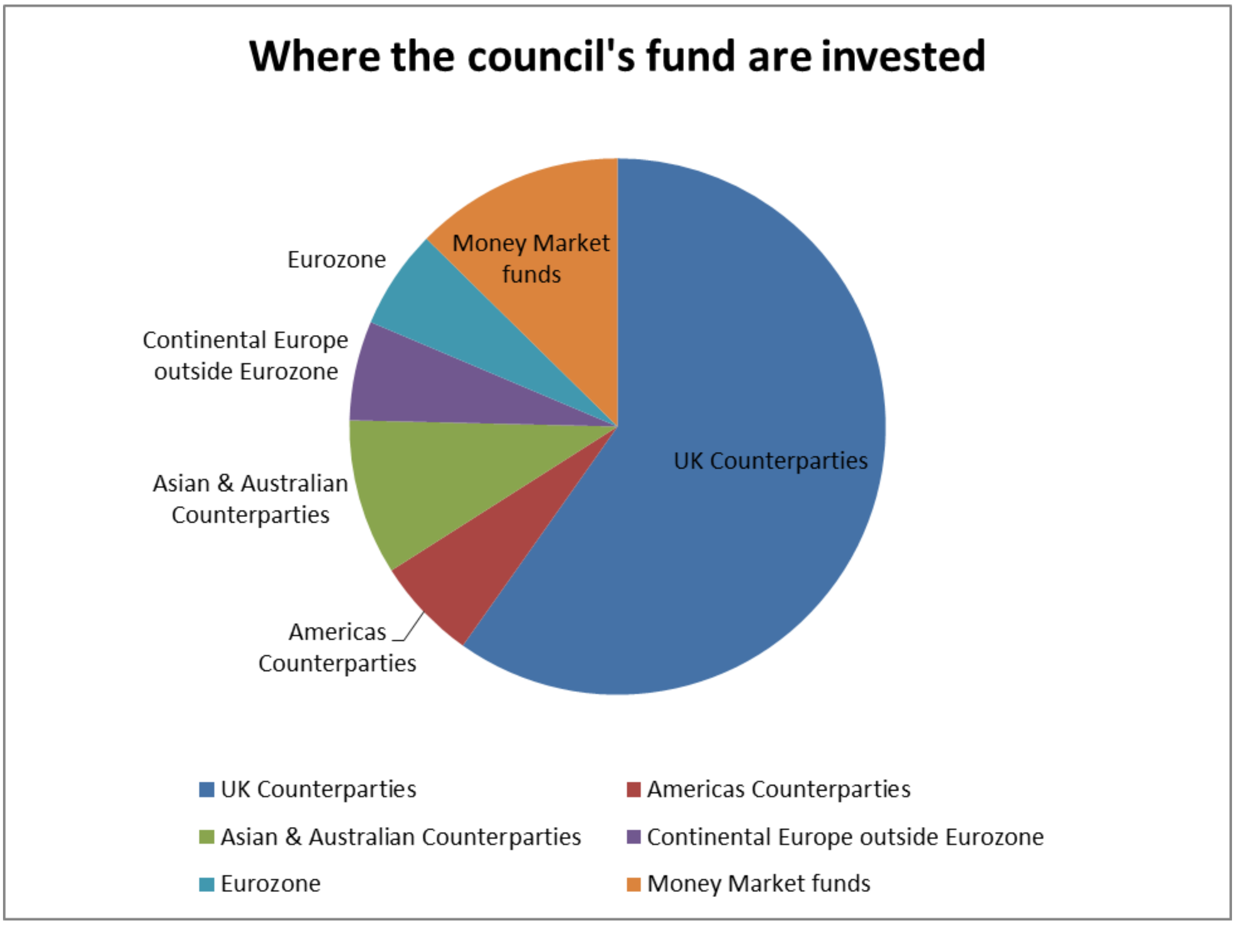
The significant fall in investment rates following the referendum and further likely reductions in investment rates following the Bank of England's reactions are likely to reduce the yield from the investment portfolio.

9. SECURITY OF INVESTMENTS

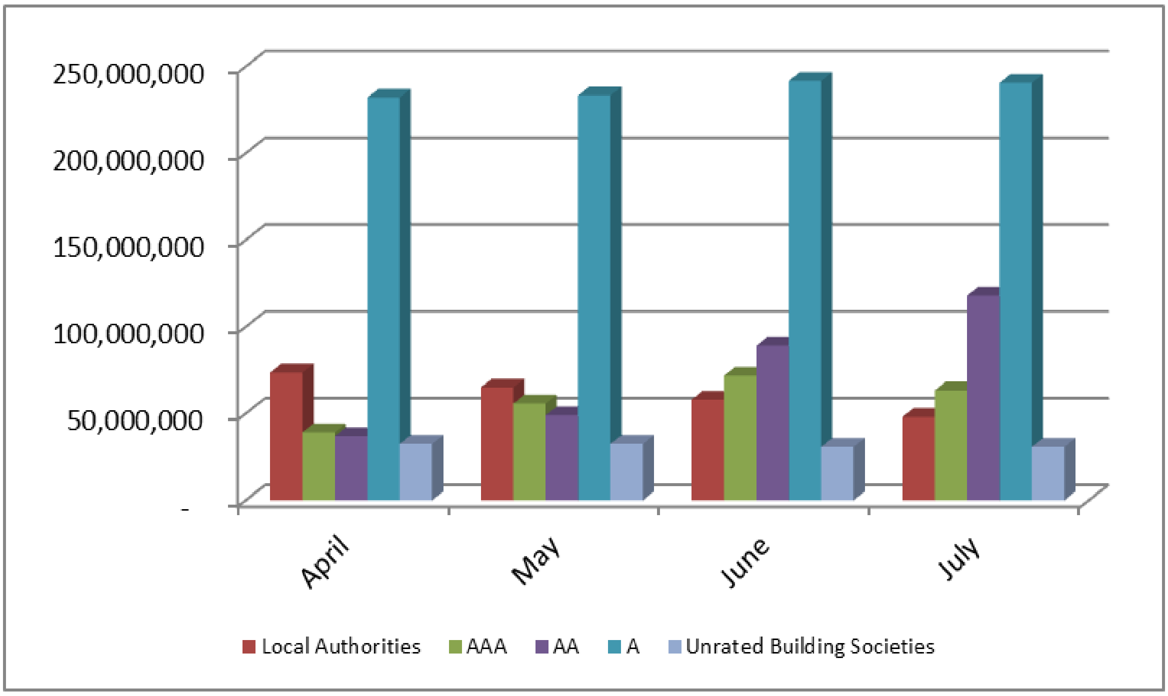
The risk of default has been managed through limiting investments in any institution to £30m or less depending on its credit rating and spreading investments over countries and sectors.

At 31 July 2016 the City Council had on average £8.8m invested with each institution.

The chart below shows where the Council's funds were invested at 31 July 2016.



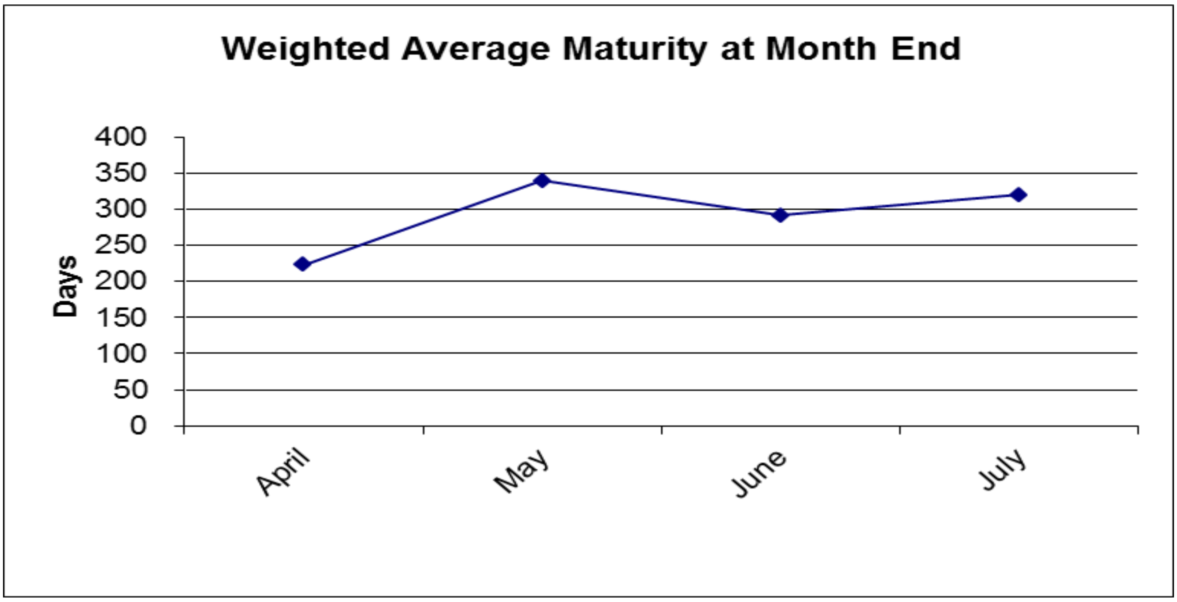
The chart below shows how the Council's investment portfolio has changed in terms of the credit ratings of investment counter parties over the first four months of 2016/17.



It can be seen from the graph above that investments in local authorities have declined over the first four months of 2016/17. These investments have largely been replaced by investments in AA rated counter parties which generally offer a better return than investments in local authorities.

10. LIQUIDITY OF INVESTMENTS

The weighted average maturity of the City Council's investment portfolio started at 223 days in April and increased to 339 days in May reflecting the increased level of cash at the beginning of the year. Since May the weighted maturity of the investment portfolio has been fairly stable. This is shown in the graph below.



The Treasury Management Policy seeks to maintain the liquidity of the portfolio, ie. the ability to liquidate investments to meet the Council's cash requirements, through maintaining at least £10m in instant access accounts. At 31 July £66.3m was invested in instant access accounts. Whilst short term investments provide liquidity and reduce the risk of default, they do also leave the Council exposed to falling interest rates.

Under CIPFA's 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 in order to ensure that sufficient money can be called back to meet the Council's cash flow requirements. The Council's performance against the limits set by the City Council on 22 March 2016 is shown below.

Maturing after	**Limit** £m	**Actual** £m
31/3/2017	196	168
31/3/2018	123	90
31/3/2019	90	25

12. INTEREST RATE RISK

This is the risk that interest rates will move in a way that is adverse to the City Council's position.

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. Fixed interest rate borrowing exposes the Council to the risk that interest rates could fall and the Council will pay more interest than it need have done. Long term fixed interest rate investments expose the Council to the risk that interest rates could rise and the Council will receive less income than it could have received. However fixed interest rate exposures do avoid the risk of budget variances caused by interest rate movements. The Council's performance against the limits set by the City Council on 22 March 2016 is shown below.

	Limit **£m**	**Actual** **£m**
Maximum Projected Gross Borrowing – Fixed Rate	464	499
Minimum Projected Gross Investments – Fixed Rate	(106)	(211)
Fixed Interest Rate Exposure	358	288

£94m was borrowed to take advantage of the relatively low interest rates in the first 4 months of 2016/17. Although this resulted in the Council having both more fixed rate borrowing and more fixed rate investments than had been anticipated, the overall fixed interest rate exposure limit was not exceeded.

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes also require local authorities to set upper limits for variable interest rate exposures. Variable interest rate borrowing exposes the Council to the risk that interest rates could rise and the Council's interest payments will increase. Short term and variable interest rate investments expose the Council to the risk that interest rates could fall and the Council's investment income will fall. Variable interest rate exposures carry the risk of budget variances caused by interest rate movements. The Council's performance against the limits set by the City Council on 22 March 2016 is shown below.

	Limit £m	Actual £m
Minimum Projected Gross Borrowing – Variable Rate	-	-
Maximum Projected Gross Investments – Variable Rate	(444)	(289)
Variable Interest Rate Exposure	(444)	(289)

The City Council is particularly exposed to interest rate risk because all the City Council's debt is made up of fixed rate long term loans, but most of the City Council's investments are short term. Future movements in the Bank Base Rate tend to affect the return on the Council's investments, but leave fixed rate long term loan payments unchanged. This could favour the City Council if short term interest rates rise.

The risk of a 0.5% change in interest rates to the Council is as follows:

Effect of +/- 0.5% Rate Change	**2016/17 (Part Year)** £'000	**2017/18** £'000	**2018/19** £'000
Long Term Borrowing	2	55	55
Investment Interest	(1,509)	(1,218)	(803)
Net Effect of +/- 0.5% Rate Change	**(1,507)**	**(1,163)**	**(748)**

Agenda item:

Decision maker: Cabinet 22nd September 2016
City Council 11th October 2016

Subject: Multi-Year Settlements

Report by: Director of Finance & Information Service (s151 Officer)

Wards affected: All

Key decision (over £250k): Yes

1 Purpose of Report

1.1 This report considers the government's offer of a four year funding settlement up to and including 2019/20 to any council that wishes to take it up. Conditional upon acceptance by Government is the publication of an Efficiency Plan on the Council's website and the link being notified to the Department of Communities and Local Government (DCLG) by 14th October 2016.

2 Recommendations

2.1 It is recommended that:

i) the government offer of a multi-year settlement to 2019/20 announced on 17th December 2015, be accepted

ii) that in accepting the offer of a multi-year settlement, the Efficiency Plan clearly states that the Plan outlines the method by which the Council will pursue its necessary savings in response to both its cost pressures and government funding reductions but that there is no implied acceptance that those cost pressures and government funding reductions can be achieved through efficiencies alone without significant detriment to service provision

3 Background

3.1 Local authorities have experienced the biggest proportionate reduction in funding of all Government departments since 2010. The scale of reduction, along with a degree of volatility around the phasing and timing of these reductions to different authority types, can make it very difficult for authorities to plan their spending priorities strategically. For some there may even be a risk of not balancing their budget at all over the upcoming spending review period. The need for effective medium term planning has therefore never been greater.

3.2 The government's response to these concerns from local authorities and contained within the Local Government Finance Settlement 2016 to 2017 has been to offer a guaranteed minimum grant envelope, paid to councils for a 4 year period from April 2016. This, the Secretary of State said, should increase local authority certainty and confidence and would be a key step towards supporting councils to strengthen financial management and work collaboratively with local partners when considering the way local services are provided in future.

3.3 Further details became available in a letter from the Secretary of State dated 10th March 2016 clarifying the offer (see Appendix 1). In essence the government has offered a guaranteed budget to every council which desires one and which can demonstrate efficiency savings for 2016/17, and for every year of the current parliament.

3.4 The multi-year settlement offer relates to Revenue Support Grant, Transitional Grant and Rural Services Delivery Grant allocations along with the top-ups to the Council's Individual Authority Business Rates Baseline for each of the three years to 2019/20 (**note: the final year may be subject to implementation of 100% business rates retention**).

3.5 Accepting the Governments offer of multi-year settlement will guarantee the following minimum levels of funding for these lines within the settlement as follows:

Multi-Year Settlement	**2017/18**	**2018/19**	**2019/20**
Revenue Support Grant	22,313,120	16,956,583	11,482,607
Transitional Grant	-	-	-
Rural Services Delivery Grant	-	-	-
Top Up to Individual Authority Business Rates Baseline	4,591,567	4,727,022	4,878,106
Value of Guaranteed Funding	**26,904,687**	**21,683,605**	**16,360,713**
Guaranteed Funding as Proportion of Total Funding	**17.4%**	**14.0%**	**10.5%**

3.6 Specific statements made by the Secretary of State in relation to the four year settlement include:

"Those councils that chose not to accept the offer, or do not qualify, will be subject to the existing yearly process for determining the local government finance settlement.

Allocations could be subject to additional reductions dependant on the fiscal climate and the need to make further savings to reduce the deficit.

At present we do not expect any further multi-year settlements to be offered over the course of the parliament."

3.7 The offer of a four year settlement will help to provide greater certainty and will help the planning framework of the Council. It is however, important to recognise what is not within the scope of the settlement, it does not for example include the following significant funding streams:

- Education Services Grant
- Public Health Grant
- Housing Benefit & Council Tax Administration Grant
- Better Care Fund
- New Homes Bonus
- Business Rates Local Share (retained 49%)

3.8 The DCLG will only consider expressions of interest in accepting the offer if a link to a published efficiency plan is received by 5pm Friday 14th October 2016. The government has not issued detailed guidance regarding what these plans should include although some outline guidance was included in the letter reproduced at Appendix 1.

3.9 In considering the multi-year settlement offer, the following key advantages and disadvantages should be borne in mind:

Advantages	**Disadvantages**
Provides a degree of certainty over funding levels for the next three years	Applies only to limited funding streams within the settlement offer - excludes other significant funding streams
Facilitates improved financial planning over the period	Implied acceptance that reduced funding over the period is achievable
	Requirement for an efficiency plan suggests a level of government control over the Councils plans to meet the identified funding gap
	Funding is not fully guaranteed - government reserves the right to change the settlement due to unforeseen circumstances

3.10 In addition the recent EU referendum result may have far reaching political and economic ramifications which could have a material impact on the public sector finances generally and consequently the settlement for local government.

4 Conclusion

4.1 The funding contained within the multi-year settlement offer, whilst significant, represents a small proportion of the total funding expected to be available to the Council up to and including 2019/20. It is considered highly unlikely that non-acceptance would lead to additional funding and there remains a real risk of further funding reductions in the medium term should the Council decide not to take up the government's offer. The likelihood of further funding reductions in the medium term is now regarded as higher following the EU referendum result and it is therefore recommended that the offer of multi-year settlements from government is accepted.

5 Director of Finance & Information Service (s151 Officer) Comments

5.1 Financial implications are contained within the body of the report.

6 City Solicitor’s Comments

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

7 Equalities Impact Assessment

7.1 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

Director of Finance & Information Service (s151 Officer)

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
Local Government Finance Settlement 2016/17		https://www.gov.uk/government/collections/final-local-government-finance-settlement-england-2016-to-2017
Letter from Secretary of State for Communities and Local Government dated 10th March 2016		Attached at Appendix 1

The recommendations set out above were:

Approved / Approved as amended / Deferred / Rejected by the Cabinet on 22nd September, 2016

Signed: ……………………………………….

Approved / Approved as amended / Deferred / Rejected by the City Council on 11th October, 2016

Signed: ……………………………………….

APPENDIX 1

Department for Communities and Local Government

The Rt Hon Greg Clark MP
Secretary of State for Communities and Local Government

Department for Communities and Local Government
4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Tel: 0303 444 3450
Fax: 0303 444 3289
E-Mail: greg.clark@communities.gsi.gov.uk

www.gov.uk/dclg

10 March 2016

Dear Colleagues

MULTI-YEAR SETTLEMENTS AND EFFICIENCY PLANS

On 17 December I announced a historic opportunity for councils to achieve greater certainty and confidence from a 4-year budget. I see this as a key step to supporting you to strengthen your financial management, at the same time as working collaboratively with your local partners and reforming the way services are provided.

The settlement consultation process showed great support for this approach and identified a number of queries about what the offer includes and the requirements for applying to accept this offer. I have therefore set out some further details in the attached annex. But I want to reiterate that I want this offer, and the production of an efficiency plan, to be as simple and straightforward as possible, and reassure you that this is not about creating additional bureaucracy.

If you wish to apply to accept the offer you simply need to send an email or letter to MultiYearSettlements@communities.gsi.gov.uk by **5pm on Friday 14th October** and include a link to your published efficiency plan.

I do not intend to provide further guidance on what efficiency plans should contain – they should be locally owned and locally driven. But it is important that they show how this greater certainty can bring about opportunities for further savings. They should cover the full 4-year period and be open and transparent about the benefits this will bring to both your council and your community. You should collaborate with your local neighbours and public sector partners and link into devolution deals where appropriate.

Of course this offer is entirely optional. It is open to any council to continue to work on a year-by-year basis, but I cannot guarantee future levels of funding to those who prefer not to have a four year settlement.

I have been delighted by the response of councils all over the country to the offer of four year budgets and I look forward to hearing from you if you would like to avail yourself of it.

For any further queries, please contact officials at the above address.

Yours sincerely

THE RT HON GREG CLARK MP

Annex

Conditions of the multi-year settlement

The Government will offer any council that wishes to take it up a four-year funding settlement to 2019-20. This includes:

- Common Council of the City of London
- London borough councils
- district councils
- county councils
- Council of the Isles of Scilly
- Greater London Authority
- metropolitan county fire and rescue authorities
- combined fire and rescue authorities.

The Government is making a clear commitment to provide minimum allocations for each year of the Spending Review period, should councils choose to accept the offer and if they have published an efficiency plan.

What the offer includes

On 9 February we provided summaries and breakdown figures for each year to your s151 Officer. From those figures the relevant lines that are included in the multi-year settlement offer, where appropriate, are:

- Revenue Support Grant;
- Transitional Grant; and
- Rural Services Delivery Grant allocations.

In addition, tariffs and top-ups in 2017-18, 2018-19 and 2019-20 will not be altered for reasons related to the relative needs of local authorities, and in the final year may be subject to the implementation of 100% business rates retention.

The Government is committed to local government retaining 100% of its business rate revenues by the end of this Parliament. This will give them control over an additional £13 billion of tax that they collect.

To ensure that the reforms are fiscally neutral local government will need to take on extra responsibilities and functions. DCLG and the Local Government Association will soon be publishing a series of discussion papers which will inform this and other areas of the reform debate.

The new burdens doctrine operates outside the settlement, so accepting this offer will not impact on any new burden payments agreed over the course of the four years.

The Government will also need to take account of future events such as the transfer of functions to local government, transfers of responsibility for functions between local authorities, mergers between authorities and any other unforeseen events. However, barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement, the Government expects these to be the amounts presented to Parliament each year.

Process for applying for the offer

Interest in accepting this offer will only be considered if a link to a published efficiency plan is received by 5pm Friday 14th October. We will provide confirmation of the offer shortly after the deadline.

Efficiency Plans

Efficiency plans do not need to be a separate document. They can be combined with Medium Term Financial Strategies or the strategy set out in the guidance (https://www.gov.uk/government/publications/guidance-on-flexible-use-of-capital-receipts) on how you intend to make the most of the capital receipt flexibilities if appropriate.

The Home Office will provide guidance on the criteria and sign off process for efficiency plans for single purpose Fire and Rescue authorities. All Fire and Rescue authorities, including those which are county councils, should set out clearly in their efficiency plans how they will collaborate with the police and other partners to improve their efficiency.

Process for those who do not take up the offer

Those councils that chose not to accept the offer, or do not qualify, will be subject to the existing yearly process for determining the local government finance settlement.

Allocations could be subject to additional reductions dependant on the fiscal climate and the need to make further savings to reduce the deficit.

At present we do not expect any further multi-year settlements to be offered over the course of this parliament

Decision maker:	Cabinet 22nd September 2016
Subject:	Efficiency Plan
Report by:	Director of Finance & Information Service (s151 Officer)
Wards affected:	All

1 Purpose of Report

This report considers the Councils Efficiency Plan which is proposed for endorsement and is required to be published on the Council's website and the link notified to the Department of Communities and Local Government (DCLG) by 14th October 2016 should the Council choose to accept the government's offer of a four year funding settlement up to and including 2019/20 (elsewhere on this agenda). The Efficiency Statement also includes a "Flexible Use of Capital Receipts Strategy" for endorsement.

2 Recommendations

2.1 It is recommended that:

i) the attached Efficiency Plan is endorsed

3 Background

3.1 Local authorities have experienced the biggest proportionate reduction in funding of all Government departments since 2010. The scale of reduction, along with a degree of volatility around the phasing and timing of these reductions to different authority types, can make it very difficult for authorities to plan their spending priorities strategically. The need for effective medium term planning has therefore never been greater.

3.2 The government's response to these concerns from local authorities and contained within the Local Government Finance Settlement 2016 to 2017 has been to offer a guaranteed minimum grant envelope, paid to councils for a 4 year period from April 2016. This, the Secretary of State said, should increase local authority certainty and confidence and would be a key step towards supporting councils to strengthen financial management and work collaboratively with local partners when considering the way local services are provided in future.

3.3 Further details became available in a letter from the Secretary of State dated 10th March 2016 clarifying the offer. In essence the government has offered a guaranteed budget to every council which desires one and which can demonstrate efficiency savings for 2016/17, and for every year of the current parliament.

3.4 The DCLG will only consider expressions of interest in accepting the offer if a link to a published efficiency plan is received by 5pm Friday 14th October 2016. The government has not issued detailed guidance regarding what these plans should include although some outline guidance has been received.

3.5 The draft Efficiency Plan enabling the Council to accept the multi-year settlements offer, if it chooses to do so, is attached at Appendix 1 for endorsement by the Cabinet.

4 Director of Finance & Information Service (s151 Officer) Comments

4.1 There are no financial implications arising from the endorsement of the Efficiency Plan attached at Appendix 1 that have not already been reflected within the Councils 2016/17 Revenue Budget and future forecasts.

5 City Solicitor's Comments

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

6 Equalities Impact Assessment

6.1 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

Director of Finance & Information Service (s151 Officer)

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
Local Government Finance Settlement 2016/17		https://www.gov.uk/government/collections/final-local-government-finance-settlement-england-2016-to-2017
Letter from Secretary of State for Communities and Local Government dated 10th March 2016		Office of Deputy Director of Finance

The recommendations set out above were:

Approved / Approved as amended / Deferred / Rejected by the Cabinet on 22nd September, 2016

Signed: ……………………………………….

APPENDIX 1

APPENDIX 1

Portsmouth City Council

Efficiency Plan 2016/17 to 2019/20

1. Background

1.1. In response to the Local Government Sector's request to Government for increased funding certainty over the medium term, Government has made an offer to all local authorities of a guaranteed minimum grant envelope to be paid to councils for a four year period from April 2016. This is an important step to enable Local Authorities to be able to make informed plans to meet the further austerity measures announced by Government in the Comprehensive Spending Review for the period to 2020.

1.2. In return for funding certainty over the forthcoming period, Government require Local Authorities to have an Efficiency Plan in place which describes the way in which Local Authorities will approach the necessary savings required arising from the 4 year Settlement.

1.3. To take advantage of this offer, each authority is required to submit an Efficiency Plan by 14th October 2016.

1.4. This Efficiency Plan and the accompanying 4 year Settlement is important for future financial and service planning although, in itself, does not guarantee that both the cost pressures facing the Council and funding reductions from Government can be achieved through efficiencies alone without significant detriment to service provision.

2. Economic & Financial Context

2.1. The global economic downturn and subsequent recovery has had a significant detrimental effect on the public finances nationally. The overall welfare bill increased at the same time as tax revenues fell causing the national debt to rise from £0.5 trillion in 2008 to £1.5 trillion or 85% of Gross Domestic Product (GDP) currently.

2.2. Part of the response from Central Government has been to reduce spending (and funding) across the public sector. Over the past 5 years (since 2011/12), Central Government funding to Portsmouth City Council has reduced by over £59m (amounting to 38%). This has primarily been through reductions in Revenue Support Grant and has made no allowance for the differing council tax levels and tax bases of Councils meaning that those Councils with low Council Tax bases, such as Portsmouth, have suffered greater relative funding reductions than those with higher Council Tax bases. Taken together with other financial pressures that have been experienced by the City Council (mainly relating to inflation, the effects of an ageing population on care services and the increased requirements for the safeguarding of vulnerable children), the City Council has had to make overall savings over the same period of over £75m. In context, this represents circa 38% of the Council's controllable spending.

2.3. Historically Children & Education, Health & Social Care and Environment & Community Safety have received significant protection from savings. Importantly, these Portfolios account for 66% of the Council's total controllable budget from which savings can be made. Looking forward beyond 2016/17, the scale of the future savings requirements will be such that the Council will no longer be able to afford the same levels of protection that has been provided in the past for these services without severe cuts to all other Services.

2.4. It remains a particularly challenging time for the Council, the future savings required are significant and the risks to the delivery of savings are substantial. Uncertainty remains over future cost pressures in the essential care services as well as funding levels, particularly business rates. To deliver the scale of the savings required and to maintain the Council's financial health, the Council should regard the savings process as a continual one rather than a "once a year" planning exercise. Correspondingly, the Council may need to receive budget proposals more frequently throughout the year

2.5. The scale of future reductions announced in "Spending Review 2015" highlights the need for continued and effective medium term planning. Historically, uncertainty surrounding the phasing of reductions in central government funding to local authorities has made it harder for councils to plan strategically over the entire spending review period due to the short term funding horizons traditionally announced within the Local Government Finance Settlement each year.

2.6. The Council's rolling three year financial forecasts were comprehensively reviewed in February 2016 incorporating the funding reductions announced in "Spending Review 2015". The forecast budget deficit for the period 2017/18 to 2019/20 amounts to £24m as set out below.

	Original Budget 2016/17	**Forecast 2017/18**	**Forecast 2018/19**	**Forecast 2019/20**
Total Net Expenditure	157,992,700	164,306,800	170,724,400	179,784,000
Financing	159,418,700	155,068,800	186,455,600	155,859,700
Underlying Budget (Surplus) /Deficit	(1,426,000)	9,238,000	15,731,200	23,924,300

2.7. To effectively manage the impact of such a reduction, City Council approved that the required further savings, totalling £24m, be smoothed out as follows:

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

3. Efficiency Plan Framework

3.1. The Efficiency Plan set out below includes five key themes:

- Working together to shape the great waterfront city - "Plan on a page"
- Our Medium Term Financial Strategy to delivering efficiencies and revenue savings to achieve £35m in savings over the remaining spending review period 2016/17 to 2019/20
- Partnership working
- Capital Strategy (including Prudential Borrowing)
- Financial Resilience and Managing Risk

4. Working together to shape the great waterfront city - "Plan on a page"

4.1. The Council has set in place guiding principles and ways of working to provide a framework to achieve the Council's goal of "working together to shape the great waterfront city".

4.2. In order to shape a city with the opportunities for all residents to live the best lives possible, the council as a priority is:

- Raising education standards so children and young people achieve their full potential
- Encouraging investment within the city by creating economic prosperity
- Empowering residents to live independently and make the most of their opportunities

4.3. To facilitate the achievement of the Council's goal and to meet these challenging priorities the Council recognises its greatest strength is its staff and has established a framework of guiding principles which set out how staff can maximise their effectiveness. These are to:

- put customers first
- provide value for money
- be ambitious
- use evidence to shape services
- simplify, strengthen and share processes
- get it right first time
- support councillors as strategic leaders
- value and support staff
- listen and learn

4.4. The plan is about how we can meet the challenge of reducing demand for our services in the longer term, doing the things that have the greatest impact and achieving our priorities.

5. Delivering Efficiencies

5.1. Portsmouth City Council has a proven track record of delivering savings and efficiencies.

- In the five years to 2015/16 it has delivered savings totalling £75m,
- Has implemented further efficiencies and savings totalling £11m in 2016/17
- Is currently developing additional savings and efficiencies proposals totalling £24m over the 3 year period to 2019/20.

5.2. The Council is therefore currently planning to have achieved savings and efficiencies of £110m by the end of 2019/20.

5.3. The Medium Term Financial Strategy sets out the high level financial objectives the Council wishes to fulfil and underpins the budget setting process for the forthcoming year and over the strategy period.

5.4. As the Council's high level financial planning tool, the strategy is reviewed and updated at least annually and is regularly reviewed by the Management Team.

5.5. The Council also has the opportunity through its capital programme and borrowing powers to invest both in the regeneration of the City (to raise the prosperity generally as well as improving the Council's financial position) and cost reduction schemes for the Council itself.

5.6. The Medium Term Financial Strategy, which seeks to achieve these aspirations whilst delivering the necessary savings of £11m in 2016/17 and a further £24m over the period 2017/18 to 2019/20 is described below:

OVERALL AIM

"In year" expenditure matches "in year" income over the medium term whilst continuing the drive towards regeneration of the City and protecting the most important and valued services

STRAND 1

Reduce the City's dependency on Central Government Grant:

- Entrepreneurial activities
- Income Generation
- Capital investment for jobs and business growth (increased Business Rates)

STRAND 2

Reduce the extent to which the population needs Council Services

- Re-direction of resources towards preventative services (avoid greater costs downstream)
- Design fees & charges policies to distinguish between want and need
- Capital investment towards jobs and skills to raise prosperity

STRAND 3

Increase the efficiency & effectiveness of the Council's activity:

- Contract reviews
- Rationalisation of operational buildings
- Support to the Voluntary Sector
- Targeted efficiency reviews in "resource hungry" services
- Capital investment for on-going savings or cost avoidance

STRAND 4

Withdraw or offer minimal provision of low impact Services:

- Strong focus on needs, priorities and outcomes
- Use the insights of Councillors to inform priorities
- Use the results of public consultation to inform priorities

5.7. The strategy has a strong regeneration focus with a presumption that Capital investment will be targeted towards economic growth and Invest to Save Schemes once the Council's statutory obligations have been met.

6. Partnership Working

6.1. The Council embraces the benefits of Partnership working in terms of cost, capacity and overall resilience. This results in better outcomes for service users from:

- Improved strategic planning and priority setting
- Access to, and enhancement of, staff skills and experience
- Better use of information and evidence
- Sharing of costs and risks

6.2. The City Council already experiences these benefits from a number of established shared service arrangements along with the sharing of senior staff between organisations. Examples of arrangements already entered into by the City Council include:

- Sharing of the Flood Management Service with Havant Borough Council
- Sharing the Director of Finance and Section 151 Officer role with the Isle of Wight Council
- A partnership for the provision of Building Control Services between Fareham and Gosport Borough Councils
- Appointment of a Director of Adult Services as a shared post with Portsmouth Clinical Commissioning Group
- Joint working with Gosport Borough Council to provide support and advice on housing services within the Gosport geographic area

6.3. In addition to the above arrangements with effect from 1st October 2016 the City Council has entered into a major shared management agreement with Gosport Borough Council.

6.4. This arrangement involves the sharing of Chief Executive, Deputy Chief Executive and Director of Finance roles (including statutory duties of Head of Paid Service, Monitoring Officer and Section 151 officer) along with a number of third tier roles. The gross joint saving from this arrangement is circa. £600,000 per annum.

6.5. The Council will continue to seek opportunities to extend current partnership working with other public sector partners which provide innovative, efficient and cost effective services to residents and visitors to the City.

7. Capital Strategy

7.1. The Council also has the opportunity through its capital programme (and borrowing powers) to support its Medium Term Financial Strategy by investing in:

- Regeneration of the City (to raise prosperity generally as well as improving the Council's financial position)
- Schemes that can provide an income to the Council
- Schemes that can reduce the cost base of the Council

7.2. The Council has adopted a Capital Strategy with a particular focus on the continued delivery of essential services but with equal emphasis on meeting the austerity and savings challenge facing the Council. The Capital Strategy is a high level plan that sets out the Council's approach to capital investment over the short, medium and long term. The Capital Strategy sets out the key capital investment plans over the next ten years that are required to deliver the Councils objectives as well as setting the financial framework and planning process to support their delivery.

7.3. The following categories of schemes are priorities for attracting capital funding:

- **Category 1 -** Programmes of a recurring nature that are essential to maintain operational effectiveness
- **Category 2 -** Specific schemes that:
    - Have a significant catalytic potential to unlock the regeneration of the City
    - Are significant in terms of the Council strategies that they serve
    - Are significantly efficiency generating

- If not implemented would cause severe disruption to Service delivery

7.4. In accordance with the Capital Strategy and Medium Term Financial Strategy the Council will continue to prioritise those schemes that meet the Councils statutory responsibilities and those that are most likely to drive cost reduction for the Council and economic growth for the City.

7.5. The 2016/17 Local Government Finance Settlement confirmed that it would allow councils the flexibility in 2016/17, 2017/18 and 2018/19 to use capital receipts to fund revenue costs of service reform and transformation that generates ongoing revenue savings in the delivery of public services.

7.6. Whilst the Council welcomes the new flexibility in the use of capital receipts, the Council has already set aside revenue funding for transformation schemes within the Medium Term Resource Strategy Reserve and will continue to do so over the short to medium term. This will enable capital receipts to continue to be used to fulfil the Council's Capital Strategy to drive the economic growth of the City and "invest to save" schemes for the Council, but will continue to bear this flexibility in mind as opportunities to generate savings are explored and progressed.

7.7. Prudential Borrowing is an important source of financing available to the Council in meeting the savings challenge. To take advantage of this borrowing, Local Authorities must comply with the Prudential Code for Capital Finance. The key objective of the Prudential Code is to ensure that the capital investment plans of local authorities are Affordable, Prudent and Sustainable. The Prudential Code sets out a governance procedure for those matters as follows:

- Affordability e.g. implications for Council Tax and Council housing rents
- Prudence and Sustainability e.g. implications of external borrowing
- Value for money e.g. options appraisal
- Stewardship of assets e.g. asset management planning
- Service objectives e.g. strategic planning for the authority
- Practicality e.g. achievability of the forward plan

7.8. The Council will continue to pay close regard to this governance procedure when determining the most appropriate methodology of capital financing.

7.9. Prudential Borrowing requires that the capital investment of the Council remains within sustainable limits and that the revenue consequences, including both debt financing and other revenue costs, are affordable over the long term. In considering the affordability of its Capital plans, the Council will consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years as a minimum. The Council will also consider known significant variations beyond this timeframe and pay due regard to risk and uncertainty.

8. Financial Resilience and Managing Risk

8.1. In accordance with Best Practice, the level and nature of all revenue reserves and balances are reviewed each year during the formulation of the revenue budget and medium term financial forecast. The review identifies and assesses all of the City Council's potential financial risks over the forecast period in order to determine the prudent level of minimum balances that should be retained, based on the Councils risk profile. Each risk is considered alongside the probability of it happening in arriving at the minimum level of balances.

8.2. The outcome of the most recent review, considered by City Council at its meeting on 9th February 2016, identified that a prudent minimum level of balances in 2016/17 should be £7m, rising to £7.6m over the period of the medium term financial forecast. Revenue balances as at 31st March 2017 are forecast to be £17.6m. This amount is needed in order to retain funds which will be used to smooth the phasing of savings required over the period of the Medium Term Financial Forecast and to provide a level of comfort against future uncertainties.

8.3. Furthermore, the City Council is pursuing a number of initiatives that will rely temporarily on the use of the Council's reserves generally in order to deliver them in a more cost efficient way (i.e. as opposed to borrowing). Examples include, the PCC City Deal for the regeneration of a large area of land located within the City, property development at Dunsbury Hill Farm and the establishment of an Investment Property Fund which will generate an ongoing revenue income stream for the Council. In the current climate where borrowing rates are significantly greater than investment rates, it makes financial sense to utilise General Balances and Reserves (that would otherwise be invested until required) and defer any borrowing decisions to a later date once investment rates recover. Retaining Balances therefore is an extremely important element of delivering the Council's Regeneration Strategy that will ultimately result in increased jobs, new homes and improved prosperity for the City.

8.4. In order to meet the challenging financial circumstances facing the City Council it has set in place a suite of Financial Rules which encourages responsible spending, removes financial barriers to the delivery of savings and promotes medium term financial and service planning whilst providing Services with increased levels of financial autonomy.

8.5. In order to encourage strong financial and service planning and to be successful in the delivery of the financial savings it is required to make over the medium term the Council has operated a much more flexible financial framework. Flexibilities within the financial framework have been achieved by amendments to Budget Guidelines and Financial Rules including:

- Each Portfolio being able to retain 100% of any year-end underspending with it being held in an earmarked reserve for the relevant Portfolio
- The Portfolio Holder being responsible for approving any releases from their earmarked reserve in consultation with the Director of Finance & S151 Officer
- Any retained underspend (held in an earmarked reserve) being 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 in i) to v) can be satisfied, the earmarked reserve may be used for any other development or initiative

8.6. The Council also holds a number of Earmarked Reserves in order to:

i) Provide for future known liabilities such as the Highways PFI Reserve

ii) Provide for likely future liabilities including the Insurance Reserve and Business Rate Appeals

iii) Provide for transformation and spend to save schemes though the MTRS Reserve (see below)

8.7. The MTRS Reserve was established to support transformational activity including:

- Spend to Save and Spend to Avoid Cost initiatives
- Invest to Save capital schemes
- Feasibility Studies where there is likely to be an efficiency gain

- One-off redundancy costs arising from proposed savings
- The funding of expenditure of a “one-off” nature that is critical to the successful achievement of the outcomes that the residents of Portsmouth value most highly and where no other alternative funding source is available

8.8. Additionally, the Council makes central contingency provision within its annual revenue budget for both costs of uncertain amount and/or uncertain timing as well as provision for potential non achievement or delay in the implementation of savings proposals.

9. Summary

9.1. By the end of 2016/17 the Council will have implemented revenue savings totalling £86m. However, the City Council continues to face a particularly challenging financial climate, the future savings requirement totalling £24m over the three financial years to 2019/20 is significant and the risks to the delivery of savings are substantial. Uncertainty remains over future cost pressures in the essential care services as well as funding levels, particularly in relation to Business Rates.

9.2. The Efficiency Plan set out above summarises City Council strategies, frameworks and policies which form a co-ordinated and cohesive package of measures.

9.3. The Council's "Plan on a page" sets the strategic context of how the City plans to shape itself so that all residents have the opportunity to live the best lives possible.

9.4. In order to achieve this objective the Council acknowledges that its staff are its greatest strength and has established a framework of guiding principles to ensure that staff effectiveness in the achievement of the "Plan on a page" is maximised.

9.5. The overarching Medium Term Financial Strategy sets out how available revenue and capital resources are utilised with the stated aim that:

"In-year" expenditure matches "In-year" income over the medium term whilst continuing the drive towards the regeneration of the City and protecting the most important and valued services.

9.6. This MTFS strategy is underpinned by a suite of Financial Rules which encourages responsible spending, removes financial barriers to the delivery of savings and promotes medium term financial planning whilst providing services with increased financial flexibility and autonomy.

9.7. Financial resilience is assured through the identification and assessment of potential financial risks over the forecast period and the establishment of minimum levels of reserves based on that risk assessment as well as a central contingency provision for known liabilities of unknown cost or timing. In addition, the Council maintains Earmarked Reserves for some of its most significant future liabilities. By the end of 2016/17 General Reserves are forecast to exceed the assessed minimum level by £10m. This amount will be used to smooth phasing of savings and to provide a level of comfort against future financial uncertainties.

Agenda Item 11

Agenda item:

Decision maker:	Cabinet 16th September 2016 City Council 11th October 2016
Subject:	Revenue Budget Monitoring 2016/17 (1st Quarter) to end June 2016
Report by:	Director of Finance & Information Service
Wards affected:	All
Key decision (over £250k):	

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 first quarter for 2016/17 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.

2. Recommendations

2.1 It is recommended that:

(i) The forecast outturn position for 2016/17 be noted:

(a) An overspend of £1,620,400 before further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve

(b) An overspend of £661,100 after further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve.

(ii) Members note that any actual overspend at year end will in the first instance be deducted from any Portfolio Specific Reserve balance and once depleted then be deducted from the 2017/18 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 2017/18 Portfolio cash limit will be managed to avoid further overspending during 2017/18.

3. Background

3.1 A Budget for 2016/17 of £157,992,700 was approved by City Council on the 9th February 2016. This level of spending enabled a contribution to General Reserves of £1.43m since in year income exceeds in year spending.

3.2 Since the 9th February City Council meeting, the Council has been allocated additional one off non ring-fenced grants totalling £105,000 in 2015/16 and £214,700 in 2016/17. In order to achieve the government's priorities in these areas, service budgets have been adjusted as appropriate. In addition, the adjusted budget includes £42,100 grant income relating to additional Local Taxation Administration Subsidy notified in May 2016.

3.3 In summary, changes to the budget as approved on 9th February 2016 are as follows:

	£
Budget Approved 9th February 2016	157,992,700
Special Education Needs & Disability (SEND)	154,500
Early Implementer Innovator Grant	105,000
Individual Electoral Registration	60,200
Adjusted 2015/16 Budget	**158,312,400**

3.4 Once the above budget changes are taken into account, the Budget (as adjusted) for 2016/17 has increased to £158,312,400. After the additional non ring fenced grant funding is taken into account this results in an overall contribution to General Reserves of £1.36m for 2016/17 (i.e. assuming no overall budget variance).

3.5 This is the first quarter monitoring report of 2016/17 and reports on the forecast 2016/17 outturn as at the end of June 2016. The forecasts summarised in this report 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.

3.6 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.

3.7 The Financial summary 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 2016/17 – As at end June 2016

4.1 At the first quarter stage, the revenue outturn for 2016/17 after further forecast transfers from/to Portfolio Specific Reserves (Underspends are retained by right) is forecast to be overspent by £661,100 representing an overall budget variance of 0.4%.

4.2 The quarter 1 variance consists of a number of forecast under and overspends.

The most significant overspendings at the quarter 1 stage are:

	Quarter 1 Forecast Variance	Quarter 1 Forecast Variance (After Transfers From Portfolio Reserves)
	£	£
Children's Social Care	450,800	415,800
Health & Social Care	2,428,200	1,524,200

These are offset by the following significant forecast underspends at the quarter 1 stage:

	Quarter 1 Forecast Variance	Quarter 1 Forecast Variance (After Transfers To Portfolio Reserves)
	£	£
Asset Management Revenue Account	537,300	537,300
Contingency	750,000	750,000

5 Quarter 1 Significant Budget Variations – Forecast Outturn 2016/17

5.1 <u>Children's Social Care – Overspend £450,800 (or 1.9%) or After Transfer From Portfolio Reserve £415,800 (1.8%)</u>

The cost of Children's Social Care is forecast to be £450,800 higher than budgeted.

The overspend is primarily related to higher costs and numbers of child placements (£377,000) and delays in the delivery of savings plans related to commissioned and shared services arrangements (£162,000) offset by reduced staffing costs due to staff turnover and the holding of posts vacant (£125,000).

Of the £450,800 forecast overspending in 2016/17, £200,000 relates to an underlying budget deficit within the Portfolio. Proposals to minimise the current underlying deficit and to eliminate any deficit arising in 2017/18 are currently being formulated.

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

5.2 Health and Social Care – Overspend £2,428,200 (5.8%) or After Transfer From Public Health Reserve £1,524,200 (3.6%)

The cost of Health & Social Care is forecast to be £2,428,200 higher than budgeted.

The key variances are:

- The cost of Public Health is forecast to be £904,000 higher than budgeted. This overspending will be met from the ring fenced Public Health Reserve. The overspend has arisen due to reductions in the Public Health Grant paid by central government notified after the budget was set and the funding of "change projects" outside of core operations that will improve health outcomes within the City.

- Increased volume of demand for Physical Support, Deprivation of Liberty (DoLs) assessments and delays in the implementation of planned savings (£1,349,000).

- Increased staffing costs within Memory & Cognition as a result of unusually high levels of staff sickness combined with a reduction in the number of clients placed that make a contributions towards the cost of their care (£351,000).

These overspends are offset by underspendings across the Portfolio of £228,000.

Of the £2,428,200 forecast overspending in 2016/17, £256,000 relates to an underlying budget deficit within Public Health and £600,000 within Adult Social Care. Proposals to minimise the current underlying deficit and to eliminate any deficit arising in 2017/18 are currently being formulated.

5.3 Asset Management Revenue Account – Underspend £537,300 (or 2.3%)

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.

The forecast underspend relates to:

Increased interest earned due to higher cash balances than originally budgeted, primarily as a result of additional borrowing being undertaken to take advantage of exceptionally low interest rates in the lead up to, and immediately after the EU Referendum and capital expenditure planned to be incurred in 2015/16 slipping to 2016/17 (1,059,100). This additional interest income is offset by higher interest payments as a result of the additional borrowing referred to above (£925,200).

The slippage in the capital programme in 2015/16 has reduced the amount the Council is required to set aside to repay debt in 2016/17 by £407,800.

5.4 Contingency - Planned Release £750,000

As outlined above, Adults and Children's Social Care are presently forecast to overspend by £1,940,000 (after transfers from reserves). Some of this forecast overspending may be mitigated by action plans currently under development; however it is unlikely that these Portfolio's will be able to contain this level of overspending within their current cash limits. The contingency had been deliberately prepared to guard against the risk that some of the savings proposals of these Services may not be fully achievable. The amount of contingency that can be estimated to be releasable at this stage for this purpose is £750,000.

5.5 All Other Budget Variations – Overspend £28,700 or After Transfers Form/To Portfolio Reserves Overspend – £8,400

All variations are summarised in Appendix A

6. Transfers From/To Portfolio 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 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 2017/18 is set out below:

Portfolio/Committee Reserve	Balance Brought Forward £	Approved Transfers 2016/17 £	Forecast Under/ (Over) Spending £	Balance Carried Forward £
Children's Social Care	0	35,000	(35,000)	0
Culture, Leisure & Sport	451,300	0	(167,100)	284,200
Education	0	0	0	0
Environment & Community Safety	1,026,700	(252,300)	143,800	918,200
Health & Social Care	0	0	0	0
Housing	791,400	(65,000)	(2,400)	724,000
Leader	41,500	0	0	41,500
PRED	842,500	(399,000)	11,100	454,600
Port	897,300	1,072,900	(129,100)	1,841,100
Resources	933,300	(324,600)	133,800	742,500
Traffic & Transportation	283,100	(30,000)	(12,500)	240,600
Licensing	110,700	0	0	110,700
Governance, Audit & Standards	372,900	200	2,100	375,200
Total	**5,750,700**	**37,200**	**(55,300)**	**5,732,600**

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

7. Conclusion - Overall Finance & Performance Summary

7.1 The overall forecast outturn for the City Council in 2016/17 as at the end of June 2016 is forecast to be £158,973,500. This is an overall overspend of £661,100 against the Amended Budget and represents a variance of 0.4%.

7.2 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.

7.3 The overall financial position is deemed to be “red” since the forecast outturn is higher than budget.

7.4 In financial terms, the forecast overspend within the Children's Social Care and Health & Social Care Portfolios represent the greatest concerns in terms of the impact that they have on the overall City Council budget for 2016/17. Of the £2.9m forecast overspending (before transfers from reserves) relating to these areas, £1.06m is estimated to be ongoing and therefore represents their combined underlying deficits. This is a significant improvement in the underlying stability of these budgets compared to previous years and is expected to be manageable over time if the savings plans currently being prepared are successfully implemented. Consequently, it is recommended that Directors continue to work with the relevant portfolio holder to consider measures to significantly reduce or eliminate the adverse budget position presently being forecast by these Portfolios, and any necessary decisions presented to a future meeting of the relevant portfolio.

7.5 In terms of the overall budget position for 2016/17, the Council has set aside funding within the Contingency Provision to guard against potential overspending. So, whilst the forecast of overspend of £661,100 in the current year can be mitigated to a large extent, the underlying deficit will need to be addressed in 2017/18.

7.6 Where a Portfolio is presently forecasting a net overspend in accordance with current Council policy, any overspending in 2016/17 which cannot be met by transfer from the Portfolio Specific Reserve will be deducted from cash limits in 2017/18 and therefore the appropriate Directors in consultation with Portfolio Holders should prepare an action plan outlining how their 2016/17 forecast outturn or 2017/18 budget might be reduced to alleviate the adverse variances currently being forecast.

7.7 Based on the Budget (as adjusted) of £158,312,400 the Council will remain within its minimum level of General Reserves for 2016/17 of £7.0m as illustrated below:

	£m
General Reserves brought forward @ 1/4/2016	16.411
Less: Forecast Overspend 2016/17	(0.661)
Add: Planned Contribution to General Reserves 2016/17	1.363
Forecast General Reserves carried forward into 2017/18	**17.113**

Levels of General Reserves over the medium term are assumed to remain within the Council approved minimum sum of £7.0m in 2016/17 and future years since any ongoing budget pressures / savings will be reflected in future years' savings targets.

8. 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.

9. 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

Director of Finance & Information Service

<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
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 16th September, 2016

Signed: ……………………………………….

Approved / Approved as amended / Deferred / Rejected by the City Council on 11th October, 2016

Signed: ……………………………………….

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING JUNE 2016 Appendix A

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2016/17

PORTFOLIO City Council General Fund

BUDGET Total General Fund Expenditure

TOTAL CASH LIMIT 158,312,400

CHIEF OFFICER All Budget Holders

MONTH ENDED June 2016

ITEM No.	BUDGET HEADING	BUDGET FORECAST 2016/17			
		Total Budget	Forecast Year End Outturn	Variance vs. Total Budget	
		£	£	£	%
1	Children's Social Care	23,371,700	23,822,500	**450,800**	1.9%
2	Culture, Leisure & Sport	6,463,300	6,630,400	**167,100**	2.6%
3	Education	5,772,900	5,781,300	**8,400**	0.1%
4	Environment & Community Safety	13,871,900	13,728,100	**(143,800)**	(1.0%)
5	Health & Social Care	41,518,200	43,946,400	**2,428,200**	5.8%
6	Housing	3,520,300	3,522,700	**2,400**	0.1%
7	Leader	122,000	122,000	**0**	0.0%
8	PRED	(3,861,200)	(3,872,300)	**(11,100)**	(0.3%)
9	Port	(5,584,600)	(5,455,500)	**129,100**	2.3%
10	Resources	18,221,500	18,087,700	**(133,800)**	(0.7%)
11	Traffic & Transportation	14,652,700	15,090,600	**437,900**	3.0%
12	Licensing Committee	(226,000)	(226,000)	**0**	0.0%
13	Governance, Audit & Standards Com	240,200	238,100	**(2,100)**	(0.9%)
14	Levies	80,600	80,600	**0**	0.0%
15	Insurance	1,312,400	1,312,400	**0**	0.0%
16	Asset Management Revenue Account	23,185,100	22,647,800	**(537,300)**	(2.3%)
17	Other Miscellaneous	15,651,400	14,901,400	**(750,000)**	(4.8%)
TOTAL		**158,312,400**	**160,358,200**	**2,045,800**	**1.3%**
Total Value of Remedial Action (from Analysis Below)			(425,400)		
Forecast Outturn After Remedial Action		**158,312,400**	**159,932,800**	**1,620,400**	**1.0%**
Forecast Transfers To Portfolio Specific Reserves			(55,300)		
Forecast Transfer From Ring Fenced Public Health Reserve			(904,000)		
Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves		**158,312,400**	**158,973,500**	**661,100**	**0.4%**

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's Social Care	0	(35,000)
2	Culture, Leisure & Sport	0	(167,100)
1	Education	0	0
3	Environment & Community Safety	0	143,800
4	Health & Social Care	0	0
5	Housing	0	(2,400)
6	Leader	0	0
7	PRED	0	11,100
8	Port	0	(129,100)
9	Resources	0	133,800
10	Traffic & Transportation	(425,400)	(12,500)
11	Licensing Committee	0	0
12	Governance, Audit & Standards Com	0	2,100
13	Levies	0	
14	Insurance	0	
15	Asset Management Revenue Account	0	
16	Other Miscellaneous	0	
Total Value of Remedial Action		**(425,400)**	**(55,300)**

Note Remedial Action resulting in savings should be shown in brackets

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Portsmouth CITY COUNCIL

Title of meeting:	Cabinet
Date of meeting:	22nd September 2016
Subject:	Sale and leaseback - White Hart Road
Report by:	Tom Southall - Property & Investment Manager
Wards affected:	All
Key decision:	Yes
Full Council decision:	No

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1. Purpose of report

1.1 To seek authority to enter into a 'sale and leaseback' transaction in relation to the Council's legal interest in land on White Hart Road, leased to Wightlink Ltd as depicted on the plan at appendix 1.

2. Recommendations

2.1 That cabinet authorises:

i. **The grants a new headlease and leaseback in land on White Hart Road, Portsmouth**

ii. **A delegated authority to the Director of Property and the Director of Finance & Section 151 Officer, taking advice from the City Solicitor, and in consultation with the Leader of the City Council, to approve the completion of disposal in i. above.**

iii. **The reinvestment of the Capital receipt produced by the transaction into the property investment strategy, in order to spread risk and deliver an improved financial return.**

3. Background

3.1 The Council is the freehold owner of land in White Hart Road (appendix 1). The site is occupied by Wightlink Ltd by way of a 60 year lease expiring 31 December 2057.

3.2 There is an opportunity to make the current freehold work much harder and produce a greater on going revenue benefit for the City. An options analysis has been undertaken to explore how this capital could be released and maximised. The options explored are:

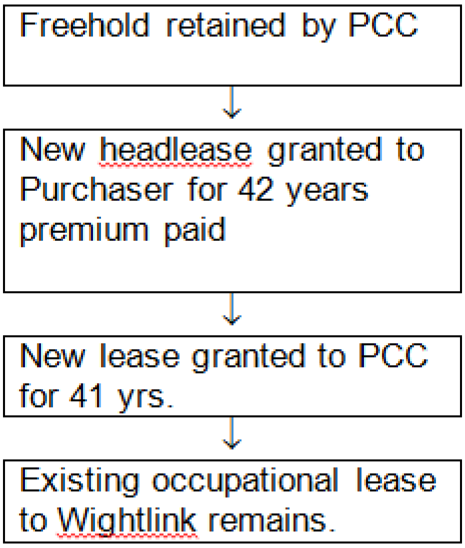
i. do nothing,
ii. sell the Council's freehold interest,
iii. sell the Council's freehold interest subject to a buy back provision, and
iv. grant a new headlease to the purchaser for a premium subject to a leaseback to the Council.

This financial options appraisal is detailed in the confidential financially exempt appendix 2.

3.3 Option iv is seen as the optimal method for obtaining capital from the asset as a sale and leaseback structure will enable the Council to use its covenant strength to increase the capital value of the interest, whilst importantly enabling the Council to retain ownership and control of the strategically important site in the long-term. It is also tax efficient and is anticipated to be attractive to the market.

3.4 Option iv is best described as selling an 'income strip'. The legal structure is shown below.

Option IV



3.5 The new lease to PCC will require PCC to pay to its landlord (the purchaser) an amount equal to the rent payable to PCC by Wightlink. In addition, in the event of default by Wightlink, PCC would remain liable for any other liabilities on the part of Wightlink in the Wightlink's lease. If Wightlink do not pay their rent, PCC will still have to pay the equivalent amount to its landlord.

3.6 It is envisaged that the principal terms of the lease to PCC would be broadly identical to the occupational lease to Wightlink, albeit that PCC will not be able to assign its lease. The whole purpose of "slotting" PCC above Wightlink as tenant is so that the purchaser can rely on PCC's covenant strength for payment of the Wightlink rent and not that of Wightlink. In order to mitigate these risks, broader rights would be sought so that PCC has some flexibility to at least underlet and in respect of the use to which the property can be put.

3.7 Upon expiry of the new headlease to the purchaser and the new lease to PCC, the current direct relationship of freeholder and occupational tenant will be resumed. At all times Portsmouth City Council retain ownership of the freehold interest in the site.

3.8 Taking the capital from this sale and re-investing in several other property assets will reduce the specific asset risk and allow diversification of this risk across a number of assets. The re-investment would target assets in accordance with the existing investment strategy and create significantly enhanced revenue streams.

3.9 Given the potential for the loss of revenue, produced by the Wightlink lease it would be sensible for the sale and leaseback to have a delayed completion until January 2017. This would allow time for alternative investments to be acquired so that there is no 'gap' in income, and would enable pricing to take account of the increase in rent as per the January rent review.

4. Reasons for recommendations

4.1 There is an opportunity to make the capital tied up in the current freehold of the Wightlink Ltd site on White Hart Road work much harder to produce greater financial benefits for the City.

4.2 An options analysis has been undertaken to explore how this capital could be released and maximised. The options explored; i. do nothing, ii. sell the Council's freehold interest, iii. sell the Council's freehold interest subject to a buy back provision, and iv. create a sale and leaseback using the Council as the tenant. This options appraisal is detailed in the confidential financially exempt appendix 2.

4.3 Option iv creates the best financial return for the City Council whilst allowing the re-profiling of risk created from relying on income derived by a single asset.

4.4 There are favourable circumstances in the market that are currently acting to maximise the capital value of option iv. The lowest level of Annuity pricing seen for a while increases the value of fixed income products.

5. Equality impact assessment

5.1 The generic EIA for the disposal of assets is available on the City Council's website.

6. Legal implications

6.1 Various structures have been considered in order to release capital from this asset. Option iv is recommended as it makes the most use of tax relief from Stamp Duty Land Tax ("SDLT") and is viewed as being the most attractive to the market.

6.2 Under s123 of the Local Government Act 1972 the Council may dispose of any land in any manner they wish provided that it must be for the best consideration obtainable. If the recommendations of this report are accepted then a headlease in the property will be granted at the best price reasonably obtainable that can reasonably be obtained.

7. Director of Finance's comments

7.1 The main driver behind the recommendations is to better spread our investment property risk, whilst achieving equivalent or better covenant strength and therefore an improving the ongoing financial return.

7.2 Exempt appendix 2 presents the financial appraisal, which demonstrates the significant benefits to PCC of the proposed options, when compared to doing nothing.

………………………………………………
Signed by:

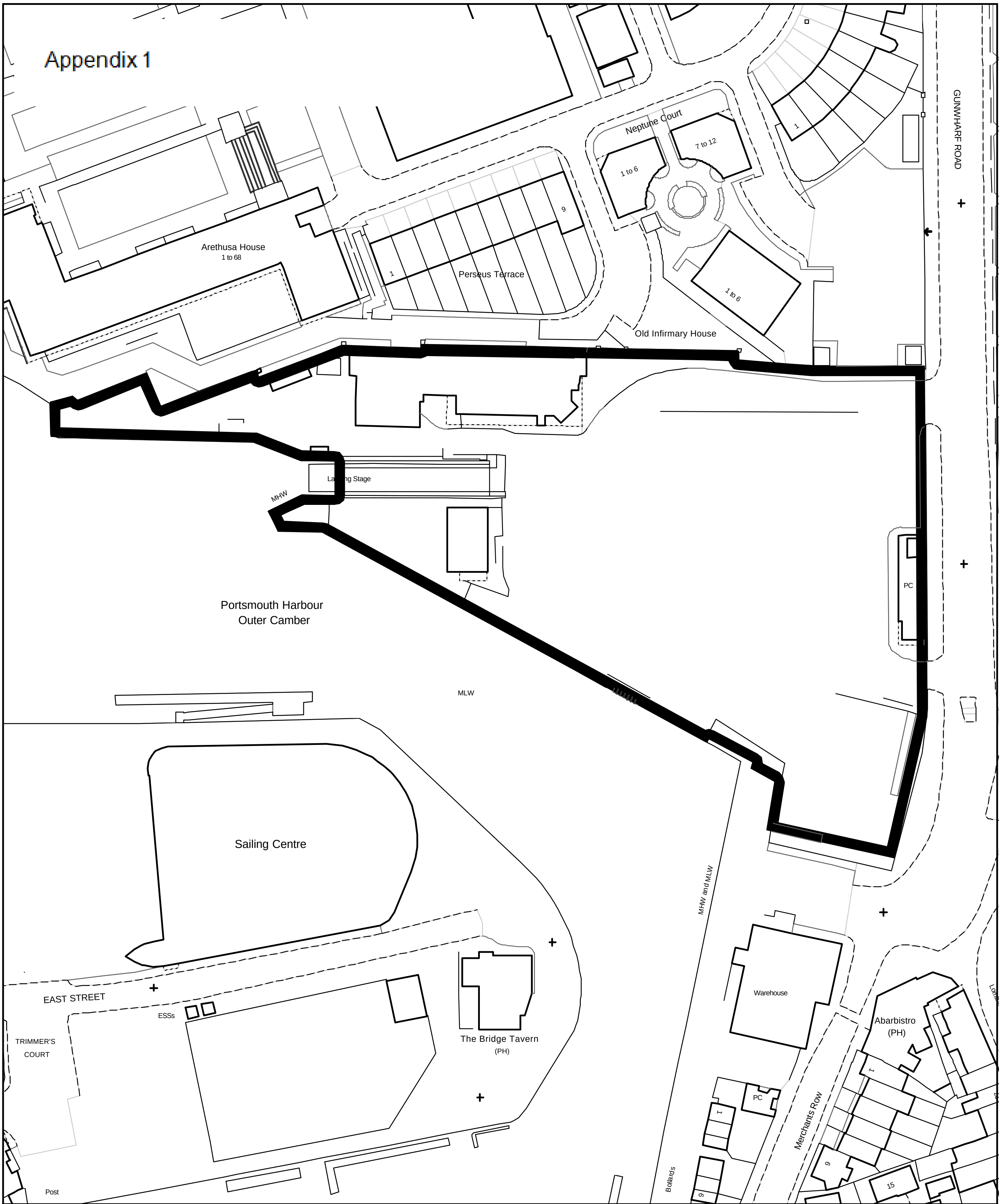
Appendices:

Appendix 1 - Plan of site
Appendix 2 - Exempt financial options appraisal

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

………………………………………………
Signed by:

Appendix 1



Title: **Wightlink Lease**
Gunwharf Road,
Portsmouth, PO1 2LA.

Prepared for: Legal Service

Prepared by: Geographic Information Service

Portsmouth CITY COUNCIL

Drg No:

Scale: 1:1250

Date: 05/09/2016

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