Portsmouth
CITY COUNCIL

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NOTICE OF MEETING

CABINET

THURSDAY, 9 MARCH 2017 AT 1.00 PM

EXECUTIVE MEETING ROOM - THE GUILDHALL, FLOOR 3

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If any member of the public wishing to attend the meeting has access requirements, please notify the contact named above.

Membership

Councillor Donna Jones (Chair)
Councillor Luke Stubbs
Councillor Ryan Brent
Councillor Jim Fleming
Councillor Lee Mason
Councillor Robert 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 - 9 February 2017** (Pages 5 - 16)

A copy of the record of the previous decisions taken at Cabinet on 9 February 2017 is attached.

RECOMMENDED that the record of decisions taken at the Cabinet meeting held on 9 February 2017 be agreed as a correct record to be signed by the Leader.

4 **Animal involvement at events and circuses on City Council land** (Pages 17 - 22)

The purpose of the report by the Director of Culture and City Development is to provide background information on, and to seek an agreement in relation to, the appropriate inclusion of animals at events and circuses on Portsmouth City Council land or on any sites where a venue is operated on behalf of the City Council.

RECOMMENDED:

(1) That the City Council adopts a clear and robust approach so we can effectively demonstrate our commitment to ensuring that animal welfare is a prime consideration while balancing the need to ensure a broad and varied events programme where animal involvement can appropriately be included, both for entertainment and education purposes.

(2) That the City Council does not permit any events that include captive, endangered or wild animals to take place on City Council land or on any sites where a venue is operated on behalf of the City Council.

(3) That the City Council does not permit any circuses that include any animals to take place on City Council land or on any sites where a venue is operated on behalf of the City Council with the exception of horses and dogs.

(4) That the City Council agrees to permit performances and displays of animals (both domestic and working animals) at events with the provision that documentation and supporting evidence is submitted to the appropriate City Council department for consideration in advance. All paperwork must fully and appropriately demonstrate that the welfare of the animals has been considered and secured when performing, at rest and when in transit to the event and/or circus. This would require the submission of a veterinary certificate, risk assessments and animal welfare policy.

(5) That the City Council will not permit mobile petting zoos, static exhibitions or the sale of animals (which includes invertebrates, reptiles and fish, excluding working animals) at any events on City Council land, or on any sites where a venue is operated on behalf of the City Council, irrespective of whether appropriate documentation is available or not. The exception to this would be Cumberland House Natural History Museum and Butterfly House, Blue Reef Aquarium, schools or similar where the main role of the venue is for educational or conservation purposes and that it can be demonstrated that all appropriate measures have been put in place to safeguard the well-being of the animals, invertebrates and insects on display there.

(6) That only those domestic or working animals performing at the

event and/or circus be permitted to be kept on site, excepting domestic pets of members of the circus.

(7)That the wording within the Licence issued by the City Council that permits use of a site for circuses on its land be amended to state that *'the Licensee shall not be permitted to hold a circus show including animals with the exception of horses and dogs (save that domestic pets of circus members shall be permitted to be kept on the Site provided that they are not used to take part in performances or for exhibition purposes)*.

(8)That the City Council's approach on animal involvement does not restrict pets as therapy sessions in care homes, dog walking, animal grooming or dog shows on City Council land or any sites where a venue is operated on behalf of the City Council, provided that animal welfare is appropriately maintained by those managing the activity. Should the City Council receive any reports or concerns of animal abuse or cruelty at any of these activities, these will be investigated and instructed to cease as necessary.

5 Treasury Management Strategy 2017/18 (Pages 23 - 86)

The purpose of the report by the Director of Finance and Information Service is to obtain the Council's approval for 2017/18 to the Treasury Management Policy Statement (attached) which includes:

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

The recommendations are as set out at Section 3 of the report and this report is being submitted to Council on 21 March 2017 for approval.

6 Forward Plan Omission - Budget Monitoring Quarter 3

The 'Revenue Budget Monitoring 2016/17 (Quarter 3) to end December 2016' report by the Director of Finance was omitted from the Forward Plan covering March 2017 published on 13 February 2017 (however it appeared on the updated Forward Plan published on 21 February, and therefore due notice has been given for the Council decision on this item on 21 March 2017). The Chair of the City Council's Scrutiny Management Panel has been notified and a public notice published.

RECOMMENDED that the omission to the Forward Plan for March 2017 be noted and that the necessary public notice has been published.

7 Revenue Budget Monitoring 2016/17 (3rd Quarter) to end December 2016 (Pages 87 - 96)

The purpose of the report by the Director of Finance & S151 Officer is to update members on the current Revenue Budget position of the Council as at the end of the third quarter for 2016/17 in accordance with the proposals set out in the "Portsmouth City Council - Budget & Council Tax 2017/18 & Medium

Term Budget Forecast 2018/19 to 2020/21" report approved by the City Council on the 14th February 2017.

RECOMMENDED to Council:
(1) The forecast outturn position for 2016/17 be noted:
(a) An underspend of £1,287,400 before further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve
(b) An underspend of £1,118,200 after further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve.

(2) Members note:
(a) 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.
(b) That on 14th February 2017 City Council approved that any underspending for 2016/17 arising at year-end outside of those made by Portfolios (currently forecast at £1,118,200) be transferred to Capital resources.

(3) 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.

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 Thursday, 9 February 2017 at 1.00 pm at the Guildhall, Portsmouth

Present

Councillor Donna Jones (in the Chair)

Councillors Ryan Brent
Jim Fleming
Lee Mason
Robert New
Linda Symes
Steve Wemyss
Neill Young

1. Apologies for Absence (AI 1)

Councillor Luke Stubbs was on council business in Buckinghamshire so had sent his apologies for absence.

2. Declarations of Interests (AI 2)

Councillor Young made a non-pecuniary interest in that the Youth Justice report referred to restorative justice and he worked for a company that delivers restorative justice.

3. Record of Previous Decision Meeting - 8 December 2016 (AI 3)

DECISION: that the record of decisions of the Cabinet meeting held on 8 December 2016 be approved as a correct record and signed by the Leader.

4. Review of the Portsmouth Youth Offending Team 3 Year Youth Justice Plan 2014-17 (AI 4)

Sarah Newman, Deputy Director Children's Social Care and Adam Shepherd, Manager of the YOT, introduced this annual report on progress on the 3 year strategic plan to see the achievements and progress made, shaped on the previous inspection outcomes. Progress could particularly be seen on first time entrants to the criminal justice system and improving on reoffending rates, whilst there were consistent custody levels (with low numbers here).

In 2016 the YOT had been integrated with a locality Social Care Team, endorsed by the Youth Justice Board, and already improvements in performance could be seen. There were smaller cohorts of youth offenders but with complex behaviours so the reoffending rates need to be tackled and there would be better targeting of early interventions. The Youth Justice Plan would be revised, in total, in 2018.

Cabinet Members asked questions regarding the use of data to tackle reoffending rates and it was reported that the Youth Justice Board figures were 2 years old but that there is a live tracker and there will be a trial of a new tool on reoffending. Adam Shepherd reported that there were approximately 89 children forming the YOT caseload, with 8 seen as 'priority young person' persistent reoffenders. The Youth Justice Board is looking at what works best for these young people to see which intervention is most successful.

Councillor Ryan Brent, as Cabinet Member for Children's Social Care, suggested rewording the recommendation to positively endorse the achievements made through the hard work of the team. This was supported by the Leader and Cabinet Members.

DECISION: The Cabinet commended the achievements made by the Youth Offending Team in implementing the plan and endorsed the priorities for the team and Management Board in maintaining high levels of practice and performance.

5. Special Educational Needs and Disabilities (SEND) Implementation Grant 2017-2018 (AI 5)

Julia Katherine, Head of Inclusion, presented the report seeking the allocation of this un-ringfenced grant. The report sought the securing of funding to continue to employ workers to implement the SEND reforms, with additional funding to enable a strategic review of the SEND provision.

Councillor Young, as the Cabinet Member for Education, thanked Julia and her team for their work in delivering this and welcomed the further funding for the strategic review as he was aware of the high cost of placements, especially those outside of the city.

Councillor Donna Jones, as Leader, asked about the timescales involved and Julia Katherine confirmed that a report on the review would be due back in a year's time to enable work with neighbouring authorities to take place. The Leader requested that this report be brought back by the end of the year if possible to feed into the budget process, recognising that this is a significant piece of work.

DECISIONS The Cabinet:

(1) Approved the allocation of the Special Educational Needs Implementation Grant of £147,605 in 2017-18 to the Education portfolio.

(2) Approved the allocation of the funding of £90,993 to support high needs strategic planning in 2017-18 to the Education portfolio.

6. Animal involvement at events and circuses on City Council land or sites operated on behalf of the City Council (AI 6)

The Leader thanked those who had emailed their comments which had been circulated to the Cabinet Members, including representation from Animal

Defenders Int. to support a band on both wild and domestic animals in circuses.

Claire Looney, Partnership & Commissioning Manager and Heather Todd, Assistant Events Manager presented the Director of Culture & City Development's report which sought to give clarification to the present position and to specify what would and would not be allowed on PCC land.

A deputation was made by Tracey Jones who wished to support the proposal to not allow mobile farms and petting zoos and wished the report to go further as she was concerned by the lack of regulation and stress caused to animals who are held and stroked by strangers. She advocated further regulation regarding the storage of reptiles at events. She would also wish to see a ban on all animals in circuses, as there was a potential for suffering in training, travelling and storage, and she felt that circuses only using human acts would survive.

Claire Looney and Heather Todd clarified that reptiles and fish were covered by the reference to static exhibitions and sale of animals. The Council had the right to inspect at any point. Also the restrictions would not cover therapeutic and educational uses or affect dog walkers or dog shows. There had only been one visiting circus with animals included in the last 5 years, and they hoped to come back, without the cats.

Councillor Wemyss had supported the previous policy in 1988 and he felt that domesticated/working animals such as dogs and horses were appropriate in these performances which were subject to animal welfare inspections and regulations. He was concerned about where to draw the line as horses were working animals and the heavy horse parade was an annual event.

Councillor Fleming was concerned that the welfare of the animals was taken into account; it was reported that as landowner PCC has the right to refuse events. Councillor New asked what actions were taken if it was seen that animal welfare standards were not being maintained; it was reported that the RSPCA would be involved and prosecution would be considered where appropriate.

Councillor Symes, as the Cabinet Member for Culture, Leisure & Sport, felt that the proposed policy was robust, and events like the Rural & Seaside show allowed children to see well looked after animals.

Cabinet Members then debated the educational value versus the entertainment value of events and sought to amend the proposals to distinguish between circuses that should not include animals for entertainment, and events with educational value.

The Leader suggested that as the recommendations could not be amended simply it would be advisable to defer consideration for the report to be reworded and brought back to the next Cabinet meeting in March. This would allow the officers time to work with Councillor Symes as the Cabinet Member for Culture, Leisure and Sport, regarding events on PCC land. It was also requested that the term 'circus' should be defined.

A decision on this item was deferred, to allow some re-drafting of recommendations relating to inclusion of animals in circuses.

7. Portsmouth City Council - Budget & Council Tax 2017/18 & Medium Term Budget Forecast 2018/19 to 2020/21 (AI 7)

Chris Ward, the Director of Finance and Section 151 Officer presented his report on the revised budget which would be submitted to Council on 14 February 2017.

RECOMMENDED to Council:

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

(a) The revised Revenue Estimates for the financial year 2016/17 and the Revenue Estimates for the financial year 2017/18 as set out in the General Fund Summary (Appendix A)
(b) The Portfolio Cash Limits for the Revised Budget for 2016/17 and Budget for 2017/18 as set out in Sections 7 and 9, respectively
(c) That £3.5m be transferred to the Revenue Reserve for Capital to supplement the resources available for the Capital Programme in order to ensure the Council can properly meet its statutory responsibilities including School Places, Sea Defences and potential match funding commitments for the City Centre Road
(d) That £3.0m be transferred to the MTRS Reserve to restore it to a level sufficient to enable the Council to pursue both Spend to Save schemes, Invest to Save schemes and fund redundancy costs, all aimed at facilitating the Council's savings strategy
(e) That £1.9m is carried forward from 2016/17 to 2017/18 in respect of contingent items that were expected to arise in 2016/17 but are now expected to occur in 2017/18
(f) Any further underspendings for 2016/17 arising at the year-end outside of those made by Portfolios be transferred to Capital Resources in order to provide funding for known future commitments such as Secondary School Places, Sea Defences and the enabling transport infrastructure necessary for the City's development and growth which have, as yet, insufficient funding
(g) Any variation to the Council's funding arising from the final Local Government Finance Settlement be accommodated by a transfer to or from General Reserves.
(h) The S.151 Officer be given delegated authority to make any necessary adjustments to Cash Limits within the overall approved Budget and Budget Forecasts
(i) That the level of Council Tax be increased by 1.99% for general purposes in accordance with the referendum threshold[1] for

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

2017/18 announced by Government (as calculated in recommendation 4 (d))

(j) That the level of Council Tax be increased by a further 3.0% beyond the referendum threshold (as calculated in recommendation 4 (d)) to take advantage of the flexibility offered by Government to implement a "Social Care Precept"; and that in accordance with the conditions of that flexibility, the full amount of the associated sum generated of £2,022,300 is passported direct to Adult Social Care

(k) Managers be authorised to incur routine expenditure against the Cash Limits for 2017/18 as set out in Section 9

(l) That the savings requirement for 2018/19 be set at a minimum on-going sum of £4.0m

(m) That the S.151 Officer be given delegated authority to make transfers to and from reserves in order to ensure that they are maintained as necessary and in particular, adjusted when reserves are no longer required or need to be replenished

(n) Directors be instructed to start planning how the City Council will achieve the savings requirements shown in Section 10 and that this be incorporated into Service Business Plans

(o) The minimum level of General Reserves as at 31 March 2017 be maintained at £7.0m (£7.0m in 2016/17) to reflect the known and expected budget and financial risks to the Council

(p) Members have had regard for the Statement of the Section 151 Officer in accordance with the Local Government Act 2003 as set out in Section 13.

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

(a) The Revenue Estimates 2017/18 as set out in Appendix A have been prepared on the basis that the 3% tax increase for the "Social Care Precept" (amounting to £2,022,300) is passported to Adult Social Care in order to provide for otherwise unfunded budget pressures including the cost of the new National Living Wage and demographic pressures arising from a "living longer" population

(b) The decision on the amount at which to set the Adult Social Care precept will be critical for the Social Care and wider Health system in the City; in the event that the additional flexibility of the "Social Care Precept" and associated 3% tax increase (amounting to £674,100 for each 1%) is not taken, then equivalent savings will need to be made in Adult Social Care in 2017/18

(c) In general, any reduction from the 4.99% Council Tax increase proposed will require additional savings of £674,100 for each 1% reduction in order for the Budget 2017/18 to be approved

(d) The Revenue Forecast for 2018/19 onwards as set out in Section 10 and Appendix B

(e) The estimated Savings Requirement of £12m for the three year period 2018/19 to 2020/21, for financial and service planning purposes, be phased as follows:

Financial Year	In Year Savings Requirement £m	Cumulative Saving £m
2018/19	4.0	4.0
2019/20	4.0	8.0
2020/21	4.0	12.0

(f) The MTRS Reserve held to fund the upfront costs associated with Spend to Save Schemes, Invest to Save Schemes and redundancies will hold an uncommitted balance of £4.4m[2] and will only be replenished in future from an approval to the transfer of any underspends, contributions from the Revenue Budget or transfers from other reserves which may no longer be required

(g) The Council Tax element of the Collection Fund for 2016/17 is estimated to be a surplus of £1,743,962 which is shared between the City Council (85%), Police & Crime Commissioner (11%) and the Hampshire Fire & Rescue Authority (4%)

(h) The Business Rate element of the Collection Fund for 2016/17 is estimated to be a surplus of £3,017,262 which is shared between the City Council (49%), the Government (50%) and the Hampshire Fire & Rescue Authority (1%)

(i) The Retained Business Rate income[3] for 2017/18 (excluding "Top Up") based on the estimated Business Rate element of the Collection Fund surplus as at March 2017, the Non Domestic Rates poundage for 2017/18 and estimated rateable values for 2017/18 has been set at £43,648,937

(3) That the S.151 Officer has determined that the Council Tax base for the financial year 2017/18 will be **55,329.9** [item T in the formula in Section 31 B(1) of the Local Government Finance Act 1992, as amended (the "Act")].

(4) That the following amounts be now calculated by the Council for the financial year 2017/18 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992:

(a)	£463,193,930	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act.
(b)	£392,420,348	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	£70,773,582	Being the amount by which the aggregate at 4 (a) above exceeds the aggregate at 4(b) above, calculated by the Council in

[2] Including the transfer into the reserve of £3.0m contained with the recommendations in this report

[3] Including the Portsmouth City Council element of the Collection Fund surplus of £1,478,458, S31 Grants of £2,217,322 and excluding the "Top Up" grant from Government of £5,984,004.

		accordance with Section 31A(4) of the Act as its Council Tax requirement for the year. (Item R in the formula in Section 31B(1) of the Act.
(d)	£1,279.12	Being the amount at 4(c) above (Item R), all divided by Item 3 above (Item T), calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year.

(e) Valuation Bands (Portsmouth City Council)

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
852.75	994.87	1,137.00	1,279.12	1,563.37	1,847.62	2,131.87	2,558.24

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

(5) That it be noted that for the financial year 2017/18 the Hampshire Police & Crime Commissioner is consulting upon the following amounts for the precept to be issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Valuation Bands (Hampshire Police & Crime Commissioner)

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
110.31	128.69	147.08	165.46	202.23	239.00	275.77	330.92

(6) That it be noted that for the financial year 2017/18 Hampshire Fire and Rescue Authority are recommending the following amounts for the precept issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Valuation Bands (Hampshire Fire & Rescue Authority)

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
42.56	49.65	56.75	63.84	78.03	92.21	106.40	127.68

(7) That having calculated the aggregate in each case of the amounts at 4(e), 5 and 6 above, the Council, in accordance with Sections 31A, 31B and 34 to 36 of the Local Government Finance Act 1992 as amended, hereby sets the following amounts as the amounts of Council Tax for the financial year 2017/18 for each of the categories of dwellings shown below:

Valuation Bands (Total Council Tax)

A	B	C	D	E	F	G	H
£	**£**	**£**	**£**	**£**	**£**	**£**	**£**
1,005.62	1,173.21	1,340.83	1,508.42	1,843.63	2,178.83	2,514.04	3,016.84

(8) The Council determines in accordance with Section 52ZB of the Local Government Finance Act 1992 that the Council's basic amount of Council Tax for 2017/18, which represents a 4.99% increase, is not excessive in accordance with the principles approved by the Secretary of State under Section 52ZC of the Act.

The 4.99% increase includes a 3% increase to support the delivery of Adult Social Care.

As the billing authority, the Council has not been notified by a major precepting authority (the Police and Crime Commissioner for Hampshire or the Hampshire Fire & Rescue Authority) that its relevant basic amount of Council Tax for 2017/18 is excessive and that the billing authority is not required to hold a referendum in accordance with Section 52ZK of the Local Government Finance Act 1992.

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

8. Capital Programme 2016/17 to 2021/22 (AI 8)

Chris Ward, the Director of Finance and Section 151 Officer presented his report on the proposed new starts, which would be submitted to Council on 14 February 2017.

RECOMMENDED to Council:

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

1) The Revised Capital Programme 2016/17 to 2021/22 attached as Appendix 1 which includes all additions, deletions and amendments for slippage and rephrasing described in Sections 6 and 8 be approved

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

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

4) The following schemes as described in Section 9 and Appendix 2 be reflected within the recommended Capital Programme 2016/17 to 2021/22 and be financed from the available corporate capital resources:

Recommended New Capital Schemes		Corporate Resources Required £	Total Scheme Value £
Education			
	Sufficiency of Secondary School Places	2,670,000	4,470,000
	Future Secondary School Places	1,000,000	1,000,000
	School Condition Projects	1,000,000	1,100,000
Children's Safeguarding			
	Children's Case Management Software Replacement	1,907,000	1,907,000
	Tangier Road Children's Home	495,000	495,000
	Beechside Children's Home	55,000	55,000
Culture, Leisure & Sport			
	Kings Bastion	525,000	600,000
	Charles Dickens' Gardens	25,000	25,000
	D Day Museum	165,000	165,000
	Contribution Towards Resurfacing South Parade Pier	50,000	75,000
	Installation of Shower Facilities at Canoe Lake	10,000	10,000
	Watersedge Park Building	20,000	20,000
	Edwardian Seafront Shelter	70,000	80,000
	Re-provision of Bandstand at West Battery Gardens	40,000	40,000
	Pop Up Kiosks - Southsea Seafront	40,000	40,000
Environment & Community Safety			
	Household Waste Collections	111,200	111,200
	Old Portsmouth Seawalls' Maintenance	120,000	120,000
	Southsea Sea Defences	1,250,000	88,602,400
Health & Social Care			
	Swift Software Replacement	400,000	1,163,000
Housing			

Recommended New Capital Schemes		Corporate Resources Required £	Total Scheme Value £
	Phase 1: Refresh of the Allaway Avenue Green and Surrounding Planting	16,600	16,600
	Hillside Youth & Community Centre - Outdoor Play	166,000	166,000
PRED			
	City Centre Road	3,000,000	45,000,000
	Renovation of Victoria Park Lodge	100,000	100,000
	Public Realm Improvements - Chaucer House	594,000	594,000
	Portsmouth Area Rape Crisis Service - Building Maintenance	50,000	50,000
Resources			
	Landlord's Maintenance	591,000	831,000
Traffic & Transportation			
	Seafront Variable Message Signs	52,000	75,800
	Eastern Corridor Road Link Improvements	500,000	500,000
	Improvements to Neighbourhood Living & Street Environment	200,000	200,000
	Local Transport Plan	1,200,000	1,200,000
	Old Portsmouth Area Study	40,000	40,000
Total Recommended Sum To Be Approved		**16,462,800**	**148,852,000**

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

	Prudential Borrowing Required £
Utilities and Energy Management	1,031,100
Investment in Solar Photovoltaic Cells	3,400,000
Total Recommended Sum to be Approved	**4,431,100**

6) The following Schemes as described in Section 15 be included within the "Reserve List" of Capital Schemes to be considered once additional capital resources are identified

Future Priority Capital Schemes – Not in Priority Order
Secondary School Places 2019/20 to 2021/22
Special Educational Needs Re-modelling
School Condition (roofs, boilers, electrics, windows etc.)
Sea Defences Contribution to £89m Scheme
Enabling Transport Infrastructure match funding - City development

Landlords Repairs & Maintenance	
Local Transport Plan - Road safety and traffic improvement schemes	

7) The Prudential Indicators described in Section 16 and set out in Appendix 3 be approved.

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

1) That the capital resources proposed to be allocated include £3.5m of funding from Revenue as recommended in the "Budget and Council Tax 2017/18 & Medium Term Budget Forecast 2018/19 to 2020/21" report contained elsewhere on this agenda. In the event that this funding is not approved, schemes with Corporate Capital Resources amounting to £3.5m will be required to be removed from the new schemes starting in 2017/18 detailed in Appendix 2

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

3) As outlined in Section 12 and Appendix 2, the use of The Parking Reserve to fund the refurbishment of lifts at Isambard Brunel Car Park at a cost of £240,000; and a contribution of £23,800 towards the cost of installing Variable Message Signs along Southsea Seafront

4) As outlined in Section 13 and Appendix 2, the release of £70,000 from the Culture, Leisure & Sport Portfolio Reserve to fund:

   a. the relocation of the café and children's play area within Southsea Library and

   b. the replacement of the automatic main entrance door at Southsea Library

5) As outlined in Section 14 and Appendix 2 the use of The Prevention (Public Health) Reserve to fund enhanced Assistive Technology to residents with an Adult Social Care need at a total cost of £300,000

6) The City Council note that Prudential Borrowing can only be used as a source of capital finance for Invest to Save Schemes as described in Section 16.

The meeting concluded at 1.55 pm.

Councillor Donna Jones
Leader of the Council

Title of meeting:	Cabinet Decision Meeting
Date of meeting:	9th March 2017
Subject:	Animal involvement at events and circuses on City Council land
Report by:	Director of Culture and City Development
Wards affected:	All
Key decision:	No
Full Council decision:	No

1. Purpose of report

To provide background information on, and to seek an agreement in relation to, the appropriate inclusion of animals at events and circuses on Portsmouth City Council land or on any sites where a venue is operated on behalf of the City Council.

2. Recommendations

2.1 That the City Council adopts a clear and robust approach so we can effectively demonstrate our commitment to ensuring that animal welfare is a prime consideration while balancing the need to ensure a broad and varied events programme where animal involvement can appropriately be included, both for entertainment and education purposes.

2.2 That the City Council does not permit any events that include captive, endangered or wild animals to take place on City Council land or on any sites where a venue is operated on behalf of the City Council.

2.3 That the City Council does not permit any circuses that include any animals to take place on City Council land or on any sites where a venue is operated on behalf of the City Council with the exception of horses and dogs.

2.4 That the City Council agrees to permit performances and displays of animals (both domestic and working animals) at events with the provision that documentation and supporting evidence is submitted to the appropriate City Council department for consideration in advance. All paperwork must fully and appropriately demonstrate that the welfare of the animals has been considered and secured when performing, at rest and when in transit to the event and/or circus. This would require the submission of a veterinary certificate, risk assessments and animal welfare policy.

2.5 That the City Council will not permit mobile petting zoos, static exhibitions or the sale of animals (which includes invertebrates, reptiles and fish, excluding working animals) at any events on City Council land, or on any sites where a venue is operated on behalf of the City Council, irrespective of whether appropriate documentation is available or not. The exception to this would be Cumberland House Natural History Museum and Butterfly House, Blue Reef Aquarium, schools or similar where the main role of the venue is for educational or conservation purposes and that it can be demonstrated that all appropriate measures have been put in place to safeguard the well-being of the animals, invertebrates and insects on display there.

2.6 That only those domestic or working animals performing at the event and/or circus be permitted to be kept on site, excepting domestic pets of members of the circus.

2.7 That the wording within the Licence issued by the City Council that permits use of a site for circuses on its land be amended to state that *'the Licensee shall not be permitted to hold a circus show including animals with the exception of horses and dogs (save that domestic pets of circus members shall be permitted to be kept on the Site provided that they are not used to take part in performances or for exhibition purposes)*.

2.8 That the City Council's approach on animal involvement does not restrict pets as therapy sessions in care homes, dog walking, animal grooming or dog shows on City Council land or any sites where a venue is operated on behalf of the City Council, provided that animal welfare is appropriately maintained by those managing the activity. Should the City Council receive any reports or concerns of animal abuse or cruelty at any of these activities, these will be investigated and instructed to cease as necessary.

3. Background

3.1 The issue of performing animals at events was discussed at length by Full Council in 1988. The minutes of that meeting on 16 February 1988 agreed:

- 'That no circus or any event which has wild animals as part be not permitted on Portsmouth City Council land'.
- 'The City Council does not permit any circus which contains any performing animals with the exception of dogs and horses on Council owned land'.
- 'That City Council officers be instructed to monitor the arrangements made for the animal welfare at circuses visiting Portsmouth'.

It is felt that this articulation of policy, made in 1988, needs to be reviewed to allow a broader response to requests for circuses and/or events that involve animals other than dogs and horses, and supported by a fresh analysis of the evidential and regulatory setting in which it operates.

3.2 It is recognised that for some people the inclusion of animals at any events, whether it is a petting zoo or circus, is an emotive issue. There have been a small number of complaints about petting zoos and circuses from members of the public in the past few years but no complaints in relation to the displays of working animals at events, e.g. heavy horses, birds of prey, ferrets or sheep at the Rural and Seaside show.

3.3 The City Council issues a Licence that permits use of a site for circuses on its land. One of the clauses within that Licence currently states that *'the Licensee shall be permitted to hold a circus show only provided that no animals whatsoever other than horses shall take part in the circus show or be kept on the Site (save that domestic pets of circus members shall be permitted to be kept on the Site provided that they are not used to take part in performances or for exhibition purposes).* If the recommended approach is adopted by the City Council then the wording of the Licence will be amended to state that animals will not be permitted to be involved within a circus on City Council land with the exception of horses and dogs.

3.4 Any circus or event on City Council land needs to submit an event management plan and supporting documentation which is then circulated to members of the Portsmouth Events Safety Advisory Group (PESAG). This group is comprised of blue light services and City Council departments such as Environmental Health, Licensing and Building control. PESAG consider and comment on any applications, request further information as necessary and need to be satisfied that all requirements have been met before any event or circus can be approved.

3.5 In addition to the submission of all relevant documentation, where necessary, appropriate City Council officers will be instructed to undertake inspections of the event to ensure that the conditions within which the animals are both kept and will be performing are adequate and meet the requirements of the Animal Welfare Act 2006. The Act makes owners and keepers responsible for ensuring that the welfare needs of their animals are met and holds them accountable should deficiencies arise The Animal Welfare Act 2006 covers both domestic animals, and wild animals which are transported and used for the purposes of circuses.

3.6 The Animal Welfare Act 2006 has introduced an important and new concept for pet owners and those responsible for domestic animals, which enables the RSPCA or similar enforcement agencies, to advise and educate on animal welfares before a pet suffers. If this advice is not followed or the animal's needs are not being met then action can be taken by appropriate enforcement agencies, whether through a formal warning or in some cases a prosecution.

3.7 Whilst the City Council would request the appropriate paperwork for animal involvement at events, this would not be required for dog walkers or animal groomers as the risk of animal abuse is small and is an arrangement made between the owners and those with whom they entrust their animals. However, should the City Council receive any reports or concerns of animal abuse or cruelty, these will be investigated, either by the City Council or appropriate enforcement agencies, and any activities ceased as necessary and appropriate action taken.

3.8 Many events, including some managed by the City Council, include dog shows. These involve the public entering their own pets into a range of categories to be judged. These are very popular and often well-attended additions to an event and the risk of animal abuse is considered to be low. Again, should the City Council receive any reports or concerns of animal abuse or cruelty, these will be investigated and any activities ceased as necessary and appropriate action taken.

3.9 The City Council will no longer permit mobile petting zoos, static exhibitions or the sale of animals (which includes invertebrates, reptiles and fish) at any events on City Council land, or on any sites where a venue is operated on behalf of the City Council, irrespective of whether appropriate documentation is available or not. This will not affect the permanent aviaries and animal enclosures in College Park and Victoria Park managed by the City Council.

3.10 The City Council will not permit any static exhibitions or sale of animals (including invertebrates, reptiles and fish, but excluding working animals) at any event on its land or any site where a venue is operated on behalf of the City Council. Some concerns have previously been raised about the appropriate care, well-being and management of animals on display and being offered for sale, without any prior agreement with the City Council. It is felt that this type of activity may not be in line with the Animal Welfare Act 2006, is difficult for City Council officers to monitor and could put animals under extreme distress and risk of abuse, injury or fatality. It is therefore not considered to be appropriate to permit this type of activity.

3.11 In conclusion, this proposed approach is suggesting that the City Council take a stronger stand against the inclusion of animals at events and/or circuses with the following measures:

Current position:

- The City Council only permit dogs and horses to perform in circuses
- There is no restriction on any animal activity, other than the exclusion of captive, endangered or wild animals, at circuses and/or events on City Council land or any site where a venue is operated on behalf of the City Council
- The City Council requests that documentation and supporting evidence is submitted to the appropriate department for consideration in advance of any circus. All paperwork must fully and appropriately demonstrate that the welfare of the animals has been considered when performing, at rest and when in transit to the event and/or circus. This would require the submission of a veterinary certificate, risk assessments and animal welfare policy.

Proposed position:

- To restrict the inclusion of any animals in circuses taking place in Portsmouth with the exception of horses and dogs and change the wording in the current Licence be amended to reflect the change.
- That the inclusion of domestic and working animals at City Council events be permitted to continue with the condition that they are delivered by reputable companies or registered handlers with appropriate licences, experience or qualifications.
- That mobile petting zoos no longer be permitted on City Council land or any site where a venue is operated on behalf of the City Council, with the exceptions stated in 2.5
- That documentation and supporting evidence is submitted to the appropriate City Council department for consideration in advance of any event. All paperwork must fully and appropriately demonstrate that the welfare of the animals has been considered when performing, at rest and when in transit to the event and/or circus. This would require the submission of a veterinary certificate, risk assessments and animal welfare policy.
- That any static exhibition or sale of animals (including invertebrates, reptiles and fish, but excluding working animals) at any event on its land or any site where a venue is operated on behalf of the City Council will no longer be permitted
- No restriction on activities involving pets as therapy in care homes, animal groomers, dog shows or dog walkers but action will be taken should any concerns be raised in relation to animal welfare.

4. Reasons for recommendations

4.1 To confirm that the City Council will not permit and does not support the use of animals at circuses in Portsmouth with the exception of horses and dogs.

4.2 To ensure that the City Council has a robust and current approach in place to allow us to effectively demonstrate our commitment to the safeguarding of animals and to ensuring that animal welfare is a prime consideration while balancing the need to ensure a broad and varied events programme where animal involvement is both for entertainment and education purposes.

4.3 To ensure that the City Council has a clear approach in place to inform any responses to complaints or concerns raised by the public with regard to animal cruelty, animal safety or welfare.

4.4 To ensure that any City Council led events that currently include the involvement of both domestic and working animals are permitted to continue.

5. Equality impact assessment (EIA)

An equality impact assessment is not required for this report as the recommendations do not have a potential negative impact on any of the protected characteristics as described in the Equality Act 2010.

This is a report purely to protect animals so this does not disproportionately impact on any specific equality groups.

6. Legal comments

Legal comments are contained within the body of this report.

7. Director of Finance comments

7.1 The implementation of the recommendations contained within this report will not lead to any additional costs being incurred by the Council. This report updates and clarifies the existing policy for future events.

………………………………………………
Signed by:
Stephen Baily
Director of Culture and City Development

Appendices:

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
Council 10/1988	Central Library

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

………………………………………………
Signed by:
Leader on behalf of the Cabinet

Title of meeting:	Governance and Audit and Standards Committee Cabinet City Council
Date of meeting:	3 March 2017 (Governance and Audit and Standards Committee) 9 March 2017 (Cabinet) 21 March (City Council)
Subject:	Treasury Management Policy 2017/18
Report by:	Chris Ward, Director of Finance and Information Services (Section 151 Officer)
Wards affected:	All
Key decision:	Yes
Full Council decision:	Yes

1. Executive Summary

Treasury Management Policy

The attached Treasury Management Policy sets out the Council's policies on borrowing, providing for the repayment of debt and investing for 2017/18. The Treasury Management Policy also sets a number of treasury management indicators that will establish the boundaries within which treasury management activities will be undertaken.

The Treasury Management Policy Statement contains a risk appetite statement similar to that adopted in 2016/17 that permits investments to be made in instruments that do not guarantee that the capital sum will not be diminished through movements in prices. In approving the Treasury Management Policy Statement members will be approving the risk appetite statement contained in paragraph 4.2 of the Treasury Management Policy Statement.

Policy For Providing For the Repayment of Debt

The Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2012 require the Council to adopt an Annual Minimum Revenue Provision (MRP) for Debt Repayment Statement. The recommended methodologies for calculating MRP are summarised in paragraph 8.3 of the Treasury Management Policy. It is proposed to change the methodology for calculating MRP for Government supported borrowing other than finance leases and service concessions including private finance Initiative schemes (see paragraph 8.4). It is also recommended that the over provision of MRP in previous years be released back to the General Fund by reducing MRP in future years (see paragraph 8.5).

Annual Investment Strategy

The Treasury Management Policy includes the Annual Investment Strategy which establishes the types of investment, investment counter parties and investment durations that the Council will operate within. The 2017/18 Annual Investment Strategy is similar to the 2016/17 Annual Investment Strategy as amended by the City Council on 11 October 2016 in most respects although there are some changes proposed for 2017/18.

The previous policy required all investments (apart from registered social landlords and building societies) to have two credit ratings. It is recommended that investments be permitted in enhanced money market funds with a single credit rating of at least AA. Industry practice is for enhanced money market funds to have a single credit rating, but such funds are well diversified. The previous policy required registered social landlords (RSLs) to have a single credit rating from one of the three main credit rating agencies. The Homes and Communities Agency (HCA) also issues financial viability ratings for all major RSLs. It is recommended that investments only be placed with RSLs that have a financial viability rating of at least V1.

It is recommended that investments be permitted in universities. Universities were not previously included in the Annual Investment Strategy. It is recommended that investments in universities have the same investment and duration limits as banks and corporate bonds.

The maximum investment in a single organisation in category 7 (building societies A- credit rating, other institutions A credit rating) in paragraph 11.16 has been increased by £2m from £13m in 2016/17 to £15m in 2017/18. The Council is currently finding it difficult to find institutions that meet its credit criteria and pay a good return. Increasing the maximum investments in a single organisation in category 7 will help to alleviate this. By way of comparison the maximum investment in a single institution in category 6 (building societies A credit rating, other institutions A+ credit rating) is £20m and the maximum investment in a single institution in category 8 (A- credit rating) is £10m. Increasing the maximum investment in a single organisation in category 7 from £13m to £15m would also be appropriate in terms of evening out the gap between categories 6 and 8.

When the City Council considered the Treasury Management Mid-Year Review it resolved 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. Recommendations 3.1a(vii) and 3.1a(viii) specify the form of this type of lending and the acceptable types of collateral.

Banks and building societies currently meeting the Council's credit criteria are listed in Appendix G. There are too many corporate bond, RSLs and universities to include in the appendix.

2. Purpose of report

The purpose of this report is to obtain the Council’s approval for 2017/18 to the Treasury Management Policy Statement (attached) which includes:

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

3. Recommendations

3.1a that the following changes to the 2016/17 Treasury Management Policy Statement as amended by the Mid-Year Review be approved:

(i) that the minimum revenue provision for the repayment of government supported borrowing other than finance leases and service concessions (including private finance initiative schemes) is changed from a straight 2% annual provision to a 50 year annuity provision with effect from 2016/17 (paragraph 8.4 of Treasury Management Policy Statement);

(ii) **that the Director of Finance and Information Services (Section 151 Officer) be given delegated authority to release the over provision of MRP into the General Fund over a prudent period (paragraph 8.5 of Treasury Management Policy Statement);**

(iii) **that investments be permitted in enhanced money market funds with a single credit rating of at least AA and that these funds be treated as category 6 (A+) investments to reflect the increased risk of relying on a single credit rating (as opposed to category 4 if two ratings had been obtained - paragraph 11.4 of Treasury Management Policy Statement)**

(iv) **that investments are only placed with registered social landlords that have a financial viability rating of V1 from the Homes and Communities Agency (paragraph 11.5 of Treasury Management Policy Statement);**

(v) **that investments in universities be permitted (paragraph 11.13 of Treasury Management Policy Statement);**

(vi) **that the maximum investment in a single institution in category 7 be increased by £2m from £13m to £15m (paragraph 11.16 of the Treasury Management Policy Statement);**

(vii) **that investments be permitted in covered bonds that are secured against local authority debt or covered bonds that have a credit rating that meets the Council's investment criteria even if the counter party itself does not meet the Council's credit criteria (paragraph 11.19 of Treasury Management Policy Statement);**

(viii) **that investments in repos / reverse repos collateralised against index linked gilts, conventional gilts and UK treasury bills be permitted, and that should the counter party not meet our senior unsecured rating then a 102% collateralisation would be required (paragraph 11.20 of Treasury Management Policy Statement);**

3.1b **that the treasury management indicators contained in Appendix D be approved;**

3.1c **that the attached Treasury Management Policy Statement including the Treasury Management Strategy, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy for 2017/18, and encompassing the amendments contained in recommendation 3.1a and the treasury management indicators contained in Appendix D be approved;**

3.1d **that the Director of Finance and Information Services (Section 151 Officer) and officers nominated by him be given delegated authority to (paragraph 3.2 of Treasury Management Policy Statement):**

(i) **invest surplus funds in accordance with the approved Annual Investment Strategy;**

(ii) **borrow to finance short term cash deficits and capital payments from any reputable source within the authorised limit for external debt of £607m approved by the City Council on 14 February 2017;**

(iii) **reschedule debt in order to even the maturity profile or to achieve revenue savings;**

(iv) **to buy and sell foreign currency, and to purchase hedging instruments including forward purchases, forward options and foreign exchange rate swaps to mitigate the foreign exchange risks associated with some contracts that are either priced in foreign currencies or where the price is indexed against foreign currency exchange rates.**

3.1e **that the Chief Executive, the Leader of the City Council and the Chair of the Governance and Audit and Standards Committee be informed of any variances from the Treasury Management Policy when they become apparent, and that the Leader of the City Council be consulted on remedial action (paragraph 17.1 of Treasury Management Policy Statement)**

3.2 that the Director of Finance and Information Services (Section 151 Officer) submits the following (paragraph 19.1 of Treasury Management Policy Statement):

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

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

(iii) the Annual Strategy Report to the Cabinet and Council in March 2018;

(iv) a quarter 3 treasury management monitoring report to the Governance and Audit and Standards Committee.

4. Background

The Council's treasury management operations cover the following:

- Cash flow forecasting (both daily balances and longer term forecasting)
- Investing surplus funds in approved investments
- Borrowing to finance short term cash deficits and capital payments
- Management of debt (including rescheduling and ensuring an even maturity profile)
- Interest rate exposure management
- Hedging foreign exchange rate risks

The key risks associated with the Council's treasury management operations are:

- Credit risk - ie. that the Council is not repaid, with due interest in full, on the day repayment is due
- Liquidity risk - ie. that cash will not be available when it is needed, or that the ineffective management of liquidity creates additional, unbudgeted costs
- Interest rate risk - that the Council fails to get good value for its cash dealings (both when borrowing and investing) and the risk that interest costs incurred are in excess of those for which the Council has budgeted
- Exchange rate risk - the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

- Maturity (or refinancing risk) - this relates to the Council's borrowing or capital financing activities, and is the risk that the Council is unable to repay or replace its maturing funding arrangements on appropriate terms
- Procedures (or systems) risk - ie. that a treasury process, human or otherwise, will fail and planned actions are not carried out through fraud, error or corruption

The total borrowings of the Council at 1 April 2017 are estimated to be £576m. The Council's investments at 1 April 2017 are estimated to be £323m. The cost of the Council's borrowings and the income derived from the Council's investments are included within the Council's treasury management budget of £21.8m per annum. The Council's treasury management activities account for a significant proportion of the Council's overall budget. As a consequence the Council's Treasury Management Policy aims to manage risk while optimizing costs and returns. The Council will monitor and measure its treasury management position against the indicators contained in the Treasury Management Policy.

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

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

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

5. Reasons for recommendations

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

- Enable the Council to borrow funds as part of managing its cash flow or to fund capital expenditure in a way that minimises risk and costs
- Provide for the repayment of borrowing

- Ensure that the Council's investments are secure
- Ensure that the Council maintains sufficient liquidity
- Maximise the yield on investments in a way that is commensurate with maintaining the security and liquidity of the investment portfolio

6. Equality impact assessment (EIA)

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

7. 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.

8. Director of Finance and Information Services (Section 151 Officer)’s comments

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

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

Appendix: Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy 2017/18

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

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

Title of document	**Location**
1 Information pertaining to the Treasury Management Strategy	Financial Services

TREASURY MANAGEMENT POLICY STATEMENT INCLUDING:

- **TREASURY MANAGEMENT STRATEGY**
- **ANNUAL MINIMUM REVENUE PROVISION FOR DEBT REPAYMENT STATEMENT**
- **ANNUAL INVESTMENT STRATEGY 2017/18**

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

TREASURY MANAGEMENT POLICY STATEMENT 2016/17

1 BACKGROUND

1.1 This Council defines its Treasury Management activities as “the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.”

1.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

1.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance management techniques, within the context of effective risk management.

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

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

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

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

2 BORROWING LIMITS AND THE PRUDENTIAL CODE

2.1 The Prudential Code requires the City Council to approve an authorised limit and an operational boundary for external debt together with other prudential indicators designed to ensure that the capital investment plans are affordable, prudent and sustainable. These were approved by the City Council on 14th February 2017.

i) Authorised Limit

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

	£m
Borrowing	530
Other Long Term Credit Liabilities	77
	607

ii) Operational Boundary

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

	£m
Borrowing	512
Other Long Term Credit Liabilities	77
	589

iii) Other Prudential Indicators contained in the Prudential Code

The following indicators are also included in the Prudential Code:

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

These are contained in Appendix A.

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

3 TREASURY MANAGEMENT POLICY STATEMENT

3.1 The prime objective of the Treasury Management function is the effective management and control of risk associated with the activities described in paragraph 1.1. The key risks associated with the Council's treasury management operations are:

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

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

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

- Exchange rate risk - the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

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

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

3.2 It is recommended that the Director of Finance and Information Services (Section 151 Officer) and officers nominated by him be given delegated authority to **(recommendation 3.1d):**

(i) invest surplus funds in accordance with the approved Annual Investment Strategy;

(ii) to revise the total amount that can be invested with any organisation at any time in consultation with the Leader of the Council;

(iii) borrow to finance short term cash deficits and capital payments from any reputable source within the authorised limit for external debt of £607m approved by the City Council on 14 February 2017;

(iv) to reschedule debt in order to even the maturity profile or to achieve revenue savings;

(v) to buy and sell foreign currency, and to purchase hedging instruments including forward purchases, forward options and foreign exchange rate swaps to mitigate the foreign exchange risks associated with some contracts that are either priced in foreign currencies or where the price is indexed against foreign currency exchange rates.

4 TREASURY MANAGEMENT STRATEGY FOR 2017/18

4.1 Objectives

The budget for net interest and debt repayment costs for 2017/18 is £21.8m. The Treasury Management policy will therefore form a cornerstone of the Medium Term Resource Strategy. Specific objectives to be achieved in 2017/18 are:

(a) Borrowing

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

- To monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements

- To reschedule debt in order to take advantage of potential savings as interest rates change or to even the maturity profile.

(b) Lending

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

4.2 Risk Appetite Statement

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

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

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

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

The Council may invest in low risk structured investment products that follow the developed equity markets where movements in prices may diminish the capital sum invested. These investments, and indeed any other investment, could also be diminished if the counter party defaults. Although the Council only invests in counter parties offering good credit quality, the credit quality of an investment counter party can decline during the life of the investment. This is particularly the case with long term investments.

4.3 Gross Debt and the Capital Financing Requirement

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

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Borrowing	495,239	488,827	482,416	476,005
Finance leases	1,528	877	871	869
Service Concessions (including Private Finance Initiative schemes)	79,639	76,456	73,769	70,264
Total Gross debt	**576,406**	**566,160**	**557,056**	**547,138**
Capital Financing Requirement (CFR):				
Opening CFR in 2016/17	435,250			
Change in CFR in 2016/17				
Closing CFR in 2016/17	494,948	494,948	494,948	494,948
Cumulative increase in CFR in future years		77,478	80,986	80,986
Closing CFR	**494,948**	**572,426**	**575,934**	**575,934**
Borrowing Under / (Over) the CFR	**(81,458)**	**6,266**	**18,878**	**28,796**

The Council's gross debt exceeds its estimated CFR, ie. it is over borrowed, in 2016/17 because £94m was borrowed from the Public Works Loans Board (PWLB) at an average rate of 2.37% to take advantage of the particularly low borrowing rates in the summer of 2016. The Council is currently earning 1.12% on its investments. Therefore in the short term there is a cost of carry of 1.25% until the money that was borrowed is used to fund capital expenditure.

The capital programme approved by the City Council on 14th February 2017 includes £84.6m of capital expenditure financed by borrowing in 2017/18. This includes £45.4m of expenditure on the acquisition of investment properties to provide an income stream to support the Council's services. This is expected to cause the Council's CFR to rise above its gross debt, ie. it is expected to become under borrowed in 2017/18.

4.4 Gross and Net Debt

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

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Gross Debt at 31 March	576,406	566,160	557,056	547,138
Investments at 31 March	(323,000)	(232,000)	(213,000)	(193,000)
Estimated Net Debt	**253,406**	**334,160**	**344,056**	**354,138**

4.4.2 The current high level of investments has arisen from the Council's earmarked reserves and borrowing in advance of need to take advantage of low borrowing rates thus securing cheap funding for the Council's capital programme. The current high level of investments does increase the Council's exposure to credit risk, ie. the risk that an approved borrower defaults on the Council's investment. In the interim period when investments are high in advance of capital expenditure being incurred, 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. However the Council's treasury management investments are expected to decline in 2017/18 as funds are used to invest in commercial properties.

4.5 Interest Rates

4.5.1 Interest Rate Forecasts for 2017/18

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

4.5.2 Long Term Borrowing Interest Rates

The following table gives Capital Asset Services central view.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

Background information relating to these forecasts and the risks to these interest rate forecasts is contained in Appendix B.

Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations.

There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost, ie. the difference between borrowing costs and investment returns.

4.5.3 Short Term Investment Interest Rates

Investment returns are likely to remain relatively low during 2017/18 and beyond.

4.6 Volatility of Budgets

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

The Council is exposed to interest rate fluctuations through the need to invest up to £359m of surplus cash in the short term.

The Council currently has substantial sums of cash invested in the short term, and if interest rates fall below the budget forecast, investment income will be less than that budgeted. For example, if short-term interest rates fall to 0.5% below the budget forecast, the income from the Council's investments will be £1,795k below budget in 2017/18. Conversely, if short-term interest rates rise to 0.5% above the budget forecast, income from the Council's investments will exceed the budget by £1,795k in 2017/18.

4.7 Upper limits for fixed interest rate exposures

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

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

	2016/17 **£m**	**2017/18** **£m**	**2018/19** **£m**	**2019/20** **£m**
Maximum Projected Gross Borrowing – Fixed Rate	495	495	501	505
Minimum Projected Gross Investments – Fixed Rate	(184)	(106)	(18)	(18)

The upper limits for fixed interest rate exposures will be set as follows:

2016/17	£311m
2017/18	£389m
2018/19	£483m
2019/20	£487m

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

4.8 Upper limits for variable interest rate exposures

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

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

	2016/17 **£m**	**2017/18** **£m**	**2018/19** **£m**	**2019/20** **£m**
Minimum Projected Gross Borrowing – Variable Rate	-	-	-	-
Maximum Projected Gross Investments – Variable Rate	(311)	(389)	(483)	(487)

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

The upper limits for variable interest rate exposures will be set as follows:

2016/17	(£311m) – Investments up to £311m
2017/18	(£389m) – Investments up to £389m
2018/19	(£483m) – Investments up to £483m
2019/20	(£487m) – Investments up to £487m

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

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

Investing long term at fixed rates provides certainty of income and reduces the risk of interest rates falling. However this benefit is significantly reduced at the moment as the interest rates on new investments are low, typically less than 1% which restricts how much further returns can fall. At the current time, investing long term allows higher yields to be obtained, although it would be prudent to maintain opportunities to invest when interest rates are higher. There are regular fluctuations in the Council's cash balances which can amount to £45m. In addition cash balances are expected to be at their lowest at the end of the financial year as tax receipts are lower in March. On this basis the following limits will be placed on total principal sums invested for periods longer than 364 days):

31/3/2017 = £200m
31/3/2018 = £168m
31/3/2019 = £148m
31/3/2020 = £144m

4.10 Limits for the maturity structure of borrowing

The Government has issued guidance on making provision for the repayment of General Fund debt (see paragraph 8) which the Council is legally obliged to have regard to. The City Council is required to begin to make provision for the repayment of debt in advance of most of the Council's debt falling due for repayment. Therefore the City Council is required to provide for the repayment of debt well in advance of it becoming due. This is illustrated in the table below. This means that it is necessary to invest the funds set aside for the repayment of debt with its attendant credit and interest rate risks (see paragraph 3.1). The City Council could reschedule its debt, but unless certain market conditions exist at the time, premium payments have to be made to lenders (see paragraph 4.11).

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

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

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

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

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

	Loan Debt Maturity	**Underlying Loans Minimum Revenue Provision (MRP)**	**% Over / (Under) Loans MRP**	**Lower limit**	**Upper limit**
Under 12 months	1%	2%	(1%)	0%	10%
12 months and within 24 months	4%	2%	2%	0%	10%
24 months and within 5 years	4%	7%	(3%)	0%	10%
5 years and within 10 years	6%	12%	(6%)	0%	20%
10 years and within 20 years	22%	25%	(3%)	0%	30%
20 years and within 30 years	11%	24%	(13%)	0%	30%
30 years and within 40 years	21%	24%	(3%)	0%	30%
40 years and within 50 years	31%	3%	28%	0%	40%

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

4.11 Debt Rescheduling

4.11.1 At the present time, the Council's average cost of borrowing is 3.80%. All the City Council’s long term external debt has been borrowed at fixed interest rates ranging from 2.09% to 5.01%. 52% of the Council’s debt matures in over 30 years' time. Appendix C shows the long term loans maturity pattern. Therefore debt rescheduling could be beneficial in evening out the debt maturity profile.

4.11.2 In the event that it were decided to further reschedule debt, account will need to be taken of premium payments to the Public Works Loans Board (PWLB). These are payments to compensate the PWLB for any losses that they may incur.

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

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

4.12 Treasury Management Indicators

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice requires the Council to approve a number of treasury management indicators which set the limits within which the Council's treasury management activities will be undertaken. These are contained in the Treasury Management Strategy above and are summarised in Appendix D **(recommendation 3.1b)**.

5 APPROVED METHODS OF RAISING CAPITAL FINANCE

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

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

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

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

6 APPROVED SOURCES OF BORROWING

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

(a) Public Works Loans Board (PWLB)

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

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

(b) Money Market Loans – Long Term

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

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

(c) Bonds

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

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

(d) Municipal Bonds Agency (MBA)

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

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

The use of temporary borrowing through the London Money Market forms an important part of the strategy. The authorised limit for external debt in 2017/18 of £607m set by the City Council on 14 February 2017 must not be exceeded. It is not anticipated that the City Council will need to use the temporary borrowing facility in 2017/18.

(f) Overdraft

An overdraft limit of £2m has been agreed with the Barclays Bank plc. Interest on the overdraft is charged at 1% above base rate. The City Council does not anticipate that short-term borrowing will generally be necessary during 2017/18 as it currently holds sufficient funds to enable the authority's cash flow to be managed without the need to borrow. However, the overdraft facility may be used when there are unforeseen payments and funds placed on temporary deposit cannot be called back in time.

(g) Internal Funds

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

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

7.1 The Council will continue to operate with a single loans pool and apportion costs according to locally established principles. The principles upon which the apportionment of borrowing costs should be based are as follows:

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

8 ANNUAL MINIMUM REVENUE PROVISION FOR DEBT REPAYMENT STATEMENT

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

8.2 The guidance also requires the Council to adopt an Annual Minimum Revenue Provision (MRP) for Debt Repayment Statement. This is contained within paragraphs 8.3 to 8.5 below.

8.3 The following methodologies will be applied to calculating the MRP:

Borrowing	**MRP Methodology**
General Fund Borrowing:	
Government supported borrowing other than finance leases and service concessions including private finance initiative schemes	50 year annuity (this differs from the previously approved methodology based on a straight 2%)
Finance leases and service concessions including private finance initiative schemes	MRP equals the principal repayments made to lessors and PFI operators
Self - financed borrowing excluding borrowing to fund long term debtors (including finance leases), investment properties and equity shares purchased in pursuit of policy objectives	50 year annuity
Self - financed borrowing to fund long term debtors	The repayments of principal are set aside to repay the borrowing that financed the original advance
Self - financed borrowing to fund finance leases	The principal element of the rent receivable be set aside to repay the borrowing that financed these assets
Self - financed borrowing to fund investment properties	The repayment of unsupported borrowing will be provided for by setting aside the capital receipt when the property is disposed of
Self - financed borrowing to fund equity shares purchased in pursuit of policy objectives	No MRP is made unless the shares are sold in which case the capital receipt is set aside to repay debt
Housing Revenue Account (HRA)	MRP is provided for the HRA Self Financing Payment in equal instalments over 30 years. MRP is not provided for other HRA debt.

8.4 Government Supported Borrowing Other than Finance Leases and Service Concessions Including Private Finance Initiative Schemes

On 9 February 2016 the Council adopted an MRP policy for supported borrowing based on a straight 2% for 2016 /17, ie. the Council would provide for its supported borrowing in equal instalments over 50 years.

However, 52% of the Council's borrowings mature in over 30 years' time. All but £11m of the Council's borrowing is PWLB debt. The PWLB introduced new lower discount rates to calculate premiums on the early repayment of debt in 2010. Most of the existing debt is unlikely to be repaid early or rescheduled due to the increased premiums resulting from this. In the meantime providing MRP on the basis of a straight 2% is contributing to the Council's high cash balances. The need to invest such high cash balances exposes the Council to credit risk in the event that one of the Council's investment counterparties gets into financial difficulties.

Authorities must always have regard to the guidance, but are free to determine their own MRP policy provided it can be shown to be prudent. It is therefore recommended that the Council adopts a MRP policy for supported borrowing based on a 50 year annuity with effect from 2016/17 **(recommendation 3.1a(i))**. This will mean that the Council will make a lower MRP for the repayment of debt in earlier years and a higher MRP for the repayment of debt in later years. This will ensure that provision is made for the repayment of all supported borrowing in a way that better reflects the maturity pattern of the Council's borrowing and avoids the credit risk associated with providing for the repayment of debt long before there is any realistic chance of the debt actually being repaid. The graph in Appendix E illustrates these points. It should also be borne in mind that the real value of the Council's long term borrowing will be considerably eroded by inflation prior to it becoming due for repayment which is a further argument for not providing for its repayment excessively early.

8.5 Over Provision of Minimum Revenue Provision (MRP)

The Council has reviewed how it provides for the repayment of its debt. It is felt that the previous methods used in the past have resulted in over provisions of MRP from 2008/09 to 2015/16 amounting to £31.3m. It is recommended that the Director of Finance and Information Services (Section 151 Officer) be given delegated authority to release the over provision of MRP back into General Fund balances over a prudent period by reducing the MRP in future years **(recommendation 3.1a(ii)).** It would not be considered prudent to release the over provision directly to the General Fund balances in a single year.

9 ANNUAL INVESTMENT STRATEGY

9.1 The Government has also issued guidance on investments. The guidance requires the City Council to adopt an Annual Investment Strategy. This is contained within paragraphs 10 to 16 below. The requirements of the Department for Communities and Local Government are in addition to the requirements of the Chartered Institute of Public Finance and Accountancy’s Treasury Management in Public Services: Code of Practice.

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

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

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

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

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

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

10. INVESTMENT CONSULTANTS

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

- Interest rate forecasts
- Credit ratings
- CDS prices

11. SPECIFIED INVESTMENTS

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

11.2 Credit rating information is available to the financial market through three main credit rating bodies ie. Moody's, Fitch, and Standard and Poor. Short and long term credit ratings are provided by all three agencies. Long term credit ratings are explained in Appendix F.

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

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

11.4 It is recommended that specified investments should only be placed with institutions that have a long term credit rating of at least A- from at least two rating agencies except enhanced money market funds and registered social landlords for which a single credit rating will be required. Industry practice is for enhanced money market funds to have a single credit rating, but such funds are well diversified. It is recommended that these funds be treated as category 6 (A+) investments to reflect the increased risk of relying on a single credit rating (as opposed to category 4 if two ratings had been obtained) **(Recommendation 3.1a(iii))**.

11.5 Most registered social landlords (RSLs) are only rated by a single agency. However RSLs are regulated by the Homes and Communities Agency (HCA) which rates the financial viability of RSLs. It is recommended that investments are only placed with RSLs that have a financial viability rating of V1 from the HCA **(Recommendation 3.1a(iv))**.

11.6 In addition to rating financial institutions the rating agencies also rate governments. These are known as sovereign credit ratings. The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process with the new regulatory environment attempting to break the link between sovereign support and domestic financial institutions. However sovereign credit ratings are also dependent on a government's ability to raise taxes and thus also give an indication of the state of a nation's general economy. Investments will only be placed with institutions based in either the United Kingdom or states with an AA credit rating.

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

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

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

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

11.11 There are over 30 registered social landlords (RSLs) with a single or double A credit rating. RSLs often have a single credit rating from one agency, but are subject to Government regulation. The Homes and Communities Agency (HCA) assigns a viability rating to larger RSLs with in excess of 1,000 dwellings as follows:

V1 - the RSL meets the HCA's financial viability standard and has the capacity to mitigate its exposures effectively

V2 - the RSL meets the HCA's viability requirements but need to manage material financial exposures to support continued compliance

V3 - the RSL does not meet the HCA's viability requirements. There are issues of serious regulatory concern and in agreement with the HCA; the RSL is working to improve its position

V4 - the RSL does not meet the HCA's viability requirements. There are issues of serious regulatory concern and the RSL is subject to regulatory intervention or enforcement action

However an RSL's debts are not guaranteed by the Government.

11.12 Building societies also operate under a separate legal regime to banks, which limits the amount of lending not secured on residential property and limits the amount of wholesale funding. When a building society has got into financial difficulties in the past it has always been taken over by another building society without its creditors losing any of their money. For these reasons building societies are placed in a category one notch above other institutions with the same credit rating.

11.13 Lending to universities will be permitted **(Recommendation 3.1a(v)).** A number of universities have credit ratings and are as secure as a commercial company with a similar credit rating.

11.14 The Council's direct investments will be limited to senior debt. Subordinated corporate bonds are sometimes issued by financial institutions and commercial companies. Subordinated corporate bonds offer higher yields, but in the event of an institution defaulting, senior debtors are repaid before subordinated debtors. Because of this, subordinated bonds often have a lower credit rating than senior debt issued by the same institution.

11.15 There are structured investment products available that pay returns in excess of 5% per annum provided that neither the FTSE 100, S&P 500 or Eurostoxx 50 decline by more than 40% over 5 years and repay the capital invested if the worst performing index and the Eurostoxx 50 do not fall by more than 65%. There are also similar structured investment products available that will pay in excess of 6% per annum provided that none of the indices decline by more than 50% over 6 years. The Director of Finance and Information Services (Section 151 Officer) may invest the Council's funds in structured investment products which follow the developed stock markets that do not fully protect the Council's capital invested. These products are effectively bank deposits where the return is determined by stock market performance. As such they are subject to credit risk if the issuer defaults.

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

	Maximum Investment in a Single Organisation
<u>Category 1</u> United Kingdom Government including the Debt Management Office Deposit Facility	Unlimited investments for up to 6 years
<u>Category 2</u> Local authorities in England, Scotland and Wales	£30m for up to 6 years
<u>Category 3</u> RSLs with a single long term credit rating of Aa-	£30m for up to 10 years
<u>Category 4</u> Banks, corporate bonds and universities with a short term credit rating of F1+ and a long term rating of Aa-. Aaa rated money market funds	£26m for up to 6 years
<u>Category 5</u> RSLs with a single long term credit rating of A-	£20m for up 10 years
<u>Category 6</u> Banks, corporate bonds and universities with a short term credit rating of F1 and a long term rating of A+. Building societies with a short term credit rating of F1 and a long term rating of A. Enhanced money market funds with a single AA credit rating	£20m for up to 6 years.
<u>Category 7</u> Banks, corporate bonds and universities with a short term credit rating of F1 and a long term rating of A. Building societies with a short term credit rating of F1 and a long term rating of A-.	£15m for up to 6 years
<u>Category 8</u> Banks, corporate bonds and universities with a short term credit rating of F1 and a long term rating of A-.	£10m for up to 6 years

11.17 A list of financial institutions currently meeting the Councils investment criteria is contained in Appendix G. There are too many RSLs, universities and companies issuing corporate bonds to include in the list.

11.18 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.

11.19 Sometimes institutions issue covered bonds which are secured against assets held by that institution. It is recommended that investments be permitted in covered bonds that are secured against local authority debt or covered bonds that have a credit rating that meets the Council's investment criteria even if the counter party itself does not meet the Council's credit criteria **(recommendation 3.1a(vii)).**

11.20 Repo / reverse repo is accepted as a form of collateralised lending and should be based on the GMRA 2000 (Global Master Repo Agreement). A repo is a form of secured borrowing where readily saleable collateral, normally gilts or treasury bills are placed with the lender. If the borrower fails to repay the loan the lender keeps the collateral that has been deposited. A reverse repo is the equivalent form of secured lending. Therefore whilst the borrower would have a repo, the Council would have a reverse repo. Should the counter party not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral is as follows:

- Index linked gilts
- Conventional gilts
- UK treasury bills

It is recommended that investments in repos / reverse repos collateralised against index linked gilts, conventional gilts and UK treasury bills be permitted, and that should the counter party not meet our senior unsecured rating then a 102% collateralisation would be required. **(recommendation 3.1a(viii))**.

11.21 Credit ratings be reviewed weekly and that any institution whose lowest credit rating falls below the criteria for category 8 in paragraph 11.16 be removed from the list of specified investments.

11.22 Institutions that are placed on negative watch or negative outlook by the credit rating agencies will be reassigned to a lower category.

12. NON-SPECIFIED INVESTMENTS

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

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

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

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

<u>Category 10 - £7m for 364 days</u>

Short Term – F2 (or equivalent from Fitch, Moody's and Standard & Poor)
Long Term – BBB+ or better (or equivalent from Fitch, Moody's and Standard and Poor)

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%.

Category 10 will consist of institutions that meet the above criteria.

<u>Category 11 - £8m</u>

Long Term – BBB or better (or equivalent from Fitch, Moody's and Standard and Poor)

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.

Category 11 will consist of corporate bonds bought on the Council's behalf by professional fund managers who will target an average credit rating of at least BBB+ for the corporate bond fund. The average credit rating of the corporate bond fund may fall to BBB if there was a downgrade to a single issue or a broad downgrade. We would not want the fund manager to be a forced seller in this situation. If this situation arises a strategy will be agreed with the fund manager to return the average rating of the portfolio to BBB+.

Category 12 - £6m for 2 years

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

Category 12 consists of the unrated building societies in the strongest financial position.

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

Building Society	**Limit**
Furness	£4.4m
Marsden	£1.9m
Tipton and Coseley	£1.9m
Hanley Economic	£1.8m
Dudley	£1.6m
Harpenden	£1.5m
Loughborough	£1.4m
Staffordshire Railway	£1.3m
Swansea	£1.1m
Chorley and District	£1.1m

Category 13 - £6m for 364 days

Category 13 consists of the unrated building societies that are in a strong financial position.

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

Building Society	**Limit**
Progressive	£6.0m
Leek United	£4.5m
Newbury	£4.1m
Hinkley & Rugby	£2.7m
Darlington	£2.7m
Market Harborough	£2.1m
Melton Mowbray	£1.9m
Scottish	£1.9m
Mansfield	£1.4m
Vernon	£1.4m

Category 14 - £10m

Purchasing bonds 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.

Category 14 will consist of bonds issued by Hampshire Community Bnk secured against good quality assets owned by the bank.

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

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

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

12.6 Non-specified investments will in aggregate be limited to the following:

	£
Building societies with a BBB credit rating and unrated building societies	62m
Corporate bonds with a BBB+ credit rating	20m
Corporate bond funds with an average credit rating of BBB	8m
Investments in MMD (Shipping Services) Ltd including funds lodged to guarantee the company’s banking limits. MMD is a wholly owned subsidiary of the City Council.	2m
Long term investments	213m
Investments in foreign currencies to hedge against contracts priced or indexed against foreign currencies	5m
Total	**310m**

13. MAXIMUM LEVEL OF INVESTMENT IN INDIVIDUAL ORGANISATIONS

13.1 The Government's Guidance does not require a limit to be placed on the amount that can be placed in any one investment. However in order to minimise risk further, the total amount that can be directly invested with any organisation at any time will be limited as follows:

	Maximum Investment in Single Organisation
Category 1	Unlimited
Category 2	£30m for up to 6 years
Category 3	£30m for up to 10 years
Category 4	£26m for up to 6 years
Category 5	£20m for up to 10 years
Category 6	£20m for up to 6 years
Category 7	£13m for up to 6 years
Category 8	£10m for up to 6 years
Category 9	£10m for up to 2 years
Category 10	£7m for up to 364 days
Category 11	£8m with an indefinite duration (although these investments may be sold)
Category 12	£6m for up to 2 years
Category 13	£6m for up to 364 days
Category 14	£10m for 6 years
MMD (Shipping Services) Ltd including sums lodged to guarantee the company's banking limits	£2m for up to 364 days

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

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

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

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

13.6 In order to minimise systemic credit risk in any sector the following limits will be applied:

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

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

13.8 The following limits be applied:

Asia & Australia	£80m
Americas	£80m
Eurozone	£60m
Continental Europe outside the Eurozone	£60m

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

14. LIQUIDITY OF INVESTMENTS

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

15. INVESTMENT OF MONEY BORROWED IN ADVANCE OF NEED

15.1 Section 12 of the Local Government Act 2003 gives a local authority the power to invest for “any purpose relevant to its functions under any enactment or for the prudent management of its financial affairs”. While the speculative procedure of borrowing purely to invest at a profit is clearly unlawful, there is no legal obstacle to the temporary investment of funds borrowed for the purpose of funding capital expenditure incurred in the reasonably near future.

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

15.3 The Council's gross debt currently exceeds its estimated CFR by £81.5m, ie. it is over borrowed, in 2016/17 because £94m was borrowed from the Public Works Loans Board (PWLB) at an average rate of 2.37%.

15.4 The capital programme approved by the City Council on 14 February 2017 includes £104.7m of capital expenditure financed by borrowing over the next four years. This is expected to cause the Council's CFR to rise above its gross debt, ie. it is expected to become under borrowed in 2017/18.

16. TRAINING OF INVESTMENT STAFF

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

17. DELEGATED POWERS

17.1 Once the Treasury Policy has been approved, the Director of Finance and Information Services (Section 151 Officer) has delegated powers under the constitution of the City Council, to make all executive decisions on borrowing, investments or financing.

It is recommended that Chief Executive, the Leader of the City Council and the Chair of the Governance and Audit and Standards Committee be informed of any variances from the Treasury Management Policy when they become apparent, and that the Leader of the City Council be consulted on remedial action **(recommendation 3.1(e))**. The Governance and Audit and Standards Committee will be informed of any breaches of the Treasury Management Policy through the treasury management monitoring reports.

18. TREASURY SYSTEMS AND DOCUMENTATION

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

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

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

19. REVIEW AND REPORTING ARRANGEMENTS

19.1 The Head of Financial Services and Section 151 Officer will submit the following **(Recommendation 3.2)**:-

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

(ii) a mid year review to the Cabinet and Council

(iii) the Annual Strategy Report to the Cabinet and Council in March 2018

(iv) a quarter 3 treasury management monitoring report to the Governance and Audit and Standards Committee

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APPENDIX A

PRUDENTIAL INDICATORS

Capital Expenditure	2015/16 Actual £'000s	2016/17 Estimate £'000s	2017/18 Estimate £'000s	2018/19 Estimate £'000s	2019/20 Estimate £'000s	2020/21 Estimate £'000s	2021/22 Estimate £'000s
Non - HRA Capital Expenditure	80,293	202,961	155,649	115,601	55,478	44,298	21,123
Housing Revenue Account (HRA)	27,437	33,836	42,338	20,468	21,276	27,247	22,472
Total Capital Expenditure	**107,730**	**236,797**	**197,987**	**136,069**	**76,754**	**71,545**	**43,595**

Ratio of Financing Costs to Net Revenue Stream	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Non - HRA	11.9%	11.0%	12.0%	11.6%	11.9%	12.7%	13.0%
HRA	13.1%	12.0%	12.6%	13.1%	13.0%	12.6%	12.3%

Capital Financing Requirement	2015/16 Actual £'000s	2016/17 Estimate £'000s	2017/18 Estimate £'000s	2018/19 Estimate £'000s	2019/20 Estimate £'000s	2020/21 Estimate £'000s	2021/22 Estimate £'000s
Non - HRA	280,516	326,083	401,622	408,084	409,468	408,928	402,028
HRA	154,734	168,865	170,804	167,850	164,896	161,942	158,988

HRA Limit on Indebtedness	2015/16 Actual £'000s	2016/17 Estimate £'000s	2017/18 Estimate £'000s	2018/19 Estimate £'000s	2019/20 Estimate £'000s	2020/21 Estimate £'000s	2021/22 Estimate £'000s
HRA	181,701	181,701	181,701	181,701	181,701	181,701	181,701

Authorised Limit for External Debt	2015/16 Actual £'000s	2016/17 Estimate £'000s	2017/18 Estimate £'000s	2018/19 Estimate £'000s	2019/20 Estimate £'000s	2020/21 Estimate £'000s	2021/22 Estimate £'000s
Borrowing	418,861	536,633	530,222	523,811	522,449	526,888	530,324
Other Long Term Liabilities (ie Credit Arrangements)	84,388	81,167	77,333	74,639	71,133	65,478	58,908
Total	**503,249**	**617,800**	**607,555**	**598,450**	**593,582**	**592,365**	**589,231**

Operational Boundary for External Debt	2015/16 Actual £'000s	2016/17 Estimate £'000s	2017/18 Estimate £'000s	2018/19 Estimate £'000s	2019/20 Estimate £'000s	2020/21 Estimate £'000s	2021/22 Estimate £'000s
Borrowing	399,129	518,333	511,922	505,511	504,801	508,887	511,962
Other Long Term Liabilities (ie Credit Arrangements)	84,388	81,167	77,333	74,639	71,133	65,478	58,908
Total	**483,517**	**599,500**	**589,255**	**580,150**	**575,934**	**574,364**	**570,870**

Incremental Impact of Capital Investment Decisions on the Council Tax	2016/17 Estimate £'000s	2017/18 Estimate £'000s	2018/19 Estimate £'000s	2019/20 Estimate £'000s	2020/21 Estimate £'000s	2021/22 Estimate £'000s
Revenue effect of existing capital programme	869	3,854	5,919	5,932	6,106	6,188
Revenue effect of proposed capital programme	869	3,798	5,784	5,750	5,922	6,003
Increase in revenue effect	0	(56)	(134)	(182)	(184)	(184)
Increase in Council Tax Band D	£0.00	(£1.01)	(£2.43)	(£3.29)	(£3.33)	(£3.33)

Incremental Impact of Capital Investment Decisions on Housing Rents	2016/17 Estimate £'000s	2017/18 Estimate £'000s	2018/19 Estimate £'000s	2019/20 Estimate £'000s	2020/21 Estimate £'000s	2021/22 Estimate £'000s
Revenue effect of existing capital programme	754	670	954	967	1,041	1,096
Revenue effect of proposed capital programme	89	463	747	752	812	867
Increase in revenue effect	(665)	(207)	(207)	(215)	(229)	(229)
Effect on average weekly rent	(£0.85)	(£0.27)	(£0.27)	(£0.28)	(£0.30)	(£0.30)

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APPENDIX B

BACKGROUND INFORMATION AND RISKS TO INTEREST RATE FORECASTS

Background Information

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Federal Reserve rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Downside Risks

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

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.

- Major national polls:
  - The Italian constitutional referendum on 4 December 2016 resulted in a ‘No’ vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
  - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
  - Dutch general election 15 March 2017;
  - French presidential election April/May 2017;
  - French National Assembly election June 2017;
  - German Federal election August – October 2017.

- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats

- Weak capitalisation of some European banks, especially Italian banks.

- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in 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.

<u>Upside Risks</u>

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

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.

- A rise in US Treasury yields as a result of Federal Reserve funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.

- 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.

- A downward revision to the UK’s sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

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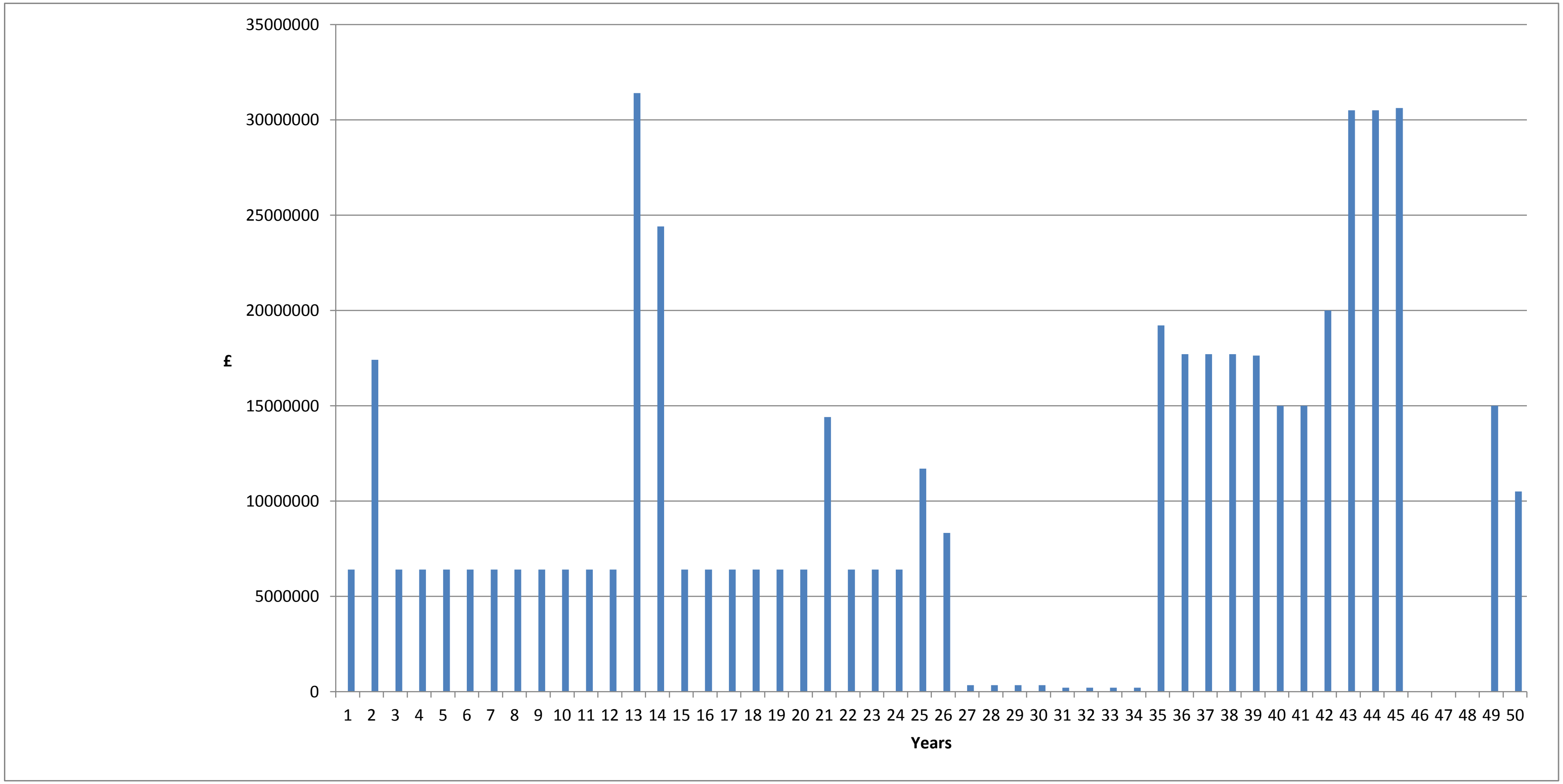
APPENDIX C

DEBT MATURITY PROFILE



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APPENDIX D

TREASURY MANAGEMENT INDICATORS

Interest Rate Exposures				
	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Upper limit for fixed interest rate exposure (paragraph 4.7 of Treasury M anagement Policy Statement)	311	389	483	487
Upper limit for variable interest rate exposure (para 4.8 of Treasury Management Policy Statement)	(311)	(389)	(483)	(487)

Limits on Total Sums Invested for Periods Longer than 364 Days (paragraph 4.9 of Treasury Management Policy Statement)				
	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Total sums invested for periods longer than 364 days at 31 March	200	168	148	144

Limits on the Maturity Structure of Borrowing (paragraph 4.10 of Treasury Management Policy Statement)		
	Lower Limt	**Upeer Limit**
Under 12 months	0%	10%
12 months and within 24 months	0%	10%
24 months and within 5 years	0%	10%
5 years and within 10 years	0%	20%
10 years and within 20 years	0%	30%
20 years and within 30 years	0%	30%
30 years and within 40 years	0%	30%
40 years and within 50 years	0%	40%

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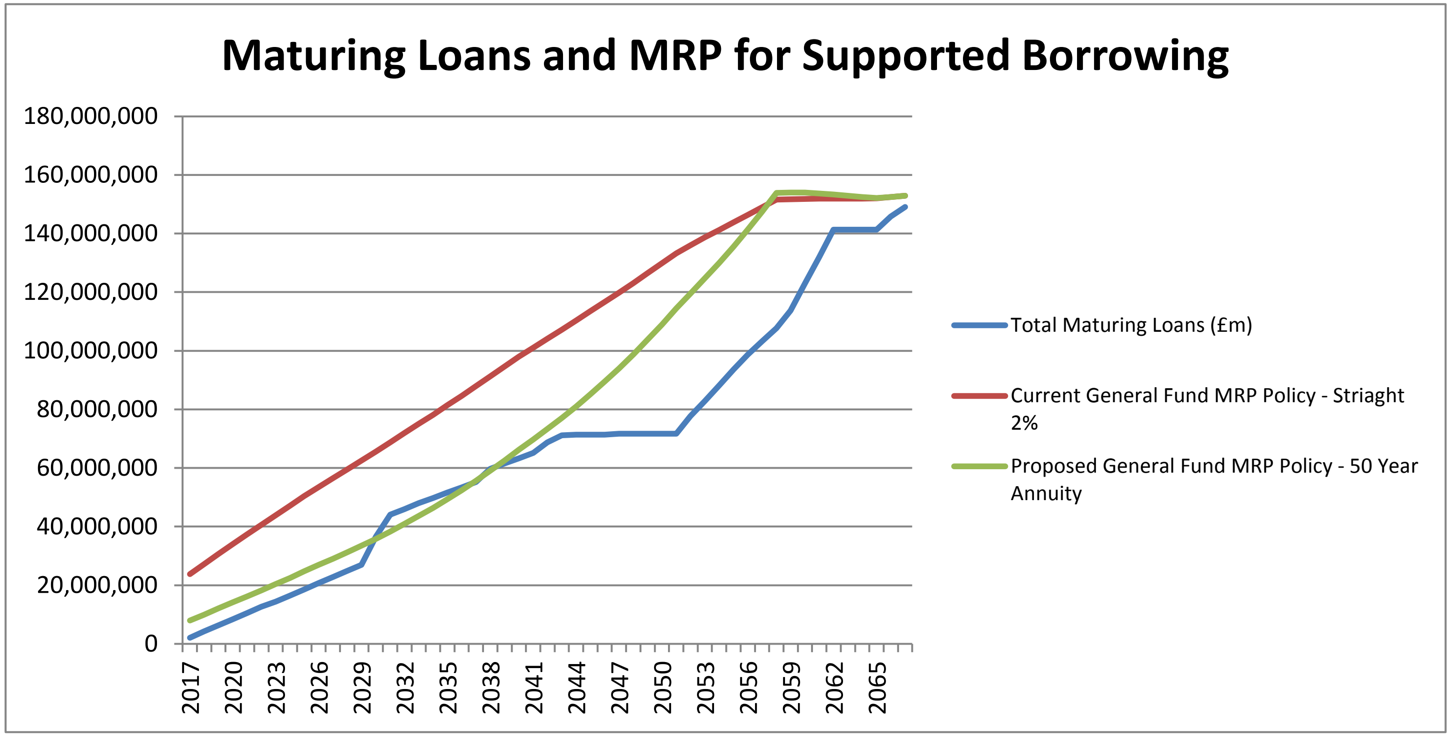
Maturing Loans and MRP for Supported Borrowing
180,000,000
160,000,000
140,000,000
120,000,000
100,000,000
80,000,000
60,000,000
40,000,000
20,000,000
0
2017
2020
2023
2026
2029
2032
2035
2038
2041
2044
2047
2050
2053
2056
2059
2062
2065
Total Maturing Loans (£m)
Current General Fund MRP Policy - Striaght 2%
Proposed General Fund MRP Policy - 50 Year Annuity

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APPENDIX F

DEFINITIONS OF LONG TERM CREDIT RATINGS

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

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

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

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

BBB: Good credit quality

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

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INSTITUTIONS MEETING INVESTMENT CRITERIA

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

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

Category	Counter Party	Average Long Term Credit Rating *	Comments	Investment Limit £	Maximum Term
6	Standard Chartered Bank	A+	New counter party	20,000,000	6 years
6	Close Brothers Ltd	A+		20,000,000	6 years
6	Bank of Montreal	A+		20,000,000	6 years
6	Canadian Imperial Bank of Commerce	A+		20,000,000	6 years
6	Bank of Nova Scotia	A+	Downgraded from category 4	20,000,000	6 years
6	National Bank of Canada	A+	Upgraded from category 6	20,000,000	6 years
6	Royal Bank of Canada	A+	Downgraded from category 4	20,000,000	6 years
6	BNP Paribas	A+		20,000,000	6 years
6	Credit Industriel et Commercial	A+		20,000,000	6 years
6	Landesbank Hessen - Thueringen	A+		20,000,000	6 years
6	Landesbank Baden Wurtenburg	A+	Upgraded from category 7	20,000,000	6 years
6	ING Bank NV	A+		20,000,000	6 years
6	ABN Amro Bank NV	A+	Upgraded from category 7	20,000,000	6 years
6	Qatar National Bank	A+		20,000,000	6 years
6	UBS AG	A+	Upgraded from category 7	20,000,000	6 years
6	Bank of America NA	A+		20,000,000	6 years
6	Citibank NA	A+		20,000,000	6 years
6	Goldman Sachs (including Goldman Sachs International Bank)	A+	Upgraded from category 7	20,000,000	6 years
6	Nationwide Building Society	A		20,000,000	6 years
6	Standard Life Investments	AAA	Short Duration Cash Fund	20,000,000	3 working days notice
6	Aberdeen Investment Cash OEIC Plc	AAA	Cash Investment Fund	20,000,000	3 working days notice
6	Insight Investment	AAA	Liquidity Plus Fund	20,000,000	4 working days notice
6	Federated Investors (UK) LLP	AAA	Cash Plus Fund	20,000,000	2 working days notice
6	Aviva Investors Sterling Strategic Liquidity Fund	AAA	Cash Plus Fund	20,000,000	1 working days notice
6	Royal London Asset Management	AA	Cash Plus Fund	20,000,000	2 working days notice

Category	Counter Party	Average Long Term Credit Rating *	Comments	Investment Limit £	Maximum Term
7	Santander UK Plc	A		13,000,000	6 years
7	Lloyds Bank plc	A	Downgraded from category 6	13,000,000	6 years
7	Sumitomo Mitsui Banking Corporation Eurpoe Ltd	A		13,000,000	6 years
7	Danske Bank	A		13,000,000	6 years
7	Credit Agricole	A		13,000,000	6 years
7	Societie Generale	A		13,000,000	6 years
7	Bayern LB	A	Upgraded from category 8	13,000,000	6 years
7	Credit Suisse	A		13,000,000	6 years
7	Coventry Building Society	A-	Downgraded from category 6	13,000,000	6 years
7	Leeds Building Society	A-		13,000,000	6 years
8	Barclays Bank Plc	A-	Downgraded from category 7	10,000,000	6 years
9	Yorkshire Building Society	A-	Short term rating P2	10,000,000	2 years
10	Corporate Bonds	BBB+		7,000,000	364 days
11	Corporate Bond Funds	BBB (average rating)	Some of the constituent bonds may be BBB-	8,000,000	Instant access subject to underlying boinds being sold
12	Furness Building Society	Unrated		4,400,000	2 years
12	Tipton & Coseley Building Society	Unrated		1,900,000	2 years
12	Marsden Building Society	Unrated		1,900,000	2 years
12	Dudley Building Society	Unrated		1,600,000	2 years
12	Loughborough Building Society	Unrated		1,400,000	2 years
12	Harpenden Building Society	Unrated		1,500,000	2 years
12	Stafford Railway Building Society	Unrated		1,300,000	2 years
12	Swansea Building Society	Unrated		1,100,000	2 years
12	Chorley and District Building Society	Unrated		1,100,000	2 years

Category	Counter Party	Average Long Term Credit Rating *	Comments	Investment Limit £	Maximum Term
13	Progressive Building Society	Unrated		6,000,000	364 days
13	Leek United Building Society	Unrated	Downgraded from category 12	4,500,000	364 days
13	Newbury Building Society	Unrated	Downgraded from category 12	4,100,000	364 days
13	Hinkley and Rugby Building Society	Unrated		2,700,000	364 days
13	Darlington Building Society	Unrated		2,700,000	364 days
13	Market Harborough Building Society	Unrated	Downgraded from category 12	2,100,000	364 days
13	Melton Mowbray Building Society	Unrated	Downgraded from category 12	1,900,000	364 days
13	Scottish Building Society	Unrated		1,900,000	364 days
13	Hanley Economic Building Society	Unrated	Downgraded from category 12	1,800,000	364 days
13	Mansfield Building Society	Unrated		1,400,000	364 days
13	Vernon Building Society	Unrated		1,400,000	364 days

Notes

There are a large number of corporate bonds, registered social landlords (RSLs) and universities and as a result they have not been individually included in the tables above.

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

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Agenda item:

Decision maker: Cabinet 9th March 2017
City Council 21st March 2017

Subject: Revenue Budget Monitoring 2016/17 (3rd Quarter) to end December 2016

Report by: Director of Finance & Information Service

Wards affected: All

Key decision (over £250k): Yes

1. Purpose of Report

1.1 The purpose of this report is to update members on the current Revenue Budget position of the Council as at the end of the third quarter for 2016/17 in accordance with the proposals set out in the "Portsmouth City Council - Budget & Council Tax 2017/18 & Medium Term Budget Forecast 2018/19 to 2020/21" report approved by the City Council on the 14th February 2017.

2. Recommendations

2.1 It is recommended that:

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

(a) An underspend of £1,287,400 before further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve

(b) An underspend of £1,118,200 after further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve.

(ii) Members note:

(a) 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.

(b) That on 14th February 2017 City Council approved that any underspending for 2016/17 arising at year-end outside of those made by Portfolio's (currently forecast at £1,118,200) be transferred to Capital resources.

(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 The revised budget for 2016/17 of £156,997,300 was approved by City Council on the 14th February 2017. This level of spending enabled a contribution to General Reserves of £2.82m since in year income exceeds in year spending.

3.2 This is the third quarter monitoring report of 2016/17 and reports on the forecast 2016/17 outturn as at the end of December 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.

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

3.4 The Financial 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 14th February 2017. 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 December 2016

4.1 At the third 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 underspent by £1,118,200 representing an overall budget variance of 0.7%.

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

The most significant overspendings at the quarter 3 stage are:

Quarter 1 Forecast Variance	Quarter 2 Forecast Variance		Quarter 3 Forecast Variance	Quarter 3 Forecast Variance (After Transfers From Portfolio Reserves)
£	£		£	£
450,800	654,700	Children's Social Care	1,002,800	1,002,800
		Culture, Leisure & Sport	291,300	Nil
2,428,200	1,714,300	Health & Social Care	1,180,000	1,125,000

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

Quarter 1 Forecast Variance	Quarter 2 Forecast Variance		Quarter 3 Forecast Variance	Quarter 3 Forecast Variance (After Transfers To Portfolio Reserves)
£	£		£	£
		Planning Regeneration & Economic Development	107,500	Nil
	625,000	Port	96,700	Nil
537,300	540,000	Treasury Management	540,000	540,900
750,000	750,000	Contingency	2,687,900	2,687,900

5 Quarter 3 Significant Budget Variations – Forecast Outturn 2016/17

5.1 Children's Social Care – Overspend £1,002,800 (or 4.2%)

The cost of Children's Social Care is forecast to be £1,002,800 higher than budgeted (as compared to £654,700 at the end of Quarter 2).

The overspend is primarily related to higher costs and numbers of Looked After Children (£1,337,000) offset by reduced staffing costs due to staff turnover and the holding of posts vacant.

Of the £1,337,000 forecast Looked After Children overspending in 2016/17, £1.04m relates to an underlying budget deficit. Proposals 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 Culture, Leisure & Sport – Overspend £291,300 (4.4%) or After Transfer From Portfolio Reserve Nil

The overspend relates to the exceptional costs arising from the termination of the contract with the operator of the Mountbatten Centre. These costs will be met from the Portfolio reserve. A new operator was appointed with effect from 1st February 2017 at a significantly lower cost and which is intended to save the Council in excess of £0.5m per annum in the "steady state".

5.3 Health and Social Care – Overspend £1,180,000 (2.8%) or After Transfer From Public Health Reserve £1,125,000 (2.7%)

The cost of Health & Social Care is forecast to be £1,180,000 higher than budgeted (compared to £1,714,300 at the end of Quarter 2).

The key variances are:

- The cost of Public Health is forecast to be £55,000 higher than budgeted. This overspending will be met from the ring fenced Public Health Reserve. The overspend has arisen due to the funding of "change projects" outside of core operations that will improve health outcomes within the City.

- Increased volume of demand for Older Persons Physical Support where domiciliary care packages are required or clients are required to be placed in privately run homes (£276,000).

- Increased volume of demand from clients with a learning disability requiring a supported living placement, lower savings than expected arising from redesigned Day Care Service offset by a reduction in the volume of clients requiring a Direct payment and vacancies within the social worker teams has resulted in forecast overspend of £591,000.

- A delay in moving clients with Mental Health issues from Residential Homes to more independent Supported Living settings and a delay in the retendering of the Supported Living contract has resulted in a forecast overspend of £342,000

As at 30th September 2016 (Quarter 2), Adult Social Care was forecast to have an underlying budget deficit of £0.6m. As a result of the non-realisation of savings within the Learning Disability Service and the planned movement of service users from Residential Care to Supported Living not being realised the underlying budget deficit, before utilisation of 2017/18 Adult Social Care Precept, at Quarter 3 is forecast to have increased to £1.3m. A 2017/18 Adult Social Care Precept of £2.022m was approved by City Council on 14th February 2017. Of this, £1.4m is required to meet additional costs associated with the National Living Wage increasing from £7.20 to £7.50 per hour in April 2017. As a consequence, only £0.6m of the 2017/18 Adult Social Care Precept remains available to fund the ongoing underlying budget deficit identified above. The underlying budget deficit within Adult Social Care at 1st April

2017 is therefore forecast to be £0.7m. Proposals to minimise the current and underlying deficit and to eliminate any deficit arising in 2017/18 are currently being formulated.

5.4 Planning Regeneration and Economic Development Resources – Underspend £107,500 (or 2.8%) (no variance after transfers to Portfolio Reserves)

The Portfolio is forecasting an underspend of £107,500.

A number of underspendings are forecast across the Portfolio mainly as a result of posts that are being held vacant and additional income (£187,000). These underspends are offset by reduced fee income within the AMS Design and Maintenance Service following delays to capital schemes as a result of changing client needs and a focus on non fee earning work that will ultimately lead to significant ongoing savings across the Council in the future (£62,400).

5.5 Port – Underspend £96,700 (or 4.5%) (no variance after transfers to Portfolio Reserves)

The cost of maintenance dredging necessary to maintain deep water access to births has been lower than originally estimated (£85,500).

5.6 Treasury Management – Underspend £540,900 (or 2.9%)

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. This additional interest income is offset by higher interest payments as a result of the additional borrowing referred to above.

5.7 Contingency - Planned Release £2,687,200

As described in the Budget & Council Tax 2017/18 & Medium Term Budget Forecast 2018/19 to 2020/21 Report to Council on 14th February 2017, the Children's and Health & Social Care Portfolios are experiencing difficulty containing expenditure within budgeted limits. The Revised Budget approved by the City Council on 14th February 2017 was prepared to include a Contingency provision of £2.41m which was set aside to guard against an overall overspend on the Children's Safeguarding and Adult Social Care budgets. It is now anticipated that £2.13m will be required to cover these overspendings. The Contingency set aside for these overspendings

(£2.41m) plus a further £277,200 currently provided for other items within 2016/17 Contingency is now forecast to be available.

5.8 <u>All Other Budget Variations – Underspend £157,600 or After Transfers Form/To Portfolio Reserves Underspend – £17,900</u>

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	0	35,000
Culture, Leisure & Sport	451,300	130,000	(291,300)	290,000
Education	0	0	171,600	171,600
Environment & Community Safety	1,026,700	(207,300)	52,900	872,300
Health & Social Care	0	0	0	0
Housing	791,400	(153,500)	(6,900)	631,000
Leader	41,500	0	0	41,500
PRED	842,500	(635,500)	107,500	314,500
Port	897,300	1,265,700	96,700	2,259,700
Resources	933,300	(116,600)	56,300	873,000
Traffic & Transportation	283,100	(221,400)	29,300	91,000
Licensing	110,700	0	0	110,700
Governance, Audit & Standards	372,900	(25,000)	8,100	356,000
Total	**5,750,700**	**71,400**	**224,200**	**6,046,300**

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 December 2016 is forecast to be £155,879,100. This is an overall underspend of £1,118,200 against the Revised Budget and represents a variance of 0.7%.

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 “green” since the forecast outturn after transfers from/to Portfolio Specific Reserves is lower than budgeted.

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. Overspending relating to these areas of £1.74m (net of available 2017/18 Adult Social Care Precept of £0.6m) 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 in overall terms there is a forecast underspend of £1,118,200 in the current year, 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 Revised Budget of £156,997,300 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
Add:	
Planned Contribution to General Reserves 2016/17	2.816
Forecast Underspend 2016/17	1.118
Less:	
Forecast Contribution to Capital Reserve	(1.118)
Forecast General Reserves carried forward into 2017/18	**19.227**

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

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
Budget & Council Tax 2017/18 & Medium Term Budget Forecast 2018/19 to 2020/21		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 9th March, 2017

Signed: ……………………………………….

Approved / Approved as amended / Deferred / Rejected by the City Council on 21st March, 2017

Signed: ……………………………………….

APPENDIX A

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DEC 2016

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2016/17

PORTFOLIO City Council General Fund

BUDGET Total General Fund Expenditure

TOTAL CASH LIMIT 156,997,300

CHIEF OFFICER All Budget Holders

MONTH ENDED Dec 2016

ITEM No.	BUDGET HEADING	BUDGET FORECAST 2016/17 Total Budget £	Forecast Year End Outturn £	Variance vs. Total Budget £	%
1	Children's Social Care	23,948,500	24,951,300	**1,002,800**	4.2%
2	Culture, Leisure & Sport	6,553,300	7,044,600	**491,300**	7.5%
3	Education	6,118,200	5,946,600	**(171,600)**	(2.8%)
4	Environment & Community Safety	13,978,200	13,925,300	**(52,900)**	(0.4%)
5	Health & Social Care	42,042,000	43,222,000	**1,180,000**	2.8%
6	Housing	3,545,700	3,552,600	**6,900**	0.2%
7	Leader	122,000	122,000	**0**	0.0%
8	PRED	(3,860,800)	(3,968,300)	**(107,500)**	(2.8%)
9	Port	(6,358,100)	(6,454,800)	**(96,700)**	(1.5%)
10	Resources	18,208,900	18,134,700	**(74,200)**	(0.4%)
11	Traffic & Transportation	15,338,300	15,309,000	**(29,300)**	(0.2%)
12	Licensing Committee	(234,700)	(234,700)	**0**	0.0%
13	Governance, Audit & Standards Com	277,500	269,400	**(8,100)**	(2.9%)
14	Levies	75,600	75,600	**0**	0.0%
15	Insurance	1,312,400	1,312,400	**0**	0.0%
16	Treasury Management	18,822,300	18,281,400	**(540,900)**	(2.9%)
17	Other Miscellaneous	17,108,000	14,420,800	**(2,687,200)**	(15.7%)
	TOTAL	**156,997,300**	**155,909,900**	**(1,087,400)**	**(0.7%)**
	Total Value of Remedial Action (from Analysis Below)		(200,000)		
	Forecast Outturn After Remedial Action	**156,997,300**	**155,709,900**	**(1,287,400)**	**(0.8%)**
	Forecast Transfers To Portfolio Specific Reserves		224,200		
	Forecast Transfer From Ring Fenced Public Health Reserve		(55,000)		
	Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves	**156,997,300**	**155,879,100**	**(1,118,200)**	**(0.7%)**

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	0
2	Culture, Leisure & Sport	(200,000)	(291,300)
3	Education	0	171,600
4	Environment & Community Safety	0	52,900
5	Health & Social Care	0	0
6	Housing	0	(6,900)
7	Leader	0	0
8	PRED	0	107,500
9	Port	0	96,700
10	Resources	0	56,300
11	Traffic & Transportation	0	29,300
12	Licensing Committee	0	0
13	Governance, Audit & Standards Com	0	8,100
14	Levies	0	
15	Insurance	0	
16	Asset Management Revenue Account	0	
17	Other Miscellaneous	0	
	Total Value of Remedial Action	**(200,000)**	**224,200**

Note Remedial Action resulting in savings should be shown in brackets