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Cabinet

Tuesday, 13th February, 2018
at 4.30 pm

PLEASE NOTE TIME OF MEETING

Council Chamber - Civic Centre

This meeting is open to the public

Members

Leader - Councillor Simon Letts
Children's Social Care - Councillor John Jordan
Communities, Culture and Leisure- Councillor Satvir Kaur
Education and Skills - Councillor Darren Paffey
Environment and Transport - Councillor Jacqui Rayment
Finance - Councillor Mark Chaloner
Health and Community Safety - Councillor Dave Shields
Housing and Adult Care - Councillor Warwick Payne
Sustainable Living - Councillor Chris Hammond

(QUORUM – 3)

Contacts
Cabinet Administrator
Pat Wood
Tel. 023 8083 2302
Email: pat.wood@southampton.gov.uk

Service Director, Legal and Governance
Richard Ivory
Tel: 023 8083 2794
Email: richard.ivory@southampton.gov.uk

BACKGROUND AND RELEVANT INFORMATION

The Role of the Executive
The Cabinet and individual Cabinet Members make executive decisions relating to services provided by the Council, except for those matters which are reserved for decision by the full Council and planning and licensing matters which are dealt with by specialist regulatory panels.

The Forward Plan
The Forward Plan is published on a monthly basis and provides details of all the key executive decisions to be made in the four month period following its publication. The Forward Plan is available on request or on the Southampton City Council website, www.southampton.gov.uk

Implementation of Decisions
Any Executive Decision may be "called-in" as part of the Council's Overview and Scrutiny function for review and scrutiny. The relevant Overview and Scrutiny Panel may ask the Executive to reconsider a decision, but does not have the power to change the decision themselves.

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

Use of Social Media
The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting.
By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public. Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so. Details of the Council's Guidance on the recording of meetings is available on the Council's website.

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

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

Executive Functions
The specific functions for which the Cabinet and individual Cabinet Members are responsible are contained in Part 3 of the Council's Constitution. Copies of the Constitution are available on request or from the City Council website, www.southampton.gov.uk

Key Decisions
A Key Decision is an Executive Decision that is likely to have a significant:

- financial impact (£500,000 or more)
- impact on two or more wards
- impact on an identifiable community

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

Fire Procedure – In the event of a fire or other emergency, a continuous alarm will sound and you will be advised, by officers of the Council, of what action to take.
Smoking policy – The Council operates a no-smoking policy in all civic buildings.
Access – Access is available for disabled people. Please contact the Cabinet Administrator who will help to make any necessary arrangements.

Municipal Year Dates (Tuesdays)

2017	**2018**
20 June	16 January
18 July	13 February (**Budget**)
15 August	20 February
19 September	20 March
17 October	17 April
14 November	
19 December	

CONDUCT OF MEETING

TERMS OF REFERENCE
The terms of reference of the Cabinet, and its Executive Members, are set out in Part 3 of the Council's Constitution.

RULES OF PROCEDURE
The meeting is governed by the Executive Procedure Rules as set out in Part 4 of the Council's Constitution.

BUSINESS TO BE DISCUSSED
Only those items listed on the attached agenda may be considered at this meeting.

QUORUM
The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

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

DISCLOSABLE PECUNIARY INTERESTS
A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:
(i) Any employment, office, trade, profession or vocation carried on for profit or gain.
(ii) Sponsorship:
Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.
(iv) Any beneficial interest in land which is within the area of Southampton.
(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.
(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.
(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

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

Other Interests
A Member must regard himself or herself as having an, 'Other Interest' in any membership of, or occupation of a position of general control or management in:
Any body to which they have been appointed or nominated by Southampton City Council
Any public authority or body exercising functions of a public nature
Any body directed to charitable purposes
Any body whose principal purpose includes the influence of public opinion or policy

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

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

In exercising discretion, the decision maker must:

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

AGENDA

1 APOLOGIES

To receive any apologies.

2 DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

EXECUTIVE BUSINESS

3 STATEMENT FROM THE LEADER

4 RECORD OF THE PREVIOUS DECISION MAKING (Pages 1 - 2)

Record of the decision making held on 16 January 2018.

5 MATTERS REFERRED BY THE COUNCIL OR BY THE OVERVIEW AND SCRUTINY MANAGEMENT COMMITTEE FOR RECONSIDERATION (IF ANY)

There are no matters referred for reconsideration.

6 REPORTS FROM OVERVIEW AND SCRUTINY COMMITTEES (IF ANY)

There are no items for consideration

7 EXECUTIVE APPOINTMENTS

To deal with any executive appointments, as required.

8 CORPORATE REVENUE FINANCIAL MONITORING FOR THE PERIOD TO THE END OF DECEMBER 2017 (Pages 3 - 40)

Report of the Cabinet Member for Finance summarising the General Fund and Housing Revenue Account (HRA) revenue financial position for the Authority for the nine months to the end of December 2017, and highlighting any key issues by Portfolio which need to be brought to the attention of Cabinet.

9 THE REVISED MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2018/19 TO 2021/22 ((Pages 41 - 150)

Report of the Cabinet Member for Finance detailing the Medium Term Financial Strategy (MTFS) for the period 2018/19 to 2021/22 and providing the budget position for 2018/19 and later years for the General Fund and the Housing Revenue Account (HRA).

10 <u>CAPITAL FINANCIAL MONITORING FOR THE PERIOD TO THE END OF DECEMBER 2017</u> (Pages 151 - 162)

Report of the Cabinet Member for Finance informing Cabinet of any major changes in the overall General Fund and Housing Revenue Account (HRA) capital programme for the period 2017/18 to 2021/22, highlighting the changes in the programme since the last reported position to Cabinet in November 2017. The report also notes the major forecast variances against the approved estimates.

11 <u>THE GENERAL FUND & HOUSING REVENUE ACCOUNT CAPITAL STRATEGY & PROGRAMME 2017/18 TO 2021/22</u> (Pages 163 - 224)

Report of the Cabinet Member for Finance updating the Capital Strategy and to inform Council of any major changes in the overall General Fund and HRA Capital Programme for the period of 2017/18 to 2021/22, highlighting the changes in the programme since the last reported position to Cabinet in November 2017.

Monday, 5 February 2018 Service Director, Legal and Governance

SOUTHAMPTON CITY COUNCIL
EXECUTIVE DECISION MAKING

RECORD OF THE DECISION MAKING HELD ON 16 JANUARY 2018

Present:

Councillor Letts	-	Leader of the Council
Councillor Chaloner	-	Cabinet Member for Finance
Councillor Jordan	-	Cabinet Member for Children's Social Care
Councillor Kaur	-	Cabinet Member for Communities, Culture and Leisure
Councillor Rayment	-	Cabinet Member for Environment and Transport
Councillor Shields	-	Cabinet Member for Health and Community Safety
Councillor Payne	-	Cabinet Member for Housing and Adult Care
Councillor Hammond	-	Cabinet Member for Sustainable Living
Councillor Dr Paffey	-	Cabinet Member for Education and Skills

37. CUSTOMER STRATEGY 2018-2022

DECISION MADE: (CAB 17/18 20083)

On consideration of the report of the Cabinet Member for Finance, Cabinet agreed to approve the Customer Strategy 2018-2022.

38. DIGITAL STRATEGY 2018-2022

DECISION MADE: (CAB 17/18 20081)

On consideration of the report of the Cabinet Member for Finance, Cabinet agreed to approve the Digital Strategy 2018-22.

39. LOCAL AUTHORITY TRADING COMPANY FOR SOME COUNCIL SERVICES

DECISION MADE: (CAB 17/18 19963)

On consideration of the report of the Cabinet Member for Finance, Cabinet agreed the following:

(i) To note the progress on the proposed establishment of the LATCo and endorse the continued implementation of the programme based on the proposals contained in this report, namely;
- the proposed governance arrangements;
- the migration of services in the proposed order of priority; and
- the development of final business plans for the LATCo services.

(ii) To note the proposed cross-party composition of the Shareholder’s Group for the LATCo.

(iii) To endorse the launch of a Best Value consultation, and further briefings with staff on the emerging proposals for the LATCo.

(iv) To note that a further specific consultation with tenants and leaseholders (required under s27/105 of the Housing Act (1985)) will follow later in the year (2018) to cover the proposed transfer of Housing Services to the LATCo. Formal staff consultation will also be required later in the year relating to TUPE, should Full Council approve final proposals.

(v) To note that the outcome of the staff and Best Value consultations, as well as the final recommendations on the establishment of the LATCo, including the staffing provisions, governance arrangements, financial implications and operational plans will be presented to Council (as determined by the Constitution) for final decision May/June 2018.

40. PROCUREMENT STRATEGY

DECISION MADE: (CAB 17/18 20031)

On consideration of the report of the Cabinet Member for Finance, Cabinet agreed to approve the Procurement Strategy.

41. SCC FIRST POLICY

DECISION MADE: (CAB 17/18 20033)

On consideration of the report of the Cabinet Member for Finance, Cabinet agreed the following:

(i) That Cabinet approves the SCC First policy attached as Appendix 1.

(ii) Subject to (i), that Cabinet delegates authority to the Service Director – Digital and Business Operations (following consultation with the Cabinet Member for Sustainable Living and the Cabinet Member for Finance) the power to scope and deliver a pilot of the SCC First policy (using established in-house services).

(iii) Subject to (i) and (ii), that Cabinet delegates authority to the Service Director – Digital and Business Operations (following consultation with the Cabinet Member for Sustainable Living and the Cabinet Member for Finance) to amend the SCC First Policy (if required to address outcomes of the pilot) and to undertake a full roll out of the SCC First policy.

42. COMMUNITY CHEST GRANTS 2017/18

DECISION MADE: (CAB 17/18 20024)

On consideration of the report of the Director of Quality and Integration, the Cabinet Member agreed the following:

To agree the recommendations made by the cross-party Community Chest Grant Advisory Panel.

DECISION-MAKER:	CABINET			
SUBJECT:	CORPORATE REVENUE FINANCIAL MONITORING FOR THE PERIOD TO THE END OF DECEMBER 2017			
DATE OF DECISION:	13 FEBRUARY 2018			
REPORT OF:	CABINET MEMBER FOR FINANCE			
CONTACT DETAILS				
AUTHOR:	**Name:**	Sue Cuerden	**Tel:**	023 8083 4153
	E-mail:	Sue.Cuerden@southampton.gov.uk		
Chief Financial Officer:	**Name:**	Mel Creighton	**Tel:**	023 8083 4897
	E-mail:	Mel.Creighton@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY
N/A

BRIEF SUMMARY

This report summarises the General Fund and Housing Revenue Account (HRA) revenue financial position for the Authority for the nine months to the end of December 2017, and highlights any key issues by Portfolio which need to be brought to the attention of Cabinet.

RECOMMENDATIONS:

General Fund

It is recommended that Cabinet:

i) Note the current General Fund revenue position for 2017/18 as at December 2017, which is a forecast overspend at year end of £2.02M against the working budget, as outlined in paragraph 3.

ii) Note that the forecast overspend for portfolios is £4.33M as outlined in paragraph 4 and further in Appendix 1.

iii) Note the actions and assumptions being put in place to address the overspend position as described in paragraphs 5 to 12.

iv) Note the performance to date with regard to the delivery of the agreed savings proposals approved for 2017/18 as detailed in paragraphs 13 to 20.

v) Note the Key Financial Risk Register as detailed in Appendix 2.

vi) Note the performance against the financial health indicators detailed in Appendix 3.

vii) Note the performance outlined in the Treasury Management update on benchmarking, prudential indicators and financial outlook in paragraphs 37 to 45 and attached as Appendix 4.

viii) Note the performance outlined in the Quarterly Collection Fund Statement attached as Appendix 5 and detailed in paragraphs 49 to 52.

Housing Revenue Account

It is recommended that Cabinet:

ix) Note the current HRA budget monitoring position for 2017/18, as at December 2017. There is a forecast overspend at year end of £0.86M against the working budget as outlined in paragraphs 46 to 48.

REASONS FOR REPORT RECOMMENDATIONS

1. To ensure that Cabinet fulfils its responsibilities for the overall financial management of the Council's resources.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. Not Applicable.

DETAIL (including consultation carried out)

FINANCIAL POSITION

3. Table 1 sets out the financial summary for the General Fund. This financial summary details the current budget against forecast expenditure and the subsequent variance. The current forecast outturn position shows a £2.02M overspend which is an improvement of £2.99M compared to quarter 2. An explanation of these variances is found in paragraphs 5 to 12.

Table 1 – General Fund Position

	Current Budget 2017/18 £M	Forecast 2017/18 £M	Forecast Variance £M	Movement Qtr 2 £M
Portfolios				
Communities, Culture & Leisure	4.92	4.88	0.04 F	0.03 F
Education & Children's Social Care	42.30	42.11	0.19 F	0.89 A
Environment & Transport	21.02	20.70	0.32 F	0.16 F
Finance Portfolio	24.32	24.75	0.43 A	0.05 A
Health & Community Safety	(4.46)	(4.48)	0.02 F	0.06 F
Housing & Adult Care	66.26	70.66	4.40 A	1.45 F
Leader's Portfolio	11.43	11.31	0.12 F	0.51 F
Sustainable Living	0.16	0.35	0.19 A	0.23 A
Total Portfolios	**165.95**	**170.28**	**4.33 A**	**1.04 F**
Levies & Contributions	0.63	0.63	0.00	0.00
Capital Asset Management	29.70	27.97	1.73 F	1.73 F
Other Expenditure & Income	(17.39)	(17.57)	0.18 F	0.18 F
Net Revenue Expenditure	**178.89**	**181.31**	**2.42 A**	**2.95 F**

	Current Budget 2017/18 £M	Forecast 2017/18 £M	Forecast Variance £M	Movement Qtr 2 £M
Council Tax	(88.48)	(88.48)	0.00	0.00
Business Rates	(47.91)	(47.91)	0.00	0.00
Collection Fund Surplus	(4.10)	(4.10)	0.00	0.00
Non-Specific Government Grants & Other Funding	(38.40)	(38.80)	0.40 F	0.04 F
Total Funding	**(178.89)**	**(179.29)**	**0.40 F**	**0.04 F**
(SURPLUS)/DEFICIT	**0.00**	**2.02**	**2.02 A**	**2.99 F**

Explanation of Variances

4. There is a forecast overspend on Portfolios of £4.33M.The significant issues regarding each portfolio are detailed the following paragraphs and further in Appendix 1.

5. Communities, Culture and Leisure £0.04M Favourable

   There is a minor underspend within Leisure and Heritage as a result of vacant posts.

6. Education & Children's Social Care £0.19M Favourable

   Children's Social Care

   The cost of Looked After Children (LAC) is showing a favourable variance against budget due to the reduction in numbers of children looked after. More children than budget, are achieving permanency causing pressure on the adoption budget but offset by a favourable variance for Looked after Children, leading to a forecast net favourable variance. The budget for residential care is underspend due to lower than budgeted numbers this has moved adversely since quarter 2.

   Due to the reduced LAC numbers and management actions the service is forecasting a favourable net forecast position against the agency budget of £0.16M. This has also enabled a number of posts to be left vacant giving a further favourable variance of £0.62M across Children's Social Care. However, these posts may be required to be filled following the phase 3 restructure.

   Home to school transport and education psychology

   The home to school transport service is currently experiencing an increase in numbers of children requiring transport to and from school. The impact of this is an adverse variance of £0.61M. Additional budget was approved to address this pressure but due to additional demand the initial pressure was more than originally understood.

   The service is working on an action plan and timeline as part of the strategic transport review.

7. Environment & Transport £0.32M Favourable

Waste Collections

Due to the ongoing unavailability of a required incinerator, commercial waste is being taken to a transfer station increasing the cost of disposal causing a £0.12M forecast adverse variance.

Transportation

Favourable variance of £0.44M. This is due to the successful award of an Access grant which will fund the City Ride scheme and some underspends on staffing budgets, together with less than anticipated use of concessionary fares.

8. Finance Portfolio £0.43M Adverse

There is a £0.60M adverse variance for IT Services mainly from slippage in achievement of savings, due to a need for further analysis of current IT provision along with a change in the implementation date for the rationalisation of IT licenses. Savings are to be delivered via the Application Consolidation Project which has now commenced and ongoing savings are expected to be achieved in 2018/19. In addition, a non-recurrent pressure of £0.15M has been incurred due to the urgent need for additional network (SAN) storage for back-up capacity. The adverse movement from quarter 2 is due to a £0.18M saving from a planned reduction in development days now not being realised.

Vacancies and other savings on staffing costs within Business Support has given rise to a £0.10M favourable variance.

9. Health & Community Safety £0.02M Favourable

There are no significant variances.

10. Housing and Adult Care £4.40M Adverse

Mental Health

There is an adverse variance of £0.49M for Mental Health client package costs. This is due to an increase in the number of clients. The budget was based on 238 clients but there are currently 241 clients being charged to this service. Additional income has been received from the Clinical Commissioning Group (CCG) which has contributed to the reduction in the adverse variance reported at quarter 2.

The Phase 3 staffing restructure will provide additional review capacity to ensure the care being provided is appropriate to each client's needs and ensuring care is provided in the most cost effective way. In addition, it is unlikely that the Mental Health employee saving will be achieved in full. Due Section 75 Partnership agreement slippage, a shortfall of £0.07M in the savings target is contributing to the adverse variance.

Provider Services

The decision to close Kentish Road was made with the assurance to families and individuals that closure would not happen until there were suitable alternatives identified for each client. There was therefore a delay in the closure of Kentish Road respite centre, which was originally planned for April 2017 and finally closed in November 2017, leading to an £0.29M adverse variance.

Long Term Care

As a result of additional demand and cost reduction savings not being achieved there is an overall adverse variance for Long Term client packages of £3.46M.

Since the reported position at quarter 2, an additional £0.85M of Improved Better Care Fund monies has been allocated to this area. This funding is being used to meet the cost of increased demand and complexity of care. The remaining £0.56M movement in the variance since quarter 2 is due to lower client numbers compared to the previous forecast although there remains an overall adverse variance for Long Term Care.

The forecast for Older Persons & Physical Disability client packages is showing an adverse variance of £2.83M and a forecast adverse variance of £0.63M on Learning Disability packages. Savings are monitored weekly and reported to Adult Social Care Improvement Board. The forecast level of unachieved savings for Long Term clients is now at £2.53M with the balance of the forecast overspend £0.93M being attributed to an increase in demand and complexity. The assumption for all currently unachieved savings is that they will not be achieved in the 2017/18 financial year, however this is under constant review through the weekly Improvement Board, as well as alternative savings plans being developed.

Reablement & Hospital Discharge

A £0.18M adverse variance is due to a need for agency staff for the Single Point of Access team to cover staff vacancies which are expected to be filled as part of the stage 3 review.

11. Leaders Portfolio £0.12M Favourable

Property Services

Property Services and the Major Project team are overspent by £0.66M, which is a favourable movement from quarter 2 of £0.05M. This is due to lower recharge income from the non-charging of overheads to capital projects, exclusion of mark-up on staffing recharges and lower staff number charged to projects. Pressures have arisen due to delays in the Capital Assets restructure, fewer investment properties and lower rental income. The net pressure is forecast to be £0.62M. These pressures have been mitigated by an under-spend of £1.35M in Central Repairs and Maintenance budget. This is caused by slippage and delays in the programme due to reduced number of staff to undertake the work in advance of the phase 3 restructure.

HR Services

The element of the Hays contract relating to permanent recruitment was terminated with effect from July 2017, further to the establishment of the new permanent recruitment team within the Council. The forecast overspend of £0.16M reflects the in-year one-off impact of the contract termination fee to be charged for 12 months from July 2017, together with additional charges for the volume of recruitment cases over and above that built into the Hays core fee.

12. Sustainable Living £0.19M Adverse

This is due mainly to a £0.23M adverse variance for income from Houses in Multiple Occupation (HMO) licencing. A detailed review of licenses due for renewal in 2018/19 is being undertaken to ensure that all properties that should be are licensed.

Implementation of Savings Proposals

13. Savings proposals of £19.67M were approved by Council in February 2017 as part of the overall budget package for 2017/18. Additionally at the end of 2016/17 there were unachieved savings, the ongoing impact of these savings, including the 2017/18 ramped up savings requirement, totals £4.26M giving a total of £23.93M savings to be achieved in 2017/18. The delivery of the savings is crucial

to the financial position of the authority. Below is a summary of the progress as at the end of the third quarter to highlight the level of risk associated with delivery.

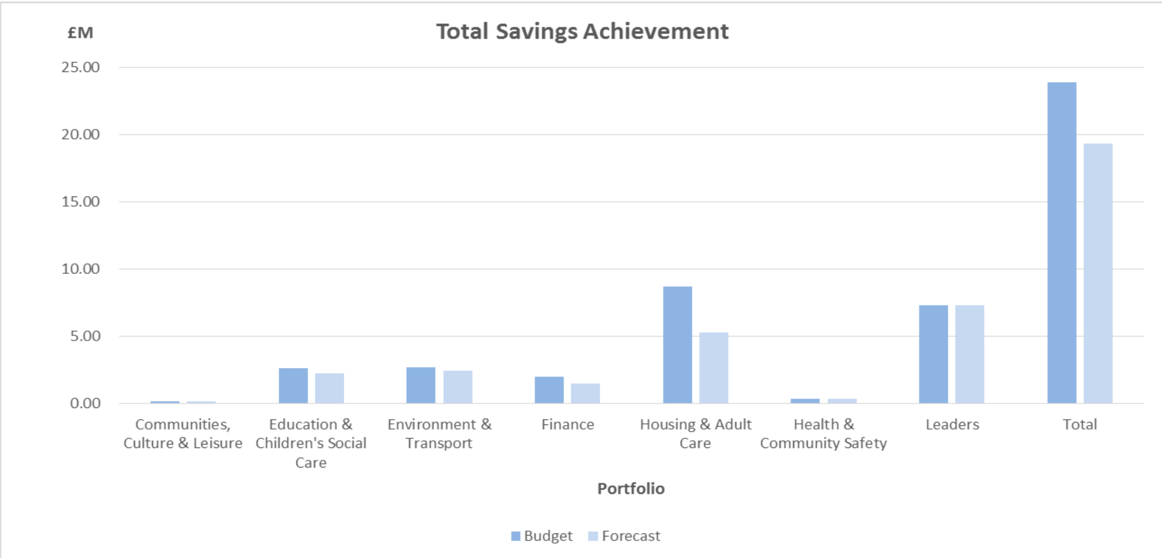
14. It should be noted that unachieved savings of £5.88M were reported as part of the outturn position for 2016/17. A number of these savings have been addressed as part of reviewing and setting the budget for 2017/18. Any residual impact has been included in the forecast achievement of savings for 2017/18 noted above.

Table 2 Analysis of Achievement of Savings

	%
Actual reduction in expenditure	50
Forecast reduction in expenditure	31
No forecast reduction in expenditure but plans being put in place to achieve	4
Saving will not be achieved	15

15. Savings that are currently forecast to be achieved represent a risk to the overall monitoring position until all management actions required to deliver the savings are complete and the reduction in spend can be evidenced.

16. The chart below shows the achievement of total savings required by Portfolio.



17. Savings that are unachieved and have a high level of risk associated with delivery, can be categorised into those which are due to non-implementation and in some cases due to the impact of factors such as rising demand for services which have meant that despite being implemented the estimated level of financial savings have not materialised.

18. The overall financial shortfall in the delivery of the savings proposals is currently forecast as £4.55M (£3.97M 2017/18 and £0.58M prior years) or 19.01% of the total to be delivered.

19. It should be noted that non-achievement of transformation savings were addressed as part of setting the approved budget 2017/18 by Council in February 2017.

20. The financial implications of the delivery of these proposals are reflected in the current forecast position, areas of ongoing concern have been fully reviewed, and

appropriate action plans are being put into place. In addition, any implications for the budget for 2018/19 and future years has been addressed as part of reviewing and setting the budget for those years.

21. **Government Grants** £0.40M Favourable

The spring budget 2017 announced an additional Integrated Better Care Fund (IBCF) allocation of £9.71M for Southampton for the period 2017/18 to 2019/20 to meet adult social care needs, reduce pressures on the NHS and stabilise the social care provider market. A report detailing how this is to be spent was approved by Council in July 2017. The financial implications of this have now been reflected in the overall financial position. The additional funding for 2017/18 is £4.98M.

22. The Children and Families Act 2014 introduced a new duty on local authorities to support young people to continue to live with their former foster carers once they turn 18 (the ‘Staying Put’ duty). This duty came into force on 13 May 2014. The expenditure related to this is built into the forecast position. A grant to help meet this cost has now been notified for 2017/18 £0.14M.

23. When setting the estimates for 2017/18 an assumption was made with regards to reductions expected in grants that were notified after the budget setting process. Now that these grants have been formally notified, there is a forecast favourable variance of £0.26M.

Capital Asset Management £1.73M Favourable

24. Review and release of Treasury Management budgets of £1.73M. This is due to continued short term borrowing which attracts lower borrowing rates which reduces anticipated borrowing costs in year; slippage in the capital programme has reduced the borrowing requirement; and there has been higher than anticipated returns on investments.

Reserves & Balances

25. At the 31st March 2017, earmarked reserves totalled £68.55M, plus Schools Balances totalling £5.01M.

26. The estimated forecast position as at the 31st March 2018 is £60.89M with Schools Balances (currently under review) totalling £5.01M.

27. During the period 30th September 2017 to 31st December 2017 there have been no allocations from reserves.

28. It should be noted that a one off sum of £1.4M has been earmarked from the MTFS Reserve to support the high needs pressure within the Dedicated Schools Grant.

29. The General Fund Balance is currently £11.3M and there are no planned draws on this balance in 2017/18. However if the forecast position remains the same the council will need to either allocate monies from earmarked reserves or utilise the General Fund Balance.

Financial Risk Register

30. The council maintains a financial risk register which details the key financial risks that face the council at a given point in time. This is attached as Appendix 2.

31. Alongside the risks identified when setting the budget for 2017/18 a number of items have arisen since this time that may need to be addressed outside of those assumptions. Currently those main issues are:

    - Additional costs are being incurred to install sprinkler systems in all tower blocks on the advice of Hampshire Fire & Rescue and specialist fire safety consultants following the Grenfell Tower Block Fire. These costs are being met by the HRA;
    - Southampton's joint bid with Portsmouth and the Isle of Wight to become a pool pilot in 2018/19 for 100% retention of business rates has been accepted by the Department of Communities and Local Government. As a result Southampton will benefit more from business rates growth in the pool area, although there is an increased risk of an overall reduction in funding if business rates fall. Arrangements have been put in place as part of the pool agreement to mitigate this risk. Further details are provided in the Revised Medium Term Financial Strategy and Budget 2018/19 to 2021/22 report elsewhere on the agenda;
    - Potential risk of savings proposals not being achieved and insufficient mitigations found to deal with in year – this is covered by the MTFS reserve;
    - High Needs Funding – due to increasing pupil numbers within special schools and the associated cost of Home to School transport, there is a £3.3M pressure that will need to be resolved by 2018/19. The forecast deficit on the DSG of £1.0M will be rolled forward to 2018/19; review of the top-up funding; and an injection from general fund reserves to enable the schools and the service to plan and implement savings.
    - There is still a risk from the economic climate due to Brexit and current levels of inflation. These are covered both by the MTFS reserve and by the contingencies (previously known as the risk fund).

Schools

32. Currently there are 8 schools reporting a deficit balance in 2017/18. The 4 schools with the largest deficits have been working with Children's & Families to agree Deficit Recovery Plans (DRP) and work is also continuing with the remaining schools to develop and have approved Deficit Recovery Plans in place.

33. As previously reported there is a significant pressure within the High Needs Budget, and a number of options have been previously approved, including a one off contribution from General Fund Reserves, to facilitate a workable solution. Further pressures identified as a result of ongoing increased demand will see the original pressure of £2.9M increase to around £3.3M in 2017/18 and a further review of budgets is continuing to mitigate the further pressures in the current year. However it is expected the High Needs block will be in deficit by £1M by the end of the 2017/18 financial year. Going forward a detailed review of the costs, processes and procedures will be undertaken to rationalise the High Needs offer within the funding available within the Dedicated Schools Grant.

34. **Education PFI Contract**

    There is a forecast increase in the total cost of the PFI contract equating to £0.29M per year from 2017/18 to the end of the contract 2031/32 to be met from the Dedicated Schools Grant.

This increase has taken into consideration the increased contributions from the three PFI schools for their FM Services. There is a potential pressure due to one of the three PFI schools having not yet signed the deed of variation to the revenue agreement that was agreed in principle in 2014.

Further discussions are taking place to agree how any resultant pressure can be mitigated.

Financial Health Indicators

35. In order to make an overall assessment of the financial performance of the authority it is necessary to look beyond pure financial monitoring and take account of the progress against defined indicators of financial health. Appendix 3 outlines the performance to date, and in some cases the forecast, against a range of financial indicators which will help to highlight any potential areas of concern where further action may be required.

36. As Service Business Plans are further developed, it is intended to report significant key performance indicators within services that help assess the overall achievement of the Council's outcomes and priorities.

Treasury Management

37. The Council approved a number of indicators at its meeting in February 2017. Appendix 3 includes current performance against these indicators along with an update on the financial outlook in Appendix 4. The council has operated within the agreed prudential indicators for the first half year and is forecast to do so for the remainder of the year.

38. CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The Authority is currently considering the changes from the 2011 Code for incorporation into future Treasury Management Strategies and monitoring reports.

39. The table below shows the current levels of borrowings and investment as at the 31st December 2017 together with the balances at the beginning of the year and those predicted for year end based on the current approved capital programme:

Table 5 Borrowing and Investment

	01.04.2017 Balance £M	30.12.2017 Balance £M	Average Yield/Rate %	31.03.2018 Estimated Balance £M
External Borrowing				
Public Works Loan Board (PWLB)	220.30	211.80	3.32	208.81
Market Loans	9.00	9.00	4.86	9.00
Total Long Term Borrowing	**229.30**	**220.80**	**3.43**	**217.81**
Temporary Borrowing	30.35	23.35	0.56	48.54
Total External Borrowing	**259.65**	**244.15**	**3.30**	**266.35**
Investments				
Cash (Instant access)	(17.90)	(24.40)	(0.37)	(10.00)
Cash (Notice Account)	(5.00)	(4.00)	(0.55)	(3.00)
Short Term Bonds	(4.66)	(6.08)	(1.30)	(3.00)
Long Term Bonds	(14.72)	(7.62)	(2.54)	(7.62)
Property Fund	(17.00)	(27.00)	(4.64)	(27.00)
Total Investments	**(59.28)**	**(69.10)**	**(3.69)**	**(50.62)**
Net Borrowing	**200.37**	**175.05**		**215.74**

40. After taking into account maturing and new debt requirements in year, there is an estimated increase in net borrowing of £40.69M. This is mainly as a result of approved new capital borrowing during 2017/18 of £28.61M and an expected reduction in cash flow to support previous capital spend for which borrowing has not been externalised.

41. The interest cost of financing the Authority's long term and short term loan debt is charged to the Income and Expenditure account and is detailed below together with a summary of performance to date.

<u>Borrowing</u>

42. The forecast cost of financing the Authority's loan debt is £13.9M of which £5.4M relates to the HRA however this will be subject to movement as the need for further borrowing becomes more certain.

Current cash flow forecast indicate that balances will fall further, so in order to maintain our minimum working cash flow of £10M, we will need a further injection of temporary borrowing, currently estimated at £22M to replace maturing debt long term debt and predictive fall in balances.

43. Investment

Balances initially increased at the beginning of the year rising from £58M to £101M in mid- June, but have since fallen back to £69M and are supported by the £23M temporary borrowing taken in October to cover expected cash flows for the remainder of the year.

44. External Managed investments

The Council has invested £27M in property funds as an alternative to buying property directly. As previously reported these funds offer the potential for enhanced returns over the longer term, but may be more volatile in the shorter term and are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. As at the 31st December 2017 the sell price of our total investments were valued at £26.78M a notional "loss" of £0.22M against initial investments of £27M.

Our advisers Arlingclose remain comfortable with this level of investment and have met with the CCLA, they expect capital values to fall over the next two years but annual income should hold up around current levels. Arlingclose believe the negatives do not outweigh the potential for income generation and also advise that investment in the CCLA fund is less risky than buying individual properties. It should be noted that investment in the CCLA does not constitute capital expenditure and is seen as a treasury management tool. Further details are included in The General Fund & Housing Revenue Account Capital Strategy & Programme 2017/18 to 2021/22 report which will go to Council in February 2018

The estimated yield for the year is £1.14M if yields remain around current levels.

45. As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities will be treated as retail clients but can "opt up" to professional client status, providing that they meet certain criteria which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies must assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved. The Authority has met the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. The Authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice

Housing Revenue Account

46. The expenditure budget for the HRA was set at £75.99M and the income budget at £74.99M, resulting in a net draw from the HRA balances of £1.00M. This is detailed in table below.

Table 6 – HRA Summary

	2017/18 Budget	Quarter 3 Forecast	Variance
	£M	£M	£M
Net rent income	(72.59)	(72.59)	0.00
Service charges & other income	(2.27)	(2.39)	(0.12)
Misc. Adjustments	0.00	0.00	0.00
RTB admin	(0.13)	(0.13)	0.00
Total income	**(74.99)**	**(75.11)**	**(0.12)**
Management	21.95	22.13	0.18
Depreciation	19.26	19.26	0.00
Responsive & Cyclical repairs	13.91	14.71	0.80
Other revenue spend	0.10	0.10	0.00
HRA cost of rent rebates	0.00	0.00	0.00
Total service expenses	**55.22**	**56.20**	**0.98**
Capital charges	5.98	5.98	0.00
Repayment of loans	5.59	5.59	0.00
Revenue contribution to capital	9.19	9.19	0.00
Total expenditure	**75.99**	**76.97**	**0.98**
(Surplus) / Deficit for the year	**1.00**	**1.86**	**0.86**

47. The forecast position for the year end on income and expenditure items shows an adverse forecast variance of £0.86M compared to this budget.

48. The variance is mainly due to a delay in the implementation of the new materials contract, initially due to systems and stock replenishment issues, together with an increase in the provision for tenant rent arrears. This has been mitigated in part, by retendering on Housing Investment expenditure and increased income from leasehold properties due to major works.

<u>Collection Fund</u>

49. Each billing authority is required to estimate the level of surplus or deficit on the Council Tax and Business Rate Element of the Collection Fund at the end of each financial year in order that these amounts can be included in the budget calculations for the coming financial year.

50. A forecast position for the Collection Fund as at the end of December 2017 has been made. The following table details the overall forecast changes.

Table 7 – Collection Fund Forecast 2017/18

	Council Tax £M	NDR £M	Total £M
Change in 2017/18 (Deficit) Surplus	0.00	0.00	0.00
(Reduction)/Increase in year-end Surplus brought forward from 2016/17	1.77	1.44	3.21
Overall 2017/18 Surplus	**1.77**	**1.44**	**3.21**
SCC Share of Surplus	**1.52**	**0.71**	**2.23**

51. The Council's share of the surplus for council tax is £1.52M and its share of the business rates surplus is £0.71M, giving a net surplus of £2.23M. These will be taken into account in setting the 2018/19 Council Tax and General Fund Budget. Appendix 4 details the Collection Fund Account for 2017/18.

RESOURCE IMPLICATIONS

Capital/Revenue

52. The revenue implications are contained in the report. There are no capital implications.

Property/Other

53. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

54. Financial reporting is consistent with the Chief Financial Officer's duty to ensure good financial administration within the Council.

Other Legal Implications:

55. None.

RISK MANAGEMENT IMPLICATIONS

56. See comments within report.

POLICY FRAMEWORK IMPLICATIONS

57. None.

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	All

SUPPORTING DOCUMENTATION

Appendices

1.	Portfolio Variance Explanations
2.	Key Financial Risk Register
3.	Health Indicators.
4.	Treasury Management Quarterly Benchmarking, Prudential Indicators and Financial Outlook Qtr. 3
5.	Collection Fund Qtr. 3

Documents In Members' Rooms

1.	None	
2.		
Equality Impact Assessment		
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.		No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		No
Other Background Documents **Equality Impact Assessment and Other Background documents available for inspection at:**		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	General Fund Revenue Budget Report 2017/18 to 2020/21 (Approved by Council February 2017)	

COMMUNITIES CULTURE & LEISURE PORTFOLIO

The Portfolio has a forecast **under-spend** by year end of **£0.04M** at Quarter 3, which represents a percentage variance against budget of 0.1**%.** The Portfolio forecast variance has moved favourably by **£0.03M** from the position reported at Quarter 2.

A summary of the quarterly movements in the Portfolio forecast variance, compared to Quarter 2 are shown in the table below:

Division / Service Activity	**Forecast Variance Quarter 3 £M**	**Forecast Variance Quarter 2 £M**	**Movement £M**
Heritage, Collection & Management	0.02 F	0.02 F	0
Gallery & Museums	0.01 F	0.02 A	0.03 F
Archaeology	0.01 F	0.01 F	0
Total	**0.04 F**	**0.01 F**	**0.03 F**

The SIGNIFICANT issues for the Portfolio are:

Heritage and Galleries have shared resources within the services which has ensured resilience within the services and additional staff costs and other resources employed by the archaeology service have enabled the service to generate a small amount of additional income.

EDUCATION AND CHILDREN'S SOCIAL CARE PORTFOLIO

The Portfolio has a forecast **under** spend by year end of **£0.19M,** which represents a percentage under spend against budget of **0.1%.** The Portfolio forecast variance has moved adversely by **£0.89M** from the position reported at Quarter 2.

A summary of the monthly movements in the Portfolio forecast variance, are shown in the table below:

Division / Service Activity	**Forecast Variance Qtr 3 £M**	**Forecast Variance Qtr 2 £M**	**Movement from Qtr 2 £M**
Divisional Management & Legal	0.16 F	0.56 F	0.40 A
Looked After Children	0.42 F	0.49 F	0.07 A
MASH & Children in Need (CiN)	0.32 F	0.23 F	0.09 F
Specialist Core Services	0.22 F	0.09 F	0.13 F
ICU – Children's Services	0.13 F	0.12 F	0.01 F
Education – Early Years & Asset	0.76 A	0.56 A	0.20 A

Management			
Education – High Needs & Schools	0.30 A	0.15 F	0.45 A
Total	**0.19 F**	**1.08 F**	**0.89 A**

Divisional Management & Legal – (£0.16M favourable variance, £0.40M adverse movement)

The favourable position for quarter 3 reflects the forecast underspend due to the reduction in the number of agency staff for this year based on a number of posts that are expected to be filled on a permanent basis once the Phase 3 staffing restructure has been implemented. This is offset by the cost of management agency staff charged to this area for which there are budgets in other areas of Children's Services. The adverse movement from quarter 2 is due to budget movements to the teams where the agency spend is being accumulated.

Looked after Children and Provision (£0.42M favourable variance, £0.07M adverse movement)

Children's Services are continuing to undertake a targeted piece of work to reduce LAC and look at more appropriate placement of children. This has enabled a number of posts to be left vacant giving a further favourable variance of £0.18M however these post may be required to be filled following the phase 3 restructure. The inter-agency adoption budget has seen a rise in the number of children achieving permanency, greater than budgeted, which has been reflected in an adverse variance of £0.29M.There is a favourable forecast for residential of £0.12M due to a reduction in the number of placements against budget although this has moved adversely by £0.24M since quarter 2 due to additional children being cared for in a residential placement due to complexity. Savings of £0.34M have been found within the Care Leavers budget due to a budget for 59 places and only 41 forecast to be filled this year.

MASH & CiN (£0.32M favourable, £0.09M favourable movement)

There are a number of vacant posts that are not currently covered by agency staff and which were not expected to be filled until the implementation of the phase 3 restructure. These vacant posts have now been forecasted to be vacant until the end of January 2018 which is the favourable movement from quarter 2.

Specialist Core Services (£0.22M favourable, £0.13M favourable movement)

Vacant posts not currently filled by agency staff will now remain vacant until the end of January 2018 when the phase 3 restructure has been fully implemented. This extension of vacant posts is the favourable movement from quarter 2.

ICU – Children's Services (£0.13M favourable, £0.01M favourable movement)

There is a forecast favourable variance due to the cessation of the midwifery contract.

E&CS6 – Education – Early Years & Asset Management (£0.76M adverse, £0.20M adverse movement)

There has been an increase of £0.11M in the projected overspend for Home to school transport resulting in an increased adverse of £0.61M from £0.5M. This increase is partly due to the unachieved savings of £0.06M for the Personal Transport Budgets and £0.05M from a further increase of the number of children requiring school transport to date. This overspend could increase further if the demand for school transport continues to grow to year end. As part of setting the budget, a one off sum of £0.35M was added to HTST budgets to allow enough time for implementation of savings from April 2018. As a result of additional demand in our special schools, an extra 70 special schools places have been allocated in the current year. This will provide an additional pressure on the service of £0.28M. This gives an overall forecast pressure for 2017/18 of £0.5M. The service is working on an action plan and timeline to illustrate the consultation that will be undertaken linked to this area. The actual delivery of savings may take longer than expected due to the delays and requirements of the consultation process.

The pressure on the Educational Psychology (EP) budget is due to an increase in EP statutory work, with a 37% increase in requests in the last year leaving reduced capacity for activities which would generate income for the service. This is a national emerging picture and services across the country are experiencing considerable pressures in meeting statutory demands. This has also been further compounded by the need for agency staff to cover vacant posts required to complete statutory work. The last academic year saw a slight reduction in requests from school for bespoke training packages or attendance on training courses. This is being addressed by a redesign of the offer to schools, a newly designed online brochure being available to schools and the appointment of a dedicated resource in the Phase 3 restructure, who will help services further develop their traded offer to schools.

Education – High Needs & Schools (£0.30M adverse, £0.45M adverse movement)

Pressures of £0.30M relate to unachievable transformation savings for Education Welfare Service, Music Service, and the Language Intervention Team. The Music Service and Language Intervention Team are not SCC funded, and the Education Welfare Service has unable to generate additional income. £0.11M overspend within the JIGSAW team relates to agency staff spend which will be resolved with the implementation of the phase 3 restructure. The remaining £0.04M adverse variance is due to reduced income in the Southampton Language Service and additional demand on Children’s Direct Payments.

UNACHIEVED SAVINGS 2017/18

No unachieved 2017-18 savings

UNACHIEVED SAVINGS PRIOR YEARS

Saving Year	Saving Reference	Description	Unachieved Savings £M	Explanation of ongoing impact and mitigating actions.
2016/17	ECSC4	Review of LAC Children’s Services	0.44	Current programme of LAC review and reduction is underway.
2016/17	ECSC8	Reduce temporary & agency staffing	0.29	Reviewed monthly and will be reduced further as part of the Phase 3 restructure.
	Total		**0.73**	

FINANCE PORTFOLIO

The Portfolio is currently forecast to over spend by **£0.43M** at year-end, which represents a percentage over spend against budget of 1.8**%.** The Portfolio forecast variance has moved adversely by **£0.05M** from the position reported at quarter 2.

A summary of the quarterly movements in the Portfolio forecast variance, are shown in the table below:

Division / Service Activity	**Forecast Variance Quarter 3 £M**	**Forecast Variance Quarter 2 £M**	**Movement £M**
IT Services	0.60 A	0.38 A	0.22 A
Accounts Payable & Accounts Receivable	0.07 F	0.00 F	0.07 F
Business Support	0.10 F	0.00 F	0.10 F
	0.43 A	**0.38 A**	**0.05 A**

The SIGNIFICANT issues for the Portfolio are:

IT Services (forecast adverse variance £0.60M, £0.22M adverse movement)

The slippage on the approved savings to reorganise the IT provision continues to be an issue alongside a detailed review of licences, where the savings will be achieved via the Application Consolidation Project. A detailed review of provision is currently underway, with any potential changes to follow. The ongoing savings is on track to be achieved from 2018/19. In addition, a non-recurrent pressure of £0.15M has been incurred due to the urgent need for additional network (SAN) storage for back-up capacity. This has been offset in part by a saving of £0.03M on salary savings from vacant posts. The adverse movement from quarter 2 is due to a £0.18M saving on reduced development activity now not being realised.

Accounts Payable & Accounts Receivable (forecast favourable variance £0.07M, £0.07M adverse movement)

The forecast under spend has arisen due to vacancy savings within the Debtors section due to posts held vacant from acting up arrangements, together with staff paid at a lower cost than the budgeted post (all posts are budgeted at top of grade)

FIN 3 – Business Support (forecast favourable variance £0.10M, £0.10M favourable movement)

The forecast under spend has arisen due to vacancy savings within the Business Support teams due to significant turnover, together with staff paid at a lower cost than the budgeted post (all posts are budgeted at top of grade)

UNACHIEVED SAVINGS 2017/18

Savings Description	Unachieved Savings 2017/18 £M	Explanation of ongoing impact and mitigating actions.
Reorganise IT Provision	0.19	Slippage in saving, see above for actions and mitigating circumstances
Rationalise licences by 20%	0.11	Slippage in saving, see above for actions and mitigating circumstances
Reduce Development activity	0.18	Slippage in saving, see above for actions and mitigating circumstances
Total	**0.48**	

ENVIRONMENT & TRANSPORT PORTFOLIO

The Portfolio has a forecast **under** spend by year end of **£0.32M** at quarter 3, which represents a percentage variance against budget of **1.5%.** The Portfolio forecast variance has moved **favourably** by **£0.22M** from the position reported at quarter 2

A summary of the quarterly movements in the Portfolio forecast variance, compared to Quarter 2, are shown in the table below:

Division / Service Activity	Forecast Variance Quarter 3 £M	Forecast Variance Quarter 2 £M	Movement £M
City Services – Waste Management	0.10 A	0.02 A	0.08 A
City Services – Open Spaces	0.02 A	0.00	0.02 A
Regulatory Services	0.01 F	0.05 A	0.06 F
Transportation	0.44 F	0.19 F	0.25 F
Other Minor Variances	0.01 A	0.02 A	0.01 F
Total	**0.32 F**	**0.10 F**	**0.22 F**

The SIGNIFICANT issues for the Portfolio are:

City Services – Waste Management (£0.10M adverse, £0.08M adverse movement)

Due to the ongoing unavailability of the incinerator, commercial waste is being taken to a transfer station causing a £0.12M adverse variance on this budget.

Regulatory Services (£0.01M favourable, £0.06M favourable movement)

Income from cemeteries is £0.02M lower than expected due to the delay in the implementation of double interment charges. Additional volume through the port has increased Port Health revenue by £0.01M while lower subscription charges and additional work derived from the port have created a favourable variance of £0.02M in Trading Standards.

Transportation (£0.44M favourable, £0.25M favourable movement)

The favourable variance is due to the successfully awarding of an Access grant which will fund the City Ride scheme and some underspends on staffing budgets and less than anticipated use of concessionary fares.

UNACHIEVED SAVINGS 2017/18

Description	Unachieved Savings 2017/18 £M	Explanation of ongoing impact and mitigating actions.
Charges for double interment for non-residents	0.03	Delay in implementation. Part-year impact. May be partially offset by the purchase of burial rights.
Employ additional Registration staff to perform additional income generating work	0.04	Staff recruited but part-year effect. May be offset by savings from within the service
Charge for replacement bins	0.04	Delay in implementation. Will be offset by other “surplus” Waste savings
Reduce Free Parking Periods at District Centre Car Parks from 5 hours to 2	0.07	Traffic Regulation Order (TRO) advertised in December and, subject to consultation, should be implemented early in the New Year. It is hoped this will be partially offset by increased parking income.
	0.17	

HEALTH & COMMUNITY SAFETY PORTFOLIO

The Portfolio is currently forecast to under spend by **£0.02M** at year-end, which represents a percentage under spend against budget of **0.4%.**

A summary of the quarterly movements in the Portfolio forecast variance, are shown in the table below:

Division / Service Activity	Forecast Variance Quarter 3 £M	Forecast Variance Quarter 2 £M	Movement £M
Public Health	0.00	0.05 A	0.05 F
Other	0.02 F	0.01 F	0.01 F

Total	**0.02 F**	**0.04 A**	**0.06 F**

The SIGNIFICANT issues for the Portfolio are:

HSL 1 – Public Health (forecast zero variance £0.00M, £0.05M favourable movement)

The previous adverse forecast variance has been offset by health check underspends due to a reduction in demand.

HOUSING AND ADULT CARE PORTFOLIO

The Portfolio has a forecast over spend by year end of **£4.40M,** which represents a percentage over spend against budget of **6.6%.** The Portfolio forecast variance has moved favourably by **£1.45M** from the position reported at Quarter 2.

A summary of the monthly movements in the Portfolio forecast variance, are shown in the table below:

Division / Service Activity	**Forecast Variance Qtr 3 £M**	**Forecast Variance Qtr 2 £M**	**Movement from Qtr 2 £M**
Safeguarding AMH & OOH	0.49 A	0.69 A	0.20 F
Provider Services	0.29 A	0.23 A	0.06 A
Long Term	3.46 A	4.87 A	1.41 F
Adult Services Management	0.02 F	0.06 A	0.07 F
Reablement & Hospital Discharge	0.18 A	0.00	0.18 A
Total	**4.40 A**	**5.85 A**	**1.45 F**

The SIGNIFICANT issues for the Portfolio are:

Safeguarding Adult Mental Health & Out of Hours – (£0.49M adverse variance, £0.20M favourable movement)

The adverse variance of £0.49M for Mental Health client package costs is due to an increase in the number of clients. The budget was based on 238 clients but there are currently 241 clients currently, a reduction from the quarter 2 position. The average number of clients for the current financial year is 266. The main reason for the favourable movement in forecast from quarter 2 is due to an additional £0.3M income from a CCG dating back to 2015 that was previously in dispute and therefore prudently not in the forecast. The Phase 3 restructure will provide additional review capacity to ensure the care being provided is appropriate to each client's needs and ensuring care is provided in the most cost effective way. In addition, it is unlikely that the Mental Health employee saving will be achieved in full. Due to Section 75 Partnership agreement slippage, a shortfall of £0.07M in the savings target is contributing to the adverse variance.

Provider Services (£0.29M adverse variance, £0.06M adverse movement)

There was a delay in the closure of Kentish Road respite centre, which was originally planned for April 2017 and instead closed at the end of November 2017. This has led to a £0.29M adverse variance. The decision to close Kentish Road was made with the assurance to families and individuals that closure would not happen until there were suitable alternatives identified for each client. Due to delays in the consultation and transition process, there was a further delay to the proposed closure date from the expected date at quarter 2, leading to a further adverse movement in variance by £0.06M.

Long Term (£3.46M adverse variance, £1.41M favourable movement)

An adverse variance for Long Term client packages has been forecast at £3.46M as the cost reductions are not yet meeting the savings profile, as well as additional pressures in demand taking place. Since Quarter 2's report, an additional £0.85M of IBCF monies has been allocated to this area. This funding is for meeting increased demand and complexity of care. The remaining £0.56M is due to a reduction in forecast overspend. The forecast for Older Persons & Physical Disability client packages is showing an adverse variance of £2.83M and a forecast adverse variance of £0.63M on Learning Disability packages. Savings are monitored weekly and reported to Adult Social Care Improvement Board. The forecast level of unachieved savings for Long Term clients is now at £2.53M with the balance of the forecast overspend £0.93M being attributed to an increase in demand and complexity. The assumption for all currently unachieved savings is that they will not be found in the 2017/18 financial year, however this is under constant review through the weekly Improvement Board, as well as alternative savings plans being developed.

UNACHIEVED SAVINGS 2017/18

Saving Description	Unachieved Savings 2017/18 £M	Explanation of ongoing impact and mitigating actions.
Changing the way the adult social care teams operate.	1.81	A strengths based approach to assessing and meeting need through a structured learning and professional development programme is being implemented.
Developing more housing with care.	0.30	A process for extra care when discharged from hospital has been agreed and plans for additional capacity are in place.
Mental Health review.	0.07	Savings are being achieved but the number of clients has increased.
Joining up adults and housing teams to maintain independent living for longer in supported housing.	0.68	Although residential costs are reducing, the savings are below target. The action plan has been reviewed and further actions implemented.
Cost recovery from care provider training.	0.05	Alternative income is under investigation.
Total	**2.91**	

UNACHIEVED SAVINGS PRIOR YEARS

Saving Year	Description	Unachieved Savings £M	Explanation of ongoing impact and mitigating actions
2016/17	Introduce wider role out of telecare.	0.49	Benefits tracking is in place and is beginning to show financial benefit achieved. A new telecare service is to be procured, the procurement plans are on track and full rollout expected to be completed between July and Sept 2018.
	Total	**0.49**	

LEADERS PORTFOLIO

The Portfolio is currently forecast to under spend by **£0.12M** at year-end, which represents a percentage under spend against budget of 1.0**%.** The Portfolio forecast variance has moved favourably by **£0.55M** from the position reported at quarter 2.

A summary of the quarterly movements in the Portfolio forecast variance, are shown in the table below:

Division / Service Activity	Forecast Variance Quarter 3 £M	Forecast Variance Quarter 2 £M	Movement £M	Ref
Property Services	0.07 F	0.34 A	0.41 F	LPOR 1
HR Services	0.16 A	0.16 A	0.00 F	LPOR 2
Legal & Governance	0.14 F	0.05 F	0.09 F	LPOR 3
Intelligence, Insight & Comms	0.06 F	0.06 F	0.00 F	LPOR 4
Other	0.01 F	0.04 A	0.05 F	
	0.12 F	**0.43 A**	**0.55 F**	

The SIGNIFICANT issues for the Portfolio are:

Property Services (forecast favourable variance £0.07M, £0.41M favourable movement)

Property Services and the Major Project team are overspent by £0.66M, which is a favourable movement from quarter 2 of £0.05M. This is due to lower recharge income from the non-charging of overheads to capital projects, exclusion of mark-up on staffing recharges and lower staff numbers. Capital Assets has a combined income and savings target of £6.98M. Included within this are savings in respect of Business Rates and Council Tax of £3.55M which are on track to be achieved leaving a net Capital Assets savings requirement of £3.43M. Pressures have arisen due to delays in the Capital Assets restructure, fewer investment properties and lower rental income. The net pressure is forecast to be £0.62M. The total pressures highlighted above of £1.28M have been mitigated by an expected under-spend of £1.35M in Central Repairs and Maintenance. This is a favourable movement of £0.35M since quarter 2.

<u>HR Services (forecast adverse variance £0.16M, NIL movement)</u>

The element of the Hays contract relating to permanent recruitment was terminated with effect from July 2017, further to the establishment of the new permanent recruitment team within the Council. The forecast overspend reflects the in-year one-off impact of the contract termination fee to be charged for 12 months from July 2017, together with additional charges for the volume of recruitment cases over and above that built into the Hays core fee.

<u>Legal & Governance (forecast favourable variance £0.14M, £0.09M favourable movement)</u>

There is a number of minor favourable variances including unexpected legal claim income from land charges and increased 106 revenue income.

<u>Intelligence, Insight & Communications (forecast favourable variance £0.06M, NIL movement)</u>

The favourable variance reflects salary under spends from vacant posts across the service, due to the completion of the recruitment following the recent restructure.

<u>SUSTAINABLE LIVING PORTFOLIO</u>

The Portfolio has a forecast **over** spend by year end of **£0.19M** at quarter 3, which represents a percentage variance increase against budget of 118**%.**

A summary of the Portfolio forecast variances are shown in the table below:

Service	**Forecast Variance Quarter 3 £M**	**Forecast Variance Quarter 2 £M**	**Movement £**
Sustainability	0.04 F	0.04 F	0.00
Private Sector Housing	0.23 A	0.00	0.23 A
Total	**0.19 A**	**0.04 F**	**0.23 A**

The SIGNIFICANT issues for the Portfolio are:

<u>Sustainability (£0.04M favourable, Nil movement)</u>

There are a number of vacant posts which are not expected to be filled until the implementation of the Capital Assets phase 3 restructure. Carbon Reduction Commitment allowances purchased in advance, in order of offset out CO_2 footprint has resulted in a saving of £0.02M.

<u>SUSL 2 – Private Sector Housing (£0.23M adverse, £0.23M adverse movement)</u>

Income from Houses in Multiple Occupation (HMO) licencing is being forecast as £0.23M adverse based on income received to date, maturity of this programme and knowledge of the new service lead. This pressure will be reduced in year by the funds carried over from previous years as the income is ringfenced, this will be transferred as part of the year end processes. A review of this area is being undertaken to provide more accurate forecasting data which will be used for the new 2018-23 scheme.

Agenda Item 8

Appendix 2

KEY FINANCIAL RISKS

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

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

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

- **Robustness of estimates**

	Key Financial Risk	INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FE1.	**Pay Inflation** - underestimated in the original estimates.	Possible	Moderate	• *The MTFS model approved in February 2017 is based on a pay award of 1% over the medium term - this is following the July 2015 budget and the announcement to cap public sector pay awards at 1%* • *It should be noted that the current offer is 2% per annum for 2018/19 and 2019/20. The MTFS model has been updated to reflect this.*	Unlikely	Minor
FE2.	Interest rates are underestimated.	Possible	Moderate	• *Reliance placed on market intelligence provided by Treasury Management advisors.* • *Treasury Management Strategy is aligned with CIPFA Code and the CLG Guidance re investing funds prudently and having regard to the security and liquidity of its investments before seeking the highest rate of return.*	Unlikely	Minor
FE3.	**Existing fees and charges:** Projected levels of income within the period are not achieved and/or maintained.	Possible	Moderate	• *As part of the estimate setting process we are reviewing all fees and charges on an basis, to reset these if necessary. If there are 'in year' shortfalls these form part of the budget monitoring processes.* • *Lower risk as existing income streams are known and are therefore more predictable*	Possible	Moderate
FE4.	**New income streams:** Projected levels of income within the period are not achieved.	Possible	Moderate	• *Income generating activity has been identified as part of savings proposals for 2017-18 and onwards. There is a risk that in light of the economic backdrop and Brexit that these levels of income will not be achieved.* • *Higher risk as it is based on new sources of income*	Possible	Moderate
FE5.	**Volatility of Business Rates funding** given the uncertainty around impact of successful appeals (SCC retains almost half the risk from the volatile nature of the receipts).	Likely	Significant	• *The Valuations Office has undertaken a reset of rateable values from 2017/18. The provision has been reviewed in light of the revaluation and known current appeals and will be reviewed on a regular basis, at present this is deemed to be adequate.* • *Appeals can be backdated and as a consequence of this the Council has set aside a provision to deal with this element of the financial impact.* • *In December 2014 the Government announced it was closing the appeals window and that appeals received on or after 1 April 2015 will only be backdated until this date.*	Unlikely	Minor

- **Robustness of estimates**

	Key Financial Risk	INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FE6.	**Increase in demand led spending pressures** (including impact of Welfare Reform, social care, safeguarding) over and above the current budget provision.	Possible	Significant	• *Annual budget setting process developed in consultation with service managers* • *Monitoring of capital (quarterly) and revenue (monthly) budgets, reported to CMT and Cabinet (Quarterly).* • *Action plans to address any significant in year budget variances are agreed with CMT with the status of the agreed actions reported to CMT on a monthly basis* • *Action plans in place that are intended to manage/reduce the number of Looked After Children*	Possible	Moderate
FE7a.	Third party provider costs will increase as a result of the introduction of the **National Living Wage**	Almost certain	Moderate	• *As each contract is procured any impact of this will need to be assessed and addressed to ensure services are procured within budget.*	Possible	Moderate
FE7b.	**Third party provider costs increase** as result of SCC having to 'step in' in the event of potential provide failure (social care providers)	Possible	Moderate	• *ICU contract monitoring arrangements and general market oversight and intelligence*	Unlikely	Minor
FE8.	**Legal challenge to savings proposals** that could result in the proposal being either discontinued or revised.	Possible	Moderate	• *Budget consultation process in place.*	Unlikely	Minor
FE9.	**Pressure on returns from investment properties** in both the short and longer term.	Possible	Significant	• *There is a full and robust process around the financial and legal analysis of the individual investments.* • *Investments are not confined to the Southampton area*	Possible	Moderate
FE10.	**Voluntary sector** is either unwilling or unable to support the delivery of certain services or activities	Possible	Significant	• Review the overall expectation and co-ordination of the services required of the voluntary sector. • Consideration is given to this risk in deciding whether to design services around the voluntary sector	Possible	Moderate
FE11.	The council's **service delivery partners** seek to exit an agreement or are no longer able to deliver the required service.	Unlikely	Significant	• Central Contracts Team monitors and work closely with the council significant service delivery partners. • Contractual obligations on both parties that set out the respective roles and responsibilities.	Very Unlikely	Moderate

- **Adequacy of proposed financial reserves**

	Key Financial Risk	Inherent Risk: Impact	Inherent Risk: Likelihood	Comments/Mitigating Actions	Residual Risk: Impact	Residual Risk: Likelihood
FR1.	**Business Rate Retention & Council Tax Growth** - the council fails to collect, retain and grow business rate income	Possible	Significant	• *The assumption built into the MTFS is based on an annualised CPI Rate reflecting the uplift set by government.* • *The current MTFS includes assumptions on growth which have been developed in conjunction with the Growth service area and recognise pipeline developments and their assumed operation dates. These will be monitored on a monthly basis as part of the standard monitoring.*	Possible	Moderate
FR2.	**Delivery of all of the agreed savings** is not achieved.	Possible	Major	• *Progress and delivery of the overall Programme and individual projects is monitored at Service Director level, and thereafter by SLT and CMT, with any non achievement forming part of the normal budget monitoring action plan process.* • *CMT and SLT review the validity and achievability of projects and provide approval (or not) to projects*	Unlikely	Significant
FR3.	The Government could impose a lower **Council Tax referendum** threshold (currently 2.99%) and/or reduce or remove the **Adult Social Care Levy** (3%)	Possible	Moderate	• *Assumption is that Council Tax rises will be set at just below the 3% referendum limit in 2018/19 at 2.99% and future years at 1.99% (excluding the Adult Social Care Levy).* • *The Adult Social Care Levy was only introduced as part of the Autumn 2015 Spending Review and allows local authorities with social care responsibilities to increase Council Tax by a further 3% (17-18 & 18-19). No further assumptions have been made beyond 2019-20 for any increase in this income over and above the 6%.* • *The MTFS assumes this levy will be taken in all years as the calculated increase in funding for adult social care far outweighs the income gained from this levy.*	Unlikely	Moderate
FR4.	**Slippage in capital receipts** (not accompanied by a slippage in spend).	Possible	Moderate	• *Non-receipt of any planned income will require a permanent draw from balances, additional borrowing or for savings to be found in the capital programme.* • *Impact reflects the cost of borrowing in short term (the interest payments).*	Possible	Minor
FR5.	If **building inflation** was to exceed general inflation over a prolonged period, this would have a significant adverse impact on **HRA balances** and, in turn, the business model in respect of the redevelopment and refurbishment of the SCC Housing stock.	Possible	Significant	• *Surpluses are liable to change annually, either favourably or not, and this will be reflected the annual review of stock investment needs and estimated unit rates.* • *Monitoring and assessment of potential impact with business model sufficiently flexible to allow for reassessment of priority outcomes against available budget*	Possible	Moderate
FR6.	As schools transfer to Academy status the council's **share of the retained and general element of the Education Services Grant** may reduce.	Almost certain	Moderate	• *Costs need to be reduced in line with reductions in funding.* • *Development of a strategy in terms of whether / what services SCC may choose to still offer to Academy Schools*	Possible	Minor
FR7.	The level of funds within the **internal insurance provisions** is inadequate to meet current or future demand	Possible	Moderate	• *The adequacy of the provision is informed by the output from periodical (at least triennial) external actuarial reviews of the funds.* • *The level of funding is required is reviewed as part of annual budget setting process and the position, in respect of potential liabilities is reviewed on a monthly basis.*	Unlikely	Moderate

- **Adequacy of proposed financial reserves**

	Key Financial Risk	INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Impact	Likelihood		Impact	Likelihood
FR8.	**Ad hoc or unforeseen events / emergencies.**	Possible	Significant	• *The Council's Reserves may utilised in respect of the financial impact of such an event.* • *Subject to the nature of the event alternative sources of funding might be available e.g. Bellwin Scheme.*	Possible	Significant
FR9.	The cost of implementing the **Care Act** 2014 is greater than anticipated.	Unlikely	Moderate	• *Current assumption is for the cost of this new burden to be met by the funding allocation provided within the Better Care Fund and the new Carers and Care Act Implementation grant* • *This funding has now been included within the Revenue Support Grant and the main implications of the Care Act have been deferred until 2019-20.*	Unlikely	Moderate
FR10.	**CCG** could seek to reduce it level of contribution to the **'pooled budgeting '** arrangement with SCC	Possible	Significant	• *Ongoing relationship and dialogue with CCG re shared objectives and outcomes.*	Unlikely	Moderate
FR11.	The council is unable to quantify the financial impact on both vulnerable individuals and key council services arising from implementation **of welfare reforms**	Possible	Moderate	*The impact of Welfare Reform on all service areas will be difficult to monitor or to mitigate against.*	Possible	Moderate
FR12.	**Inflation increases** at a higher rate than anticipated	Possible	Moderate	• *Assumptions have been made in the forecast about the likely level of general inflation that will apply from April 2018. Current indications are that an increase is likely. CPI is likely to increase to 2.4% in 2018/19 reducing to 2.0% over the medium term. This has been assumed in the MTFS model.* • *Market intelligence provided by Arlingclose - independent treasury advisors* • *An amount is included in the MTFS to cover key elements of inflation, for example in relation to fuel and energy costs, which can be volatile.* • *Beyond this provision, it would be managed as an 'in year' issue and services would be expected to absorb the difference.*	Unlikely	Minor
FR13.	Brexit - Uncertainty and economic forces, at least in the short term, within both the local business and wider business sector may have an adverse impact on investment decisions and local employment which, in turn, would impact on business rate income.	Likely	Moderate	• *National and local modelling in respect of the future approach to business rate retention will need to reflect changes in the financial environment.* • *There may be either pressure or incentives for non UK owned business to move operations back to within an EU country.* • *Treasury Management advisors are regularly updating the Council on the economic impact of Brexit, the strength of the pound, inflation and interest rates.*	Likely	Moderate
FR14.	There are unplanned and unforeseen consequences (and costs) arising from the implementation of new, or changed, systems and processes across service areas within the organisation	Possible	Moderate	• *A Programme Management Office has been established and will be liaising with Finance to track benefits and unintended consequences. A full programme management process is being put in place including planning and risk assessment.*	Unlikely	Moderate
FR15.	New accounting rules for financial investments may result in adverse valuation movements being charged to the General Fund in year that they occur.	Possible	Moderate	• *New accounting rules require gains/losses from valuation movements for certain types of financial investments to be recognised in the year they occur, rather than when the investments are sold. The Risk Reserve will be used to manage the volatility that the timing difference may cause.*	Possible	Moderate

FINANCIAL HEALTH INDICATORS – QTR 3

Prudential Indicators Relating to Treasury

	Maximum	Forecast	Status
Maximum Level of External Debt £M	£898M	£341M	Green
As % of Authorised Limit	100%	38.01%	Green

	Maximum	Highest YTD	Status
Authorised Limit for external debt £M	£898M	£331M	Green
Operational Limit for external debt £M	£647M	£331M	Green
Maximum external borrowing year to date		£260M	Green
Limit of fixed interest debt %	100%	83%	Green
Limit of variable interest debt %	50%	17%	Green
Limit for Non-specified investments £M	£80M	£38M	Green

Other Treasury Performance Indicators	Target	Actual YTD	Status
Average % Rate Long Term New Borrowing	3.00%	0.00%	Green
Average % Rate Existing Long Term Borrowing	3.50%	3.30%	Green
Average Short Term Investment Rate - Cash	0.20%	0.39%	Green
Average Short Term Investment Rate - Bonds	0.50%	1.30%	Green
Average Long Term Investment Rate - Bonds	0.75%	2.54%	Green
Average Return on Property Fund	4.00%	4.64%	Green

Minimum Level of General Fund Balances

		Status
Minimum General Fund Balance	£11.3M	
Forecast Year End General Fund balance	£11.3M	Green

Income Collection

Outstanding Debt:	2017/18 Target	Qtr3 YTD	Status
More Than 12 Months Old (Agresso only)	25%	7%	Green

Creditor Payments

		Status
Target Payment Days	20	
Actual Current Average Payment Days	18	Green
Target % of undisputed invoices paid within 30 days	98.0%	
Actual % of undisputed invoices paid within 30 days	89.66%	Amber

Tax Collection rate

	2016/17 Actual Rate	Target Collection Rate	QTR 3 Collection Rate		Status
			Last Year	This Year	
Council Tax	95.9%	94.9%	81.4%	81.0%	Green
National Non Domestic Rates	98.7%	98.7%	86.4%	85.6%	Green

Financial Review and Outlook for 2017/18

The most significant economic event was the increase in the Bank Rate in November by 0.25% to 0.50%, making it the first increase by the Bank of England's Monetary Policy Committee (MPC) to rates since July 2007. The vote to increase Bank Rate was 7-2, reflecting the MPC's growing concern that rising inflation had finally outweighed the risks to growth and largely to meet market expectations. Future increases in Bank Rate are expected to be at a gradual pace and limited in extent. Other factors that have contributed to the current interest environment are:

- Gilt yields were broadly stable during the quarter;
- Progress on Brexit has been slow;
- Inflation has remained higher than expected, thereby limiting purchasing power, the new inflation measure CPIH, which is a new additional measure of consumer price inflation including a measure of owner occupiers' housing costs, was 2.8%;
- Unemployment has continued to decrease;
- Housing market remains subdued;
- Debt being used to support spending;
- The government has eased public sector pay cap but has indicated it remains committed to tight fiscal policy: and
- Gilt yields were broadly stable during the quarter;

Credit Developments and Credit Risk Management

UK bank credit default swaps have remained broadly stable throughout the quarter. Bank share prices have not moved in any pattern. Much of the activity by credit rating agencies during the quarter has related to the upcoming UK bank ring fencing which will take effect in 2018. Ring fencing requires the larger UK banks to separate their core retail banking activity from the rest of their business, resulting in two separate banks. In general, the agencies expect to give the ringfenced "retail" bank a higher credit rating than the non-ringfenced "investment" bank. In practice, this will only affect Barclays, HSBC, Lloyds and RBS as other UK banks and building societies either only conduct retail banking activities or have less than £25 billion of deposits covered by the Financial Services Compensation Scheme.

Barclays Bank plc was upgraded to A from A- by Standard & Poor's (S&P), after the bank announced its plans for its ringfenced bank, Barclays Bank UK plc, and the non-ringfenced bank, Barclays Bank plc. S&P also assigned preliminary ratings of 'A/A-1' to Barclays Bank UK plc.

In November S&P revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings. These reflect the agency's view that the institutions now show increased resilience, have made substantial progress in meeting regulatory capital requirements and are now better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019.

Investment Benchmarking as at 31 December 2017.

The Council advisors undertake quarterly investment benchmarking across its client base. The charts below show how we compare to other Unitaries and across the average. As reported previously our portfolio was more diversified and at higher interest rates than the average as a result of moving into the bond programme earlier than most clients, but there is now more competition for bonds from both government bodies and other local authorities, so opportunities to replace maturing bonds are limited and we will see a fall in suitable instruments. With this in mind and following discussions with our advisors it was decided to move more into property funds, which are a longer term investment, and to restrict temporary borrowing and therefore run our short term investments down.

During the last quarter we maintained our investments in bonds at £13.7M and the property funds at £27M (as there were no maturities), with all other cash being placed in either MMF or instant access bank. As a result we had 30% (£20.6M) of our overall investment in Money Market Funds at the end of the quarter and although slightly higher than the average this was a reduction from the previous quarter at 36% (£27.2M) this is expected to fall to further to around £10M by the end of March.

Due to earlier investment decisions our income return on investments managed internally is 0.93% which is higher than the average of 0.54% whilst still maintaining a higher than unitary average credit rating of AA-. Total income return at 2.38% is also higher than the average for both unitary (1.14%) and LA's (0.92%). Our total investment return at 1.84% has recovered as the investments made in property funds recovered some of the initial capital loss (as previously reported the value of the funds are more volatile but less risky than buying individual properties and do not constitute capital spend and it is the income return at 4.66% that is the driver) and are again higher than both the both unitary (1.52%) and LA's (1.14%) across Arlingclose's client base.

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Investment Benchmarking

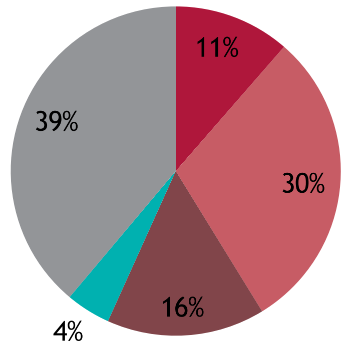
31 December 2017

	Southampton	22 English Unitaries Average	150 LAs Average
Internal Investments	£42.1m	£67.2m	£63.1m
External Funds	£26.8m	£12.7m	£10.2m
TOTAL INVESTMENTS	**£68.9m**	**£78.2m**	**£73.3m**
Security			
Average Credit Score	3.73	5.02	4.51
Average Credit Rating	AA-	A+	A+
Average Credit Score (time-weighted)	1.35	4.68	4.23
Average Credit Rating (time-weighted)	AAA	A+	AA-
Number of Counterparties / Funds	18	13	16
Proportion Exposed to Bail-in	67%	67%	61%
Liquidity			
Proportion Available within 7 days	35%	48%	41%
Proportion Available within 100 days	40%	70%	68%
Average Days to Maturity	216	180	41
Market Risks			
Average Days to Next Rate Reset	176	196	71
External Fund Volatility	2.2%	1.2%	2.1%
Yield			
Internal Investment Return	0.93%	0.60%	0.54%
External Funds - Income Return	4.66%	3.81%	3.41%
External Funds - Capital Gains/Losses	-1.40%	1.39%	0.70%
External Funds - Total Return	3.26%	5.21%	4.11%
Total Investments - Income Return	2.38%	1.14%	0.92%
Total Investments - Total Return	**1.84%**	**1.52%**	**1.14%**

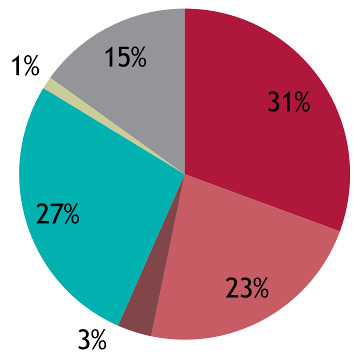
Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.

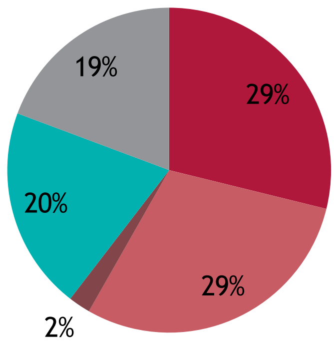
Southampton

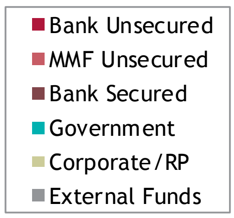


All Arlingclose Clients



English Unitaries





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Appendix 5

COLLECTION FUND REVENUE ACCOUNT
FOR YEAR ENDED 31ST MARCH 2018

Council Tax	Current Budget 2017/18 £M	Forecast 2017/18 £M	Variance Adverse / (Favourable) 2017/18 £M
Income			
Income due from Council Tax Payers	(105.45)	(105.45)	0.00
Transfers to General Fund - Hardship Fund	(0.20)	(0.20)	0.00
	(105.65)	(105.65)	0.00
Expenditure			
Southampton City Council Precept	88.48	88.48	0.00
Hampshire Police Authority Precept	10.41	10.41	0.00
Fire & Rescue Services Precept	4.02	4.02	0.00
Distribution of previous year's surplus	2.07	2.07	0.00
Provision for Bad Debts CT	2.74	2.74	0.00
	107.72	107.72	0.00
CT - Deficit / (Surplus) for the Year	2.07	2.07	0.00
CT - Deficit / (Surplus) Brought Forward	(2.07)	(3.84)	(1.77)
CT Deficit / (Surplus) Carried Forward	**(0.00)**	**(1.77)**	**(1.77)**
NDR			
Income			
Income from NDR Payers	(110.47)	(110.47)	0.00
Apportionment of Previous Years Deficit			
SCC	2.32	2.32	0.00
DCLG	2.37	2.37	0.00
Hampshire Fire & Rescue Authority	0.05	0.05	0.00
	(105.73)	**(105.73)**	**0.00**
Expenditure			
Payment to DCLG Transitional Arrangements	2.15	2.15	0.00
Payments to DCLG	48.89	48.89	0.00
SCC - NNDR Dist to General Fund	47.91	47.91	0.00
Hampshire Fire & Rescue NNDR Distrib.	0.97	0.97	0.00
Allowance to General Fund for NNDR Collection	0.31	0.31	0.00
Provision for Bad Debts NNDR	2.21	2.21	0.00
Appeals Provision 17/18	8.02	8.02	0.00
Appeals Provision Prior Years	0.00	0.00	0.00
	110.46	**110.46**	**0.00**
NDR Deficit / (Surplus) for the Year	4.74	4.74	0.00
NDR - Deficit / (Surplus) Brought Forward	(4.74)	(6.18)	(1.44)
NDR Deficit / (Surplus) Carried Forward	**0.00**	**(1.44)**	**(1.44)**
Total Deficit Deficit / (Surplus) Carried Forward	**(0.00)**	**(3.21)**	**(3.21)**
Council Tax (Surplus)/Deficit			
Contribution (to)/ from SCC		(1.52)	
Contribution (to)/ from HPA		(0.18)	
Contribution (to)/ from F&RS		(0.07)	
Council Tax Collection Fund Balance c/f		(1.77)	
NDR (Surplus)/Deficit			
Contribution (to)/ from SCC		(0.71)	
Contribution (to)/ from DCLG		(0.72)	
Contribution (to)/ from HF&R		(0.01)	
NDR Collection Fund Balance c/f		(1.44)	
Additional SCC Surplus		**(2.23)**	

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DECISION-MAKER:		**CABINET** **COUNCIL**		
SUBJECT:		**THE REVISED MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2018/19 to 2021/22**		
DATE OF DECISION:		**13 FEBRUARY 2018** **21 FEBRUARY 2018**		
REPORT OF:		**CABINET MEMBER FOR FINANCE**		
CONTACT DETAILS				
AUTHOR:	**Name:**	**Sue Cuerden**	**Tel:**	**023 8083 4153**
	E-mail:	**Sue.cuerden@southampton.gov.uk**		
Director	**Name:**	**Mel Creighton**		**023 8083 4897**
	E-mail:	**Mel.creighton@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY
N/A

EXECUTIVE SUMMARY

This report details the Medium Term Financial Strategy (MTFS) for the period 2018/19 to 2021/22 and provides the budget position for 2018/19 and later years for the General Fund and the Housing Revenue Account (HRA).

In February 2017, the council approved a two year balanced budget for the first time for the financial years 2017/18 and 2018/19.

This was the result of the implementation of the first stage of Outcome Based Planning and Budgeting (OBPB) allowing the council to focus and utilise resources towards agreed priorities and outcomes.

This also gives certainty to residents, businesses and service users that service provision has been prioritised and funded for those two years, within a stable financial framework. This meant there was no requirement for further consultation on service provision for the 2018/19 financial year.

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

The Strategy is based around 6 key aims:

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

spending commitments do not exceed resources available in each service area;

- To plan the level of fees, charges and taxation in line with levels that the council regard as being necessary, acceptable and affordable to meet the council's aims, objectives, policies and priorities whilst gradually reducing the council's reliance on Central Government funding; and
- To ensure that the council's long term financial health and viability remain sound.

The OBPB process will be further reviewed and refined in 2018/19 to ensure that the budget gap in 2019/20 and future years can be mitigated.

As a result of changes in service requirements and demand, the report identifies the new pressures that impact on the General Fund in 2018/19 and the proposals to fund those additional pressures. In addition, for the HRA, the report makes recommendations in relation to rents, service charges, and other charges to council tenants, and leaseholders, from 1st April 2018 for the 2018/19 financial year.

The report summarises the Housing Revenue Account (HRA) 30 year Business Plan and the assumptions behind it including details of savings proposals recommended to close the HRA budget gap. The proposals do not require any formal consultation, and the recommendations of the report take this into account.

The Government announced its latest Budget assumptions in the Autumn Statement on 22nd November 2017 .The implications of these announcements, along with the Provisional Local Government Finance Settlement (PLGPS) have been included within the updated MTFS and budget position contained within this report along with an update on the impact of other national and local factors such as Brexit and the move towards 100% Business Rate Retention (BRR). The Ministry of Housing, Communities & Local Government (formerly the Department for Communities & Local Government – DCLG) announced on the 19th December that Southampton City Council, along with Portsmouth City Council and Isle of Wight Council, had been successful in a joint bid to become a Pilot for 100% Business Rates Retention and to form a Solent Business Rates Pool.

The impact of the latest capital programme and Capital Strategy, are also included in the strategy, with the detail reported in the General Fund & Housing Revenue Account Capital Strategy & programme 2017/18 to 2021/22. This has been updated for changes as recommended by the Council Capital Board.

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

RECOMMENDATIONS:

CABINET

General Fund

	i)	Note the position on the forecast adverse outturn position for 2017/18 as set out in paragraphs 32 to 38.
	ii)	Note the revised Medium Term Financial Strategy 2018/19 to 2021/22 as detailed in Appendix 2.

	iii)	Note the aims and objectives of the Medium Term Financial Strategy which will be presented to council for approval on 21 February 2018.
	iv)	Note that the Executive's budget proposals are based on the assumptions detailed within the MTFS and that this includes a council tax increase of 5.99 %, 2.99% under general powers to increase council tax without a referendum and 3.00% Social Care Precept in 2018/19.
	v)	To note that the report identifies additional general fund pressures totalling £10.07M in 2018/19 as detailed in paragraphs 42 to 46 and 58 to 59 along with the proposed funding mitigations.
	vi)	To note that the report identifies direct investment in services totalling £2.46M, with a further sum of £1.18M invested in an Enterprise Resource Planning Programme in 2018/19 as detailed in paragraph 60 along with the proposed funding mitigations.
	vii)	To note that further proposals will need to be considered to address the 2019/20 and future years budget gap.
	viii)	Notes and recommends to council where appropriate, the MTFS and General Fund Revenue Budget changes as set out in council recommendations i) to xiv).
Housing Revenue Account		
	ix)	To note that, from 1st April 2018, a standard decrease be applied to all dwelling rents of 1.0%, as set out in paragraph 107 of this report, equivalent to an average decrease of £0.85 per week in the current average weekly dwelling rent figure of £84.57.
	x)	To note an increase in weekly service charges of 3% from 1st April 2018 (including supported accommodation) based on a full cost recovery approach – as detailed in paragraph 108.
	xi)	To note an increase in the charges to council tenants for garages by 15% and parking spaces by 10% from1st April 2018 as detailed in paragraph 106.
	xii)	To note savings totalling of £3.94M in 2018/19 as laid out in Appendix 9.
	xiii)	To note and recommend the Housing Revenue Account Revenue Estimates as set out in the report.
	xiv)	To note the 30 year Business Plans for revenue and capital expenditure set out in Appendices 7 and 8 respectively, that based on current assumptions are sustainable and maintain a minimum HRA balance of £2M in every financial year.
	xv)	To note that rental income and service charge payments will continue to be paid by tenants in 48 instalments across a 52 week period.
COUNCIL		
General Fund		
	i)	Note the position on the forecast adverse outturn position for 2017/18 as set out in paragraphs 32 to 38.
	ii)	Approves the revised Medium Term Financial Strategy 2018/19 to 2021/22 as detailed in Appendix 2.
	iii)	Approves the aims and objectives of the Medium Term Financial Strategy.
	iv)	Notes that the Executive's budget proposals are based on the assumptions detailed

		within the MTFS and that this includes a council tax increase of 5.99 %, 2.99% under general powers to increase council tax without a referendum and 3.00% Social Care Precept in 2018/19.
	v)	Approves additional general fund pressures totalling £10.07M as detailed in paragraphs 42 to 46 and 58 to 59 along with the proposed funding mitigations.
	vi)	Approves direct investment in services totalling £2.46M, with a further sum of £1.18M invested in an Enterprise Resource Planning Programme in 2018/19 as detailed in paragraph 60 along with the proposed funding mitigations.
	vii)	To note that further proposals will need to be considered to address the 2019/20 and future years budget gap.
	viii)	Note and approve the arrangements made by the Leader, in accordance with the Local Government Act 2000, for the Cabinet Member for Finance to have responsibility for financial management and budgetary polices and strategies, and that the Cabinet Member for Finance will in accordance with the Budget and Policy Framework Rules as set out in the council's Constitution, be authorised to finalise the Executive's proposals in respect of the Budget for 2018/19, in consultation with the Leader, for submission to full council 21 February 2018.
	ix)	To delegate authority to the Service Director – Finance & Commercialisation (S151 Officer), following consultation with the Cabinet Member for Finance, to do anything necessary to give effect to the proposals contained in this report and any implications from of the Final Local Government Finance Settlement.
	x)	Sets the council tax Requirement for 2018/19 at £95.93M as per Appendix 3.
	xi)	Notes the estimates of precepts on the council tax collection fund for 2018/19 as set out in Appendix 4.
	xii)	Delegates authority to the Service Director – Finance & Commercialisation (S151 Officer) to implement any variation to the overall council tax arising from the final notification of the Hampshire Fire and Rescue Authority precept and the Police and Crime Commissioner for Hampshire, precept.
Housing Revenue Account		
	xiii)	To approve that, from 1st April 2018, a standard decrease be applied to all dwelling rents of 1.0%, as set out in paragraph 107 of this report, equivalent to an average decrease of £0.85 per week in the current average weekly dwelling rent figure of £84.57.
	xiv)	To approve an increase in weekly service charges of 3% from 1st April 2018 (including supported accommodation) based on a full cost recovery approach – as detailed in paragraph 108.
	xv)	To approve an increase in the charges to council tenants for garages by 15% and parking spaces by 10% from1st April 2018 as detailed in paragraph 106.
	xvi)	To approve savings totalling of £3.94M in 2018/19 as laid out in Appendix 9.
	xvii)	To approve the Housing Revenue Account Revenue Estimates as set out in the report.
	xviii)	To approve the 30 year Business Plans for revenue and capital expenditure set out in Appendices 7 and 8 respectively, that based on current assumptions are sustainable and maintain a minimum HRA balance of £2M in every financial year.

	xix)	To note that rental income and service charge payments will continue to be paid by tenants in 48 instalments across a 52 week period.
REASONS FOR REPORT RECOMMENDATIONS		
1.	The council is a large and complex organisation managing the delivery of a vast range of businesses either directly or through/with others. Its core purpose is to improve the quality of life for residents and effective financial management is key to this. It is important that Members are aware of the major financial opportunities and challenges and that they make informed decisions. The council regularly revises its Medium Term Financial Strategy (MTFS) so that the financial position is clear for budget proposals to be drawn up for the forthcoming year.	
2.	The council introduced a focused approach on Outcomes Based Planning and Budgeting in 2017/18 which looks at utilising decreasing resources towards agreed priorities and outcomes. Work will continue to further refine this process.	
3.	The council approved a two year balanced budget for 2017/18 and 2018/19. However, additional pressures have been identified which need to be mitigated in 2018/19. These have been addressed through increased income; central government funding changes; the revision of centrally held funds and from a review of treasury management requirements. At this stage there are no new savings proposals identified within the General Fund however, savings proposals are proposed with regards to the HRA. None of the savings proposals seeking approval at this stage require consultation.	
4.	The Constitution requires the Executive to recommend its budget proposals for the forthcoming year to full council. The recommendations contained in this report set out the various elements of the budget that need to be considered and addressed by the Cabinet in preparing the final papers that will be presented to full council.	
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED		
5.	Alternative options for revenue spending and MTFS assumptions form an integral part of the development of the overall MTFS that will be considered at the council budget setting meeting on 21 February 2018.	
6.	Part of setting the General Fund Budget and Medium Term Financial Strategy and Model requires a view to be taken on the revenue cost of capital to the Authority and proposals have been considered by the council's Capital Board in order to ensure the most appropriate use of capital resources in meeting the council's desired outcomes and the Executive commitments. A Capital Strategy and Programme Update report is included elsewhere on the agenda, and the latest position is included in the MTFS Model.	
7.	This report sets out the HRA revenue budgets for 2018/19 and the 30 year HRA business plan covering the period 2018/19 to 2047/48. The proposed changes to rents and other charges are an integral part of the revenue estimates for 2018/19.	
DETAIL (Including consultation carried out)		
	<u>BACKGROUND</u>	
8.	Each financial year the council is required to set the level of council tax for the residents of Southampton. In doing this the council reviews its Medium Term Financial Strategy to ensure we are still on track to achieve a balanced position and are aware of the required efficiencies in future years.	
9.	Since 2011/12 the council has faced year on year reductions in government grants, of which the Revenue Support Grant (RSG) was a significant source of income. The current	

MTFS assumptions were based on Central Government Funding proposals pre the General Election in June 2017. Under those proposals the intention was to radically change the way local authorities are funded by moving to full 100% business rate retention and phasing out the Revenue Support Grant by 2020. Alongside this there would be additional responsibilities for local government to ensure the move is fiscally neutral to central government plans. Business rates will then be the main source of income to fund general fund council services.

10. The proposed changes to the business rate retention required primary legislation amendments and was incorporated into the Local Government Finance Bill 2017. However, the bill was not ratified following the General Election with the focus now being on negotiations for Brexit. However, there is ministerial support to continue working towards to 100% Business Rate Retention and reviewing relative needs via a Fair Funding Formula. A timeline for this has not yet been announced although views have been sought via a MHCLG enquiry of the potential impact of delaying the implementation of 100% Business Rate Retention until 2020/21. A Fair Funding Review consultation is currently underway. The deadline for this consultation is the 12th March 2018 and the council will be submitting its views.

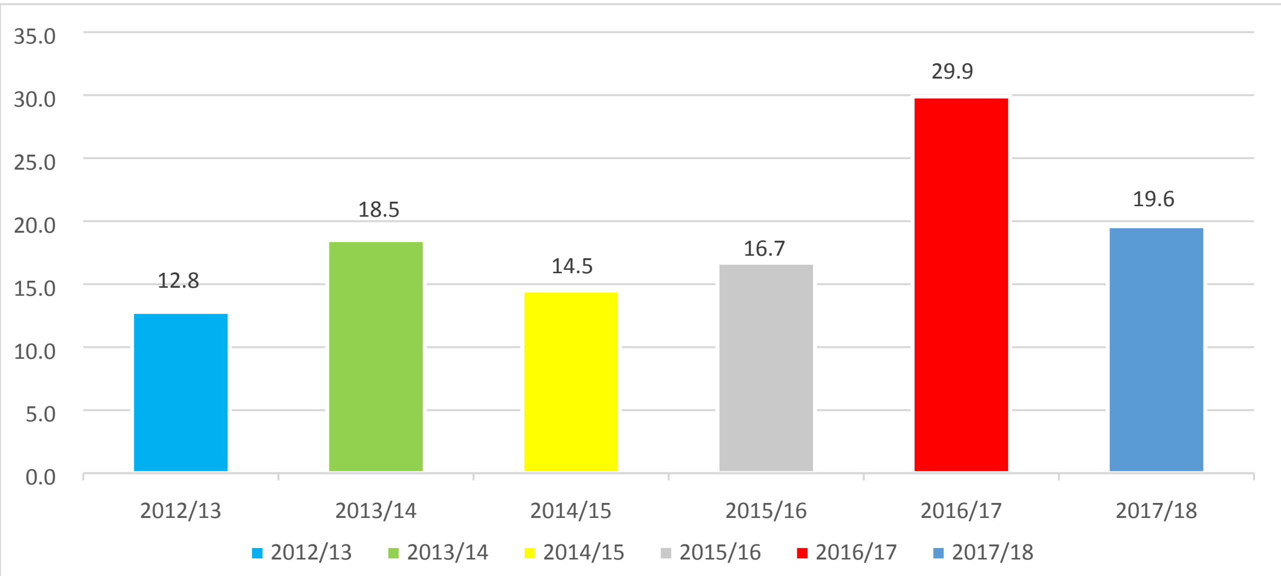
11. The Provisional Local Government Finance Settlement has indicated that there will be a move to 75% business rate retention in the medium term from 2019/20 onwards although this has not been reflected in the MTFS update at this time. The MTFS will be updated as further details are confirmed.

12. A 100% Business Rate Retention Pilot bid was submitted to the then Department for Communities and Local Government (DCLG) on the 27th October 2017 for the Solent Region. This included the forming of a business rates pool arrangement comprising of Southampton City Council, Portsmouth City Council and the Isle of Wight Council.

The MHCLG confirmed on the 19th December 2017 that the bid had been successful.

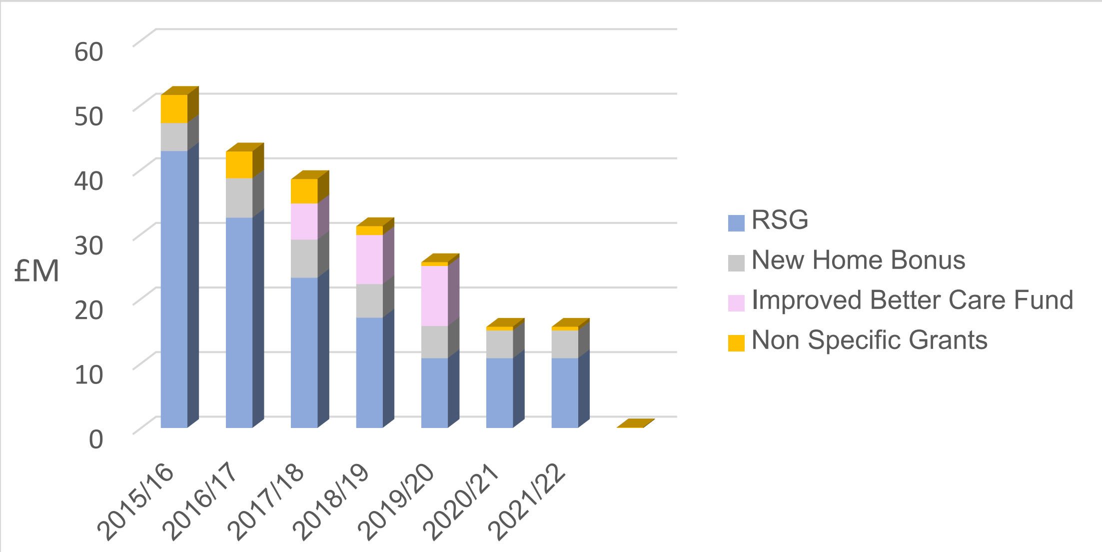
The Pilot bid covers the financial year 2018/19. This has been factored into the updated MTFS and further details are included in paragraphs 18 to 22.

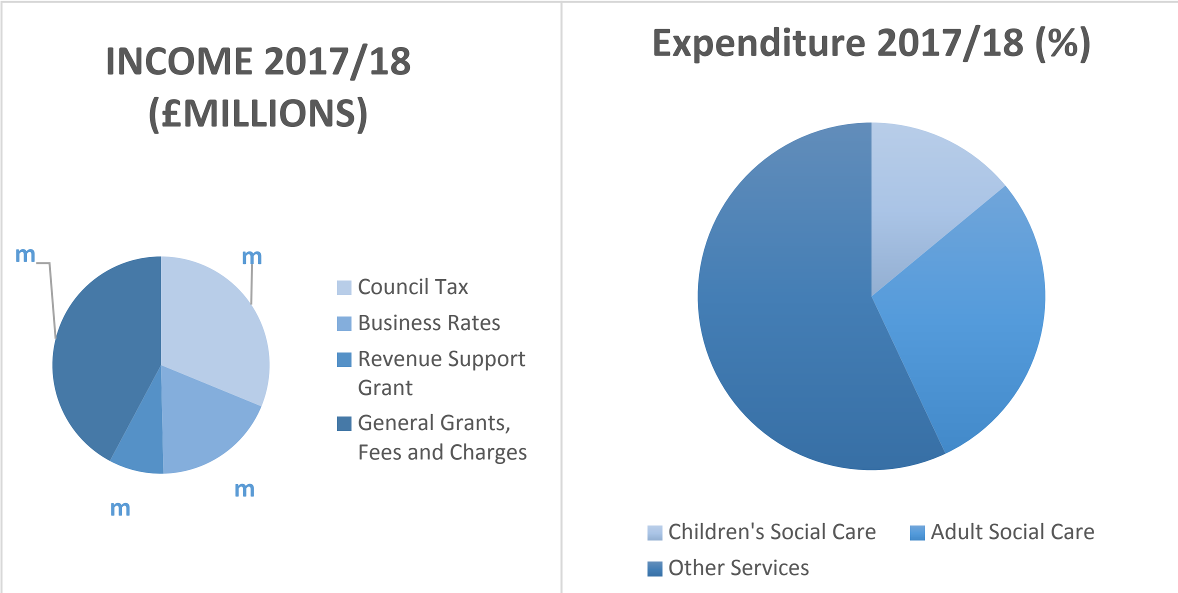
13. Over the last 6 years the council has approved savings of £112.0M but to be sustainable in the future will require us to continue to change, reduce, stop and in some cases, develop new services.



14. The MTFS, approved by council February 2017, introduced a different approach to financial

	management with the aim of aligning delivery of the Executive's key outcomes (described in the Council Strategy 2016-20) with affordability. This aims to help the council to invest its reducing resources in activities that have the greatest impact on the delivery of priority outcomes. The council also wants to achieve better outcomes for all residents by improving quality and performance, managing demand of its high cost services and becoming more commercial. Therefore financial plans were drawn up on the basis of the four main outcomes and these are supported by an internal plan to enable the council to become a modern and sustainable organisation.
15.	In September 2016, the council approved the Southampton City Council Strategy 2016-20. The Strategy sets out the council's strategic vision until 2020 and has four key outcomes, along with an internal outcome, which are: 
16.	The outcome plans are contained within the Medium Term Financial Strategy Report approved at council in February 2017. Appendix 1 contains the updated financial summaries for each of the outcomes.
17.	Local government has had to evolve significantly in response to ongoing changes in the city's profile, trends in customer behaviour driver by technology, national and local policies and the austerity challenges. For us this is accompanied by ongoing challenges in the shape of rising demand in adults and children's social care. The chart below shows how the government funding to the council has reduced and the projection is that by 2020 the Government is expecting councils to become financially independent through business rates and council tax which will replace government grants as our main sources of income.

	 For comparison purposes 2018/19 still contains the RSG the council would have received without the Business Rates Retention Pilot.
	BUSINESS RATES POOL AND 100% BUSINESS RATES RETENTION PILOT
18.	In October, a joint application between the Southampton City Council, Portsmouth City Council and Isle of Wight Council (the basis for the Solent Combine Authority Deal) was made to the then Department for Communities and Local Government, to become a 100% business rates retention pilot. As a result the council foregoes Revenue Support Grant and becomes a tariff authority rather than receiving a top up grant. Further information is contained within the Business Rates section of the report.
19.	The bid also included the establishment of a pooling arrangement for the business rates of the three councils.
20.	The Solent Pilot was announced as a successful pilot on the 19th December 2017.
21.	The arrangement will be governed by a Board consisting of the three council leaders, and provides the opportunity for the 3 councils to retain the governments share of business rates growth and invest this in services, financial stability and sustainable, and reinvesting in promoting further growth in the city.
22.	The council's financial benefit from any growth will not impact until 2019/20 and has not been included in the financial position within this report, due to the business rates pilot being one year only at the present time. At this time the expected benefit may be in the region of £2.5M.
	MEDIUM TERM FINANCIAL STRATEGY AND MODEL
23.	The council currently spends £611M delivering services and funds this from income from central government grants, council tax, business rates, rents, and other fees and charges. Two areas of income we receive (Schools grants and Benefits payments) are passed directly from the council to the Schools and Benefits recipients, and the Rents we get from Housing tenants must only be spent on providing council Housing services. The rest of the council's income (£282 million) is included in the General Fund and is used to fund all other services. General Fund expenditure is dominated by Adult Social Care (29%) and Children's Social Care (14%) with the remaining 57% spent on other services including Highways, Waste Services, Street Cleansing, Libraries, Parks and Open Spaces, Arts, Heritage and Culture, Planning and Licensing, Economic Development and Skills.

	
24.	Council approved a 4 year MTFS in February 2017, 2 years of which showed a balanced position, the objective of which is to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council's priority outcomes.
25.	There are 6 key aims of the Strategy: • To provide financial parameters within which budget and service planning should take place; • To ensure the council sets a balanced budget; • To focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources. Ensuring services are defined on the basis of a clear alignment between priority and affordability; • To ensure the council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area; • To plan the level of fees, charges and taxation in line with levels that the council regard as being necessary, acceptable and affordable to meet the council's aims, objectives, policies and priority whilst gradually reducing the council's reliance on Central Government funding; and • To ensure that the council's long term financial health and viability remain sound.
26.	The updated MTFS focuses on determining the financial position for the period up to and including 2021/22. However the financial position post 2019/20 becomes more uncertain as this is post the current Comprehensive Spending Review period, and when 75% Business Rates Retention and Fair Funding Formula should come into effect. The MTFS takes into account major issues affecting the council's finances, including international, national and regional economic influences as well as local factors and priorities. It identifies risks and opportunities and looks to mitigate the risks through provisions within reserves and balances to ensure the council has adequate resources to cover the uncertainty and risk. It provides the framework and assumptions for developing the overall budget, taking into account any agreed, unavoidable service pressures. The MTFS recognises the key role that financial resources play in the future delivery of services, and enabling the effective planning, management and delivery of those services. The MTFS is therefore key to the effective delivery of the council's overall aims of achieving better outcomes for residents in a financially sustainable way.

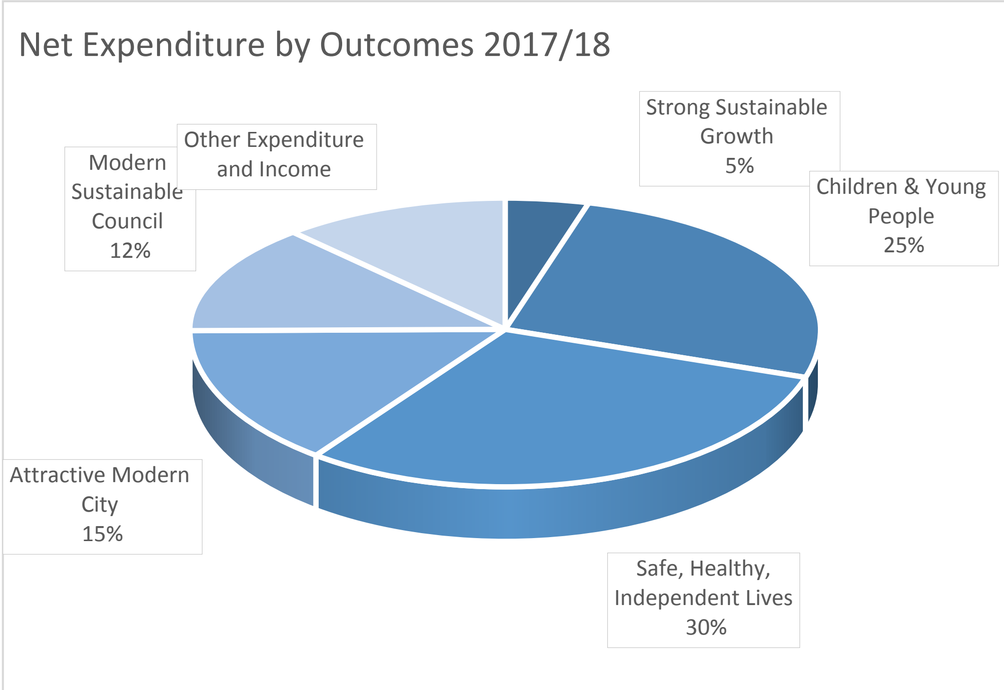
27.	The budget proposals contained within this report seek to increase council tax by 5.99% which (based on 2017/18) represents £1.62 per week for residents in a Band D property but will help the council to continue to deliver services that matter most to residents.
28.	The council's current spend and how it is allocated across the main outcomes is shown in the pie chart below: 
29.	In February 2017 the forecast financial position was a balanced position for 2018/19, and a £8.58M budget gap for 2019/20 as set out in the table below.

Table 1 Gap in funding

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Net Revenue Expenditure	203.25	212.30	264.41	264.41
Funding Available	(172.47)	(168.54)	(220.74)	(220.74)
Net Saving Requirement	(30.78)	(35.18)	(35.18)	(35.18)
Annual Saving Requirement	**0.00**	**8.58**	**8.49**	**8.49**

30.	Since February 2017 the MTFS has been reviewed and updated to include pressures and benefits that have arisen in that time. The following sections describe the detail of the items that have been taken into account in revised the Medium Term Financial position.
	ISSUES THAT HAVE BEEN CONSIDERED
31.	The MTFS has been reviewed to take into account the following: • The current forecast outturn position for 2017/18 including potential ongoing non-achievement of approved savings; • A review of pressures facing the council; and • A review of base budget assumptions such as pay and inflation assumptions.

	• The Provisional Local Government Finance Settlement (PLGFS) - The Government announced its latest Budget assumptions in the Autumn Statement on 22nd November 2017. The implications of these announcements, along with the Provisional Local Government Finance Settlement have been included within the updated MTFS and budget position contained within this report, along with an update on the impact of other national and local factors such as Brexit and the updated 100% Business Rate Retention (BRR) assumptions (with the exception of the potential additional funding from the 100% Business Rates Retention Pilot).
	2017/18 Forecast Outturn Position
32.	Whilst this report is concerned with an update on the MTFS for the period from 2018/19 onwards, there are elements of the 2017/18 forecast outturn that will have an impact on the overall financial position. The latest position, as at 31st December 2017, is that there is a forecast overspend against budget of £2.02M (this is not unusual at this point in the financial year).
33.	The table below shows the summary forecast outturn position:

Table 2 – 2017/18 Summary Forecast Outturn Position

	Forecast Outturn Variance £M	Forecast Outturn Variance %
Baseline Portfolio Total	**4.33 A**	**2.6**
Capital Asset Management	1.73 F	5.8
Other Expenditure & Income	0.18 F	10.4
General Government Grants	0.40 F	1.0
Net Overspend	**2.02A**	**-**

34.	The overall forecast overspend on portfolios is £4.33M which has been offset by the release of central funding. This relates to: • Review and release of Treasury Management budgets £1.73M. This is due to continued short term borrowing which attracts lower borrowing rates which reduces anticipated borrowing costs in year; slippage in the capital programme has reduced the borrowing requirement; and there has been higher than anticipated returns on investments; and • Additional Government Grants £0.14M (Staying Put Grant) and grants, notified after budget setting for 2017/18, have not reduced in line with expectations giving an additional £0.26M in 2017/18.
35.	The key area of overspend is the Housing and Adult Care Portfolio, with a £4.40M forecast overspend. This is further detailed in table 3 below.

36. It should be noted that as forecast overspends have been identified, the relevant Service Director has been expected to develop an action plan to detail what measures and interventions would be undertaken to manage the pressure. In addition to the action plans, 'intensive care' meetings are held with the Senior Leadership Team to discuss key issues and actions with the Service. It is expected that these meetings and the requirement for action plans will continue into 2018/19, with an overarching expectation that pressures arising must be accommodated within the overall service budgets. This has led to significant improvement in the overall forecast position. The following table details how these pressures have been mitigated in 2017/18 and how they have impacted on the 2018/19 proposed estimates:

Table 3 – Impact of 2017/18 Pressures

Outcome	2017/18 Pressure		How this is being dealt with in the MTFS Model
	Description	£M	
Strong and sustainable economic growth.	Pressure due to delays in the Capital Assets restructure leading to less profitability and fewer than expected investment properties and lower rental incomes.	0.62	This is being met from one off savings in the Central Repairs and Maintenance budget in 2017/18, and a treasury management saving from investing in the CCLA. A £0.5M pressure has been included in the MTFS update in 2018/19 & 2019/20 to mitigate against the loss of income
Strong and sustainable economic growth.	Property Services pressure is due to the non-charging of overheads to capital.	0.78	This is being met from one off savings in the Central Repairs and Maintenance budget in 2017/18. In 2018/19 this will be offset by a planned underspend on the Central Repairs and Maintenance budget whilst the required programme of works is reviewed. This can be supported as a result of the accommodation review capital scheme. Additionally a new management SLA with the HRA for their programme of works will be implemented.

Outcome	2017/18 Pressure		How this is being dealt with in the MTFS Model
	Description	£M	
Children and young people get a good start in life.	Adverse variance due to a delay in the integration of the 0-19 service.	0.17	A detailed review of all the teams within Early Help is being undertaken to move staff to new teams as part of the Phase 3 restructure. Additional savings have been identified to mitigate this adverse variance in 2017/18 and future years.
Children and young people get a good start in life.	The pressure on Home to School Transport has arisen as a result of increasing demand particularly since 2015 when a change in legislation required the authority to provide transport for children aged 0-25 that have additional educational needs. A one-off contribution of £350k was made to reduce the overspend in 2017/18	0.61	A one off pressure has been included in the updated MTFS for 2018/19 of £0.39M and the authority has an action plan to address the pressure by undertaking a strategic transport review.
Children and young people get a good start in life	Lower than anticipated income generation for Education Psychology services due to resources directed to undertake increased statutory activity.	0.13	Restructuring the Psychology service as part of the phase 3 review will allow the service to further develop its trading and income generating activities and mitigate the current pressures.
Children and young people get a good start in life	Unachieved High Needs Savings	0.30	A review of the service is expected to identify efficiency savings that will mitigate this pressure in future years.
Children and young people get a good start in life	Savings in respect of Service Cost Recovery that will not be achieved.	0.45	This pressure has been included in the MTFS for 2018/19 and future years.

Outcome	2017/18 Pressure		How this is being dealt with in the MTFS Model
	Description	**£M**	
People in Southampton live safe, healthy independent lives.	Unachieved savings on Adult Mental Health & Out Of Hours Services	0.49	Further savings plans have been developed to mitigate this pressure in 2018/19 and future years. These involve reviewing packages and approaching client referrals with a strengths based approach.
People in Southampton live safe, healthy independent lives.	Delay in the closure of Kentish Road	0.29	The future use of the Kentish Road site is still being reviewed and therefore currently only £0.1M of saving is expected to be realised in 2018/19.
People in Southampton live safe, healthy independent lives.	Increased agency staffing costs incurred in the single point of access service.	0.18	Following the implementation of the Phase 3 staffing review temporary staffing is expected to be replaced with permanent staff, therefore reducing costs in 2018/19.
People in Southampton live safe, healthy independent lives.	Additional demographic pressures due to demand and complexity. Unachieved savings for long term care.	3.46	Further savings plans currently being put into action should help mitigate this for 2018/19. The ongoing pressure on this service has been included in the update of the MTFS for 2018/19 and future years, which includes an additional budget pressure of £2.67M for demand and £1.07M for unachieved savings.
People in Southampton live safe, healthy independent lives	Houses in Multiple Occupation (HMO) – Unachieved licence income targets.	0.24	This will be met from other one-off savings in 2017/18. A detailed review of HMO licenses renewing in 2018/19 is being performed and additional income has been identified from properties that should previously have been registered. The mandatory HMO registration scheme is also being extended and

	<table><tr><th rowspan="2">Outcome</th><th colspan="2">2017/18 Pressure</th><th rowspan="2">How this is being dealt with in the MTFS Model</th></tr><tr><th>Description</th><th>£M</th></tr><tr><td></td><td></td><td></td><td>more properties will become within scope. These factors should mitigate the 2018/19 pressure.</td></tr><tr><td>Modern Sustainable Council.</td><td>Additional one-off cost of recruitment in relation to Hays contract</td><td>0.16</td><td>This cost is not recurrent.</td></tr><tr><td>Modern Sustainable Council.</td><td>Unachieved IT savings in relation to: • Reducing IT Development Activity - £0.18M; • A reorganisation of IT provision - £0.19M; • Rationalisation of the number of IT licenses - £0.11M; and • One off pressure to support security of council data - £0.12M.</td><td>0.60</td><td>The recurrent savings will be achieved in future years with further review of development activity and licenses.</td></tr><tr><td>Modern Sustainable Council.</td><td>Unachieved digital savings in respect of efficiencies expected as a result of reviewing activity analysis where the digital solution has not achieved the desired outcome. Additionally, staff resource pressures as a result of the role out of universal credit.</td><td>0.00</td><td>A pressure of £0.56M in 2017/18 has been covered by in-year savings from staff vacancies. The ongoing pressure has been included in the MTFS for 2018/19 and future years.</td></tr><tr><td>Total</td><td></td><td>8.48</td><td></td></tr></table>
37.	Where a 2017/18 pressure has been identified as having a longer term impact the financial implications have been included within the updated MTFS position. Details are included within Table 4 below, the revised financial sections of the Outcome Plans at Appendix 1 and in paragraphs 42 to 46 and 58 to 59.
38.	Further details on the forecast outturn position for 2017/18 are included within the Revenue Financial Monitoring for the Period to the End of December 2017 Report to be considered by Cabinet at its meeting on the 13th February 2018.
	Medium Term Financial Forecast
39.	Table 4 below identifies the changes to the Medium Term Financial Strategy Model as reported to Cabinet in November 2017 and updated to reflect the Executive's final proposed budget 2018/19 to 2021/22.

40.	**Table 4 - MTFS Model**

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Original Savings Requirement - Feb 2017	**0.00**	**8.58**	**8.49**	**8.49**
Pressures				
Future Years Identified Pressures	5.87	3.55	3.83	3.83
MTFS Amendments				
Change in Central Grants Assumptions (New Homes Bonus & Business Rates Top Up Grants)	(1.00)	(1.00)	(0.30)	(0.30)
Review of Treasury Management Budget	(4.00)	0.00	0.00	0.00
Release of Central Inflation Provision	(0.87)	(0.87)	(0.87)	(0.87)
Remaining Savings Requirement - November 2017	**0.00**	**10.26**	**11.15**	**11.15**

EXPLANATION OF ADJUSTMENTS TO THE REVISED MTFS POSITION

November 2017 Budget Position

41. In November 2017 Cabinet noted a revised Medium Term Financial Position, which still maintained a balanced position in 2018/19, but increased the savings requirement in 2019/20 and 2020/21 to £11.15M. The following paragraphs explain the reasons for this change.

Pressures

42. Children and Young People get a good start in life - £0.84M 2018/19

As detailed in paragraph 36 the following pressures have been included in the MTFS;

- Home to School Transport service is currently experiencing an increase in numbers of children requiring transport to and from school. Additional budget was approved to address this pressure but due to additional demand the initial pressure was more than originally understood (£0.39M). This pressure has been added for one year only in 2018/19 to allow for an overall review of transport requirement to be completed and actions implemented; and
- In addition, there are unachieved savings in respect of Service Cost Recovery that will not be achieved (£0.45M).

43. Modern Sustainable Council - £1.26M 2018/19

The council has undertaken the first wave of digital transformation which looked at service specific digital journeys. In some cases, the assumed staffing savings cannot be achieved. Staffing pressures also have arisen as a result of implementation of Universal Credit (£1.26M);

44. Safe, Healthy & Independent Lives - £2.67M 2018/19

Pressures within this portfolio are due to local demographics and the increasing complexity of adults requiring care.

It should be noted that the forecast pressure in 2017/18 is £4.4M adverse. This includes savings where implementation dates have slipped. In November the position gave a

	pressure in the current year but assumed the ongoing pressure would reduce to £2.67M in future years. Further work has been completed and further pressures have been identified in this area, this is detailed in paragraph 58.
45.	Strong, Sustainable Economic Growth - £1.10M • Unachieved income savings target in relation to Property Services. This is in part due to a delay in the design and sign off of the service restructure following the transfer of the service back in house, and associated vacancies, and due to reduced suitable opportunities for Property Investment (£0.50M). This is further impacted by a decision to restrict future investment decisions following the changes to the Prudential Code that now require authorities to set aside minimum revenue provision; • An assumed recurring approved saving proposal in relation to compliance has now been confirmed as a one off saving in 2017/18 only (£0.50M); and • Unachieved income savings target linked to the development of Solent wide economic development, business support and employment and skills service. This income target was linked to funding that would have been received as part of the Solent Devolution Deal. As this funding will not be received it will be necessary to review how this service could be provided in the future (£0.1M).
46.	Where relevant, the above pressures have been reflected in the forecast outturn position for 2017/18.
	Funding Adjustments
47.	There are a number of changes in central grants assumptions (New Homes Bonus & Business Rates Top Up Grants).These changes are in line with the Local Government Finance Settlement 2018/19, but had been assumed prior to the settlement announcement. The changes are in respect of New Homes Bonus and Business Rate Top Up grants as further clarification in the calculation of these has now been provided.
	Treasury Management Budget
48.	In light of slippage on the Capital Programme for 2017/18 reduced borrowing costs are expected along with continued short term borrowing keeping borrowing costs lower. The treasury management budget has therefore been reviewed.
	MTFS Adjustments
49.	Reduction in Centrally Held Allocations Held centrally are a number of allocations for inflation, increments, pension changes, redundancy and interest rate rises. This have been reviewed and to due staffing restructures, the low level of inflation and interest over the past year some of this allocation has been released.
	Provisional Local Government Finance Settlement
50.	The Provisional Local Government Finance Settlement (PLGFS) for 2018/19 was published on the 19th December 2017. This has led to an update of the council's financial position as shown in the following table:

	Table 5 – PLGFS Changes

Explanation of Change	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Opening Budget Position	**0.00**	**10.26**	**11.15**	**11.15**
Revenue Support Grant (RSG) - replaced by business rates	17.06	0.00	0.00	0.00
Housing Benefit Subsidy Admin Grant	(0.92)	0.00	0.00	0.00
Council Tax Income additional 1% increase in the referendum limit	(0.89)	(0.89)	(0.89)	(0.89)
Business Rates – replacement RSG, section 31 grants and revise the inflation rate to CPI	(19.94)	(4.22)	0.00	0.00
Overall change to financial position	**(4.69)**	**5.15**	**10.26**	**10.26**

51.	Housing Benefit Subsidy Admin Grant - Due to the roll out of Universal Credit the MTFS assumed that the council would not receive the Housing Benefit Subsidy Admin Grant in future years. However, a provisional figure of £0.92M has now been notified for 2018/19.
52.	Business Rates - As a result of the Solent Region Business Rate Pilot, SCC will not receive RSG of £17.06M in 2018/19 as this is offset by the increased retention of Business Rates. In addition to this the council has received additional section 31 grants to recompense for the Government's announcement to change from RPI to CPI level increases in each financial year. The MTFS Model assumption was for an inflationary increase below the level of CPI therefore the income from business rates has also been adjusted.
53.	The full details of all changes notified within the PLGFS are detailed within the MTFS in Appendix 2.
54.	At the time of writing this report the final Local Government Finance Settlement has not been received, but any changes resulting from the final settlement will be taken into account when setting the final budget. The authority to delegate the power to Service Director Finance and Commercialisation to deal with these amendments.
	FURTHER CHANGES
55.	Table 6 below details further changes since the position reported to Cabinet in November 2017.

56. **Table 6 – Further Changes**

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Overall change to financial position	**(4.69)**	**5.15**	**10.26**	**10.26**
Further pressures identified	2.11	1.16	1.36	1.36
MTFS Adjustments – Pay award	0.80	1.70	1.80	1.90
New investment in services	2.46	2.08	2.08	2.08
Collection Fund Council Tax – Revised Base	(2.15)	(2.84)	(2.91)	(4.91)
Collection Fund Business Rates - Changes in Growth Assumptions	0.18	(1.04)	0.77	(0.49)
Review of Treasury Management Budgets – Minimum Revenue Provision	1.29	0.75	0.75	0.75
Revised Budget Gap - Final Budget Proposals	**0.00**	**6.95**	**14.10**	**10.94**

57. 2019/20 and future years budget gap to be addressed including further review of savings requirements and MTFS Funding Assumptions.

Revised Pressures

58. Since the November report was published there have been further changes to the position identified. These are set out below.

Southampton is an attractive and modern city - £0.75M

- The formation of a Local Authority Trading Company (LATCo) is currently being developed with the assumption that this would give rise to efficiency savings and increased income generation of £1M in 2018/19. This target was based on a full year operation of the LATCo. The first services are now likely to transfer to the LATCo from October 2018 and as such the anticipated saving in 2018/19 has reduced to £0.45M, a reduction of £0.55M. It is assumed in the MTFS that the full year saving will be achieved from 2019/20; and
- The Southampton Treasures Project aims to relocate significant Maritime and Local History Collections into the SeaCity Museum. Funding of £0.2M was approved in February 2017 to support this project. Due to the phasing of applying for Heritage Lottery funding to support the wider project, it is necessary to re-phase this funding from 2019/20 to 2018/19 (£0.2M.)

Strong Sustainable Economic Growth - £0.07M

- Expected increase in parking fee income will not be achieved (£0.07M).

Safe, Healthy & Independent Lives - £1.07M

- As the financial year has progressed a number of the savings proposed have been reviewed and either cannot be achieved or need to be re-profiled. This has resulted in a further pressure of £1.07M.

Modern Sustainable Council – £0.22M

Changes in central funding requirements in relation to education related grants.

59.	MTFS Adjustments Pay Award - The previous MTFS model was based on a pay award of 1% per annum. However, on 5th December 2017, the 'National Employers for Local Government Services' announced a higher pay offer to local government unions for the period 2018 to 2020. The offer comprises a two year deal with a headline flat-rate increase of 2.0% in 2018/19 and 2019/20. A 2% pay award has also now been assumed from 2020/21 and future years.
	Other Changes
	Investment in Services
60.	Enterprise Resource Planning System Cabinet received a report in December 2017 seeking approval to undertake the implementation of an Enterprise Resource Program (ERP). By implementing an ERP system it will enable the council to • Consolidate the number of IT applications, reducing the number of contracts, independent support and maintenance costs; • Rationalise and streamline business processes; • Enable easier access to correct data; • Provide a single view of debt; • Provide a single view of the employee; • Support the provision of a single point of payment for the customer; and • Improve management information. Cabinet approved the release of monies held in the Transformation Reserve (£1.18M) to meet the cost of the initial modules of the ERP project which has now been reflected in the MTFS. Highways £1.10M 2018/19 A programme of works will be undertaken to address pot holes across the city with the aim to reduce the parameter for correction to 25mm and to shorten the timeline for undertaking works. Additionally, looking to address those roads that currently have a concrete surfacing and replacing the road surface to a more durable coverage. Street Cleansing £0.41M 2018/19 A further mechanical sweeper will be added with additional street cleaners, focusing the activity in the City Centre on Green Spaces including the city parks. This will free up more skilled operatives to undertake more fee earning activity. This is supported in part by funding from the Business Improvement District (BID). Enforcement Activity £0.25M 2018/19 Additional resource will be made available in Environmental Health to review issues raised and where relevant ensure that prosecutions are sought particularly in respect to noise nuisance complaints; fly tipping; and other anti-social behaviour. It is also intended to reinstate the late night noise complaints service on weekday nights. Parks and Open Spaces £0.10M 2018/19 A small team will be created to deliver park and open space improvements including investments in safety, cleanliness and play. This is to ensure that investments in parks and open spaces infrastructure are delivered in a timely fashion. Leisure and Heritage £0.38M 2018/19 Additional resources are required to ensure that funding bids are made for sports, recreation and heritage grants opportunities. This will include Sports Centre redevelopment, attracting investment in Heritage sites and to support Community Asset Transfer (CAT) proposals. It

	will also support the provision of more Christmas lights in the city. A further capital funding provision (funded by a direct revenue contribution to capital) will be made to invest in Heritage assets and to match fund capital grants. This will be invested, amongst other things the 'Walk the City Walls' experience ahead of the Mayflower 400 anniversary. <u>Customer Services £0.20M 2018/19</u> Further investment in provision of customer services support to reduce waiting times to speak to an operative when contacting council. <u>Installation of Water Fountains £0.02M</u> A small sum will be invested in water fountains within the city to encourage the reduction in use of plastic bottles and the reduction in consumption of sugary drinks. This is similar to a number of other councils. <u>Armed Forces Day £0.02M</u> A non-recurrent sum has been set aside to invest in Armed Forces Day. <u>British Legion Statues £0.004M</u> A sum of money will be invested in statues across the city to commemorate the armed forces.
61.	<u>Collection Fund - Council Tax & Business Rates</u> Council Tax (£2.15M) Each financial year the council tax base number of properties are reviewed. This year the increase has been higher than anticipated resulting in £2.15M being available. Business Rates £0.18M Assumptions regarding growth in business rates were built into last year's MTFS Model, whilst this growth is still expected to occur the profiling of when the new developments will be operational has been adjusted.
62.	<u>Review of Treasury Management – Minimum Revenue Provision</u> CIPFA has published two revised Codes, The Prudential code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code), for implementation in 2018/19. CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year, which will incorporate the Treasury Management Strategy report that goes to Governance and council in February. This gives greater focus on investments that have not be been made purely for Treasury Management purposes i.e. investment in commercial properties. Linked to this the Ministry for Housing, Communities and Local Government (MHCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. The MHCLG has revised its Investment Guidance (and its Minimum Revenue Provision (MRP) guidance) for local authorities in England. The proposed changes are not as prescriptive as originally envisaged and still allow the council to make decisions within the concept of 'prudence'. However, clarification has been received that a prudent MRP cannot be nil or a credit. It has also proposed a maximum life for the MRP calculation of 50 years (equivalent to 2%) for freehold land without buildings on it and 40 years (equivalent to 2.5%) for all other assets. Many local authorities make commercial investments in order to achieve wider social and economic benefits for their local areas such as by economic regeneration or by providing

additional facilities for residents or visitors, and where they do so they are likely to rely on powers other than the 2011 Localism Act.

The council has purchased 3 assets as part the of the Property Investment Fund (PIF) and in doing so included in the MRP policy, a decision that MRP would be applied on the depreciation method which allowed a 0% rate to be applied. This was seen as prudent as it was intended that any capital receipt from the future sale of the assets would be used to offset the borrowing taken to fund these assets.

The proposed changes to the code could mean that the council will have to make additional provision to repay debt for any assets purchased as part of the PIF i.e. cannot apply a nil MRP.

This will therefore have an impact on councils' revenue budgets affecting delivery of services, possibility as early as the 2018/19 budget cycle. The amount of MRP per annum that would be payable on these properties is circa £1.29M in 2018/19. After 2018/19 a pressure of £0.75M has been included with a requirement for an action plan to manage this pressure ongoing to be presented to Capital Board. This may necessitate the disposal of these assets sooner than originally planned although this will generate capital receipts for further investment to meet the council's outcomes and priorities.

SUMMARY FINANCIAL POSITION

63. The table below summarises the financial position:

Table 7 – Summary Financial Position

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Opening Savings Requirement	**0.00**	**8.58**	**8.49**	**8.49**
Pressures identified	7.98	4.71	5.19	5.19
Investment in Services	2.46	2.08	2.08	2.08
Council Tax	(3.04)	(3.73)	(3.80)	(5.80)
Business Rates	(19.76)	(5.26)	0.77	(0.49)
Central Government Funding	15.14	(1.00)	(0.30)	(0.30)
Review of Treasury Management	(2.71)	0.75	0.75	0.75
Release of Centrally Held Funds	(0.07)	0.83	0.93	1.03
Remaining Savings Requirement	**0.00**	**6.95**	**14.10**	**10.94**

	THE COLLECTION FUND
64.	The income from council tax and non-domestic rates is reflected initially in the Collection Fund Account, which is a statutory account that records the collection and distribution of taxation. Utilising the Key Assumptions within the MTFS, the forecast position for Southampton City council for the collection fund is shown in Table 8. **<u>Table 8 – Collection Fund</u>**

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Council Tax - General Precept	88.94	91.43	93.39	95.39
Council Tax - Adult Social Care Precept	6.99	7.04	7.04	7.04
Business Rates	99.21	54.69	57.15	58.33

65.	**<u>Council Tax</u>**
66.	The Executive are recommending an increase in council tax for 2018/19 of 2.99%, with regard to the general power to increase council tax prior to referendum. They are also recommending that council tax is increased by 3.00% for the Adult Social Care Precept, with the increase for this element all being used to fund Adult Social Care pressures detailed elsewhere in the report. £95.93M is the level of council tax required to provide a balanced budget for 2018/19. This is then divided by the council tax base set by the S151 Officer, following consultation with the Cabinet Member for Finance, to give the basic amount of council tax for a Band D equivalent of £1,448.74 plus £42.20 for the Adult Social Care Precept making a council tax of £1,490.94 this is a 5.99% increase. The full calculation is set out in Appendix 3. This does not include amounts from other precepting authorities.
67.	The estimates of the payments from the collection fund in the form of precepts for 2018/19 are set out in Appendix 4. This also details the increase in council tax by property band for 2018/19. This includes preliminary figures for the Police & Crime Commissioner (PCC) and the Fire Authority. The PLGFS allows for an increase up to £12 for PCC and this has been proposed giving an increase of 7.25% on their precept. The Fire Authority have proposed an increase of 2.98% on their precept. Whilst these are the proposed increases these are subject to formal approval.
68.	The figures for both the PCC and the Fire Authority may not be approved until after 21st February 2018 and therefore this report requests a delegation of authority to the S151 Officer to implement any variation to the overall level of council Tax arising from the final notification of the Hampshire Fire and Rescue Authority precept and the Police and Crime Commissioner for Hampshire precept.
69.	The council tax base for 2018/19 has been set at 64,345 properties using delegated powers granted by full council on 17th January 2007. This reflects the expected growth in the tax base and any adjustments for the Council Tax Reduction Scheme.
70.	**<u>Business Rates</u>**
71.	The amount to be retained and the amounts to be paid to central government and major precepting authorities are fixed at the start of the financial year on the basis of the billing authority’s estimate of its business rate income for the year. Any variation is recognised as

	part of the end of year accounting process for the collection Fund and any surplus can be utilised in the budget whilst any deficit must be made good.
72.	The non-domestic rates (NDR) estimate for 2018/19 has now been completed and the statutory notification return (NNDR1 Form) has been completed. Given the continued uncertainty of the impact of in year adjustments such as appeals, the form allows for estimated growth / decline of various elements. After allowing for these various elements and the impact of the Autumn Statement 2017 changes (funded by Section 31 Grant) the council's net rates payable for 2018/19 is £115.45M.
73.	After allowing for estimated losses in collection of £2.31M and estimated repayments in respect of the 2017/18 Rates of £5.43M giving a collectable rates figure of £107.71M.
74.	This is further adjusted to exclude Transitional Arrangements additional income of £2.02M, all payable to central government, and £0.31M costs of collection giving non domestic rating income of £105.38M.
75.	As detailed in paragraphs 18 to 22, SCC is part of the Solent Region Business Rates Pool and 100% Business Rates Retention Pilot for 2018/19. Any pilot has to be fiscally neutral to the government therefore the council foregoes Revenue Support Grant £17.06M and becomes a tariff authority rather than receiving a top up grant (£4.4M). The tariff will be £28.29M for 2018/19.
76.	There is a one off sum of £0.54M adjustment to the top up grant payable to the authority for 2017/18 in relation to the 2017 revaluation of the rating list to be paid in 2018/19.
77.	In addition to income received from the collection of Business Rates, the council will receive grants under Section 31. Under the pilot scheme in 2018/19 these amount to £6.14M.
78.	It should be noted that as a result of retaining 99% of the business rates, the pool will receive the share of growth in rates that would have been paid over to central government. The mechanism for allocating this growth between the pool members is currently being finalised and will be approved by the Leaders of the three councils as part of the governance framework.
79.	It is estimated that SCC's share of this growth will initially be in the region of £2.5M however, this has not been included in the updated MTFS as this stage. The amount will be finalised during 2018/19 and cannot be utilised to support the budget position until 2019/20. This will be included in future updates of the MTFS once clarification on the amount is given.
80.	The overall level of expected income for business rates for 2018/19 is expected to be £77.06M to support the revenue position. It should be noted that £17.06M of this is offset by the loss of RSG that will not be received under the pilot.
	PUBLIC HEALTH GRANT
81.	The Public Health Grant, which was introduced in April 2013, will continue to be a ring-fenced grant to local authorities into 2017/18 and 2018/19. The final allocation of Public Health Grant for 2018/19 is £16.94M. The Public Health Grant has already seen year on year reductions from 2015/16 and will continue to reduce as outlined in Table 9 below.

82.	**Table 9 Public Health Grant Reductions**

	2018/19	2019/20
Public Health Grant	£16.94M	£16.52M
Percentage reduction in total grant from 2015/16 baseline	2.57%	2.64%

83.	The council is committed to identifying savings from within the total Public Health Programme, comprising the delivery of internal and external services, in order to achieve the level of savings required.
84.	The grant reduction in 2018/19 is £0.47M, with a further £0.42M to be achieved in 2019/20, as well as inflation and pay awards needing to be contained within expenditure resulting in a requirement to save a total of £0.95M in the next two years. After this the expectation is this funding will be removed completely as part of the Business Rates Retention scheme.
	RESERVES AND BALANCES
85.	To ensure proposals are considered in a full financial picture, it is important to set out the expected position on earmarked reserves and the General Fund Balance.
	Earmarked Reserves
86.	The council has a number of earmarked reserves that have been set aside for specific reasons. These reserves can be split into two categories: a. Those required to be kept by statute or accounting guidance e.g.revenue grants reserve, School Balances. These reserves can only be utilised for the purpose for which they have been set aside. b. Those set aside for a future event that has a high probability of occurring, e.g. Transformation Reserve.
87.	The financial risks facing the council in the medium term are assessed within the MTFS. This includes assessing the risk of continuing reductions in Central Government Funding and the subsequent budget shortfalls that the council would then face and the overall local and national economic factors which can affect the financial stability of the council.
88.	In light of the increasing level of risk and uncertainty identified within the MTFS and the increased probability of resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. In closing the accounts for 2016/17 a view has been taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk resulting in the rationalisation of reserves and provisions where possible and in some cases additional funding being set aside.
	General Fund Balance
89.	The General Fund Balance is forecast to be £11.3M at the end of 2017/18 providing the current year financial overspend is addressed. The required level of balance is determined by assessing the level of risk the council faces. This is currently assessed at £11.3M.
90.	Obviously when the council is facing significant cuts in funding, increasing demand alongside a major transformation programme the level of risk is heightened. The assessed minimum balance has been reviewed again for the MTFS update, taking into consideration both risk and affordability.

SCHOOLS UPDATE

91. Currently there are 8 schools reporting a deficit balance in 2017/18. The 4 schools with the largest deficits have been working with the Children and Families service area to agree Deficit Recovery Plans (DRP) and work is also continuing with the remaining schools to develop and have approved Deficit Recovery Plans in place.

92. As previously reported there is a significant pressure within the High Needs Budget, and a number of options have been previously approved, including a one off contribution from General Fund Reserves, to facilitate a workable solution. Further pressures identified as a result of ongoing increased demand will see the original pressure of £2.9M increase to around £3.3M in 2017/18 and a further review of budgets is continuing to mitigate the further pressures in the current year. However it is expected the High Needs block will be in deficit by £1M by the end of the 2017/18 financial year. Going forward a detailed review of the costs, processes and procedures will be undertaken to rationalise the High Needs Offer within the funding available within the Dedicated Schools Grant.

93. It should be noted that this pressure increases to £3.53M in 2018/19. However, in recognition that there is a national high needs funding issue, the Government have allocated additional DSG monies in 2018/19. SCC will receive an additional £1.1M, which is the maximum available and will continue to receive the maximum increases in future years.

At the Schools Forum in January 2018, agreement was reached to ‘top slice’ 0.5% of the Schools Block DSG to help meet the high needs pressure funding a further £0.7M. At this stage this results in a deficit position in 2018/19 of £1.73M. If the 2017/18 expected deficit is not addressed the deficit will be £2.73M by the end of 2018/19. In order to address this futures years additional funding will need to offset this initially along with a review of the high needs service provision.

94. It has been assumed that the above noted pressures will need to be accommodated within the Dedicated Schools Grant (DSG).

HOUSING REVENUE ACCOUNT

95. The HRA records all the income and expenditure associated with the provision and management of council owned homes in the City. This account funds a significant range of services to over 16,000 homes for Southampton tenants and their families and to over 1,900 homes for leaseholders. This includes housing management, repairs and improvements, welfare advice, supported housing services, neighbourhood wardens, and capital spending on council properties.

96. **<u>2017/18 Forecast Position</u>**

97. The income and expenditure budgets for the HRA were approved by council in February 2017 as shown in table 10 below, with a net draw required from the HRA balances of £1.00M.

98. The year-end forecast position for 2017/18 shows an adverse forecast variance of £0.86M compared to this budget.

	2017/18 Budget	**Quarter 3 Forecast**	**Variance**

	£M	£M	£M
Net rent income	(72.59)	(72.59)	0.00
Service charges & other income	(2.27)	(2.39)	(0.12)
Misc. Adjustments	0.00	0.00	0.00
RTB admin	(0.13)	(0.13)	0.00
Total income	**(74.99)**	**(75.11)**	**(0.12)**
Management	21.95	22.13	0.18
Depreciation	19.26	19.26	0.00
Responsive & Cyclical repairs	13.91	14.71	0.80
Other revenue spend	0.10	0.10	0.00
HRA cost of rent rebates	0.00	0.00	0.00
Total service expenses	**55.22**	**56.20**	**0.98**
Capital charges	5.98	5.98	0.00
Repayment of loans	5.59	5.59	0.00
Revenue contribution to capital	9.19	9.19	0.00
Total expenditure	**75.99**	**76.97**	**0.98**
(Surplus) / Deficit for the year	**1.00**	**1.86**	**0.86**

Table 10 – HRA Forecast Outturn Position 2017/18

99. The variance of £0.86M is due to:

- a delay in the implementation of the new materials contract, initially due to systems and stock replenishment issues but has been mitigated in part, by savings from vacant posts; retendering on Housing Investment expenditure; and increased income from leasehold properties due to major works.
- An increase in the provision for bad debts to reflect the increasing rent and service charge arrears as a result of the introduction of Universal Credit

Work is ongoing to identify further in-year savings to mitigate the variance, but the current assumption is that an expected underspend on the capital programme will enable £0.86M of reduced revenue contribution to capital in 2017/18.

<u>Medium Term Financial Position</u>

100. This report sets out the HRA revenue budgets for 2018/19 and the 30 year HRA business plan covering the period 2018/19 to 2047/48. The proposed changes to rents and other charges are an integral part of the revenue estimates for 2018/19.

101. The HRA Business Plan supports a number of council strategies, including the Medium Term Financial Strategy, to ensure plans are affordable and budgets are aligned to the assumptions detailed in those strategies. The specific HRA Business Plan priorities are summarised below:

- All HRA debt can be repaid over the 30 year life of the Plan.
- The capital spending plans include provision to maintain and improve all existing dwellings and feature an increase in the level of planned expenditure in the early years.
- This investment can be achieved within the Government's borrowing limit of £199.6M, also known as the 'debt cap'. Additionally, a reserve of at least £6M borrowing headroom is retained throughout.
- As a result of additional voluntary minimum revenue provision payments (MRP) the ratio of financing costs to new revenue stream, which is an indicator of affordability

	and highlights the revenue implications of existing and proposed capital expenditure, significantly increases in 2019/20 and then reduces over the remainder of the MTFS period. This is further reflected in the Treasury Management Strategy & Prudential Limits Report which will be reported to council in February 2018. • A provision of £93M is set aside for stock replacement, which will support the renewal of any of the existing dwellings that may be required over the next 30 years. This provision has been phased between year 7 and year 30 of the Plan. • Following the Chancellors announcement in the Autumn Statement the council will be reviewing whether to complete a bid to central government to raise the HRA borrowing cap. The revenue budget meets the minimum balances of £2M over the life of the Plan.
102.	The HRA Business Plan has consistently shown revenue balances that increase above minimum levels within the 30 year period. This remains the case, although in the proposed updated plan for 2018/19 onwards the year 30 projected revenue balance will be reduced to £3.1M. The surpluses are liable to change annually, either favourably or not, and will reflect the annual review of stock investment needs and estimated unit rates. The predicted revenue surpluses do however begin to exceed minimum levels in 2022/23 rather than 2021/22. This is linked to the additional fire safety works of £14.9M required as a consequence of the Grenfell Tower disaster which have increased the cost of the capital programme.
103.	Since the 30 year HRA Business Plan was approved as part of the 2017/18 budget setting process at full council on 15th February 2017, there have been further developments which have had a material effect on the Business Plan. These relate to capital expenditure and are detailed elsewhere on this agenda as part of the General Fund & Housing Revenue Account Capital Strategy & Programme 2017/18 to 2021/22 report. In summary, this mainly relates to the Grenfell Tower disaster, fire safety remedial works have been identified as being required for 20 high rise HRA owned blocks of flats within the city. This may result in the need to breach the HRA borrowing headroom in order to meet the costs of these works.
104.	A 30 year HRA Business Plan has been prepared and the summary for the revenue and capital budgets is set out in Appendices 7 and 8. To ensure all council plans are aligned these reflect the key planning assumptions set out in the Medium Term Financial Strategy.
105.	The HRA capital programme was last updated and approved in November 2017. These spending plans have now been reviewed to take account of the latest estimated costs and phasing of those schemes and the forecast change in resources. The proposed February 2018 programme is shown in detail as part of the General Fund and Housing Revenue Account Capital Programmes 2017/18 to 2021/22 report. The changes in the overall programme are summarised by year in a table in that report as well as details of significant changes since the last update.
	Rent & Service Charge Increases
106.	In order to address the HRA budget gap it has been necessary to review the charges currently levied for both garages and parking spaces. In reviewing what the charges are for similar service provision in the private sector it has been established that the council's rates are lower by comparison. Based on this, financial modelling has been undertaken to establish what increase in charges can be accommodated to increase income targets without a material impact on voids. Approval is sought to increase charges by 15% for Garages and 10% for Parking Spaces. It should be noted that council tenants have not seen an increase in these rents above inflation for a number of years (non-council tenants had a

	flat increase of £1 in 2016/17).
107.	In line with the Welfare Reform and Work Act 2016, HRA rents will be reduced by 1%. This is a four year programme of rent reductions and will continue until end of the 2019/20 financial year.
108.	Approval is sought to increase service charges by 3% from 1st April 2018 (including supported accommodation) based on a full cost recovery approach. This gives revised service charges as follows: General Service Charges • Digital TV £0.43 (£0.01 increase from 2017/18) • Concierge monitoring £1.24 (£0.04 increase from 2017/18) • Tower Block Warden £5.12 (£0.15 increase from 2017/18) • Cleaning service in walk-up blocks £0.65 (£0.02 from 2017/18) Supported Accommodation • Call Monitoring Charge - £1.29 (£0.04 increase from 2017/18) • Careline Silver - £3.09 (£0.09 increase from 2017/18) • Careline Gold - £4.38 (£0.13 increase from 2017/18)
	Other Key Assumptions
109.	Rent arrears have risen in the current financial year 2017/18, linked to the impact of Welfare Reform. Although there is a short term impact on the Business Plan, with bad debt provision temporarily rising by 0.5% over the next 5 years, it is expected that in the longer term, the debt position will stabilise in line with national policies and internal debt collection processes.
	Savings Proposals
110.	As part of setting the budget for 2017/18 onwards, the HRA business plan was updated to reflect a required 1% reduction in dwelling rent for the financial years 2016/17 to 2019/20. This resulted in a loss of income of £33M. The Business Plan approved by council in February 2017 included a 2018/19 savings target of £3.94M. Savings proposals of £3.94M have been identified and were reported to Cabinet in November 2017. The table below provides an update on the current HRA budget position:

	Table 11– HRA Budget Position Update

	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Original Savings Requirement	**0.00**	**3.94**	**7.84**	**8.16**	**8.42**
Pressures					
2017/18 Forecast Outturn Position (Paragraph 39)	0.86	0.00	0.00	0.00	0.00
Future years identified pressures – none currently identified	0.00	0.00	0.00	0.00	0.00
Savings					
One-off contribution from Heating Account	0.00	(0.39)	0.00	0.00	0.00
Efficiency Savings	0.00	(0.14)	(0.15)	(0.15)	(0.15)
Income Generation	0.00	(0.02)	(0.02)	(0.02)	(0.02)
Service Reductions	0.00	(0.45)	(0.45)	(0.45)	(0.45)
Reduction in Contribution to Capital Funding	(0.86)	(2.94)	(3.07)	(3.12)	(3.12)
Amended savings requirement	**0.00**	**0.00**	**4.15**	**4.42**	**4.68**

111.	In 2013/14 the HRA made a contribution of £0.39M to the landlord-controlled heating account in order to reduce the deficit on that account. This was in effect a short term contribution to balance the account but it was intended that the sum would be repaid to the HRA. At the end of 2016/17 the heating account held a surplus of £0.80M, and in 2018/19 will be in a position to now make a repayment to the HRA.
112.	Efficiency savings, Income generation and Service Reductions savings have been explored, including reduction and cessation of various corporate subscriptions, as well as potential further service redesign. None of the proposals impact on staffing and therefore it has not been necessary to undertake a consultation process.
113.	There are proposed reductions in revenue contributions to capital as a result of slippage and reduced spend on current approved capital schemes. In addition, there is a proposal to replace capital funding from revenue contributions with increased borrowing. Although this will be with the overall HRA borrowing limits, it should be noted that this saving is after taking into account the change in priorities of the capital programme to undertake identified works following the Grenfell Tower disaster. These works will be funded through slippage in existing schemes, additional long term borrowing, and HRA capital receipts. It should be noted that £0.94M of this is a one off saving in 2018/19.
114.	The above savings proposals have now been finalised and do not required the need for public consultation.
	HRA Balances
115.	The HRA Business Plan has consistently shown revenue balances that increase above minimum levels within the 30 year period. This remains the case, but in the proposed updated plan for 2017/18 onwards the year 30 projected revenue balance will reduce to £38.39M compared to the equivalent figure of £26.35M in the previous approved plan. As previously reported, the main risk to the long term plan is that, if building inflation was to exceed general inflation over a prolonged period, this would have a significant adverse impact on HRA balances. Therefore the surpluses are liable to change annually, either

	favourably or not, and will reflect the annual review of stock investment needs and estimated unit rates. The predicted revenue surpluses now begin to significantly exceed minimum levels in 2022/23, compared to 2021/22 in the previous plan.
116.	It will be necessary to regularly undertake sensitivity analysis to assess the impact of external influences such as building inflation and changes to CPI on the business plan so that the overall budget position can be maintained to support investment in services and properties to meet the expectations of tenants and our regulatory requirements.
117.	The HRA minimum balance will remain at £2M.
	STATEMENT OF THE SECTION 151 OFFICER IN ACCORDANCE WITH THE LOCAL GOVERNMENT ACT 2003 – ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES
118.	Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for "the proper administration of their financial affairs' and appoint a Chief Finance Officer (CFO) to have responsibility for those affairs. The CFO must exercise a professional responsibility to intervene in spending plans in order to maintain the balance of resources so that the authority remains in sound financial health.
119.	Section 25 of the Local Government Act 2003 (LGA 2003) imposes a duty on the Chief Financial Officer (CFO) to report formally to full council on the following matters:- • The robustness of the estimates made for the purpose of the calculations (to set the council tax). • The adequacy of the proposed financial reserves. The council is required to set a balanced budget each year and a minimum level of revenue balances and reserves must be specified within the budget, and be taken account of when setting the budget requirement.
120.	In setting the budget the council should have regard to the strategic and operational risks it is facing. Some of these risks reflect the current economic climate, the national issues surrounding local authorities and increasing demand for services.
121.	In considering the robustness of estimates the S151 Officer has examined the major assumptions and has carried out some sensitivity analysis to ascertain the potential risk and reasonableness of underlying budget assumptions such as:- ▪ The reasonableness of provisions for inflationary pressures; ▪ The likelihood of interest rate rises; ▪ The extent to which known trends and pressures have been provided for; ▪ The achievability of change built into the budget; ▪ The realism of income targets; ▪ Third party provider risks; ▪ A review of major risks associated with the budget; ▪ The availability of the General Fund Balance to meet cost pressures from unforeseen events; and The strength of the financial management and reporting arrangements.
122.	In coming to a view the Service Director Finance & Commercialisation (S151 Officer) has taken into account the risks, issues and mitigations set out in Appendix 6 - Key Financial Risks.
123.	All these risks have been rated using the council's risk assessment criteria. Key points from this assessment are detailed below.

124.	There has been a sensitivity analysis carried out on the underlying assumptions contained with the MTFS Model, around inflation, interest rates and income estimates.
125.	There has been an assessment of the required General Fund Balance to meet cost pressures of unforeseen events and third party risk.
126.	Detailed estimates have been prepared by each service area based on levels of service required to achieve the outcome plans. In completing this exercise service areas have reviewed the risk associated with the individual business plans. Where these risks are seen as significant they have been added to Appendix 6.
127.	As the 2017/18 year has progressed savings proposals have been implemented and further planning and verification of the proposals for 2018/19 has taken place. In some instances this has resulted in a reduced saving all of which have been taken into account in setting the budget and reviewing pressures. However due to the level of savings required and, in some areas, the complexity, there is still a risk to the business, as the budget assumes these will be implemented with sufficient pace. The achievement of these savings proposals has been and will continue to be monitored by the Senior Leadership Team throughout the coming year, but as a consequence the MTFS Reserve is still seen as key reserve to be maintained.
128.	Significant financial pressures experienced in 2017/18 have, where appropriate, been recognised in preparing the estimates included in this report, as can be seen from table 3 in paragraph 36.
129.	The financial management and reporting arrangements have continued to be strengthened in the past twelve months with the introduction of finance business partnering and the continuation of monthly monitoring reports to the council Management Team in a timely fashion. The revised process for dealing with areas which have budgetary pressures by ensuring there are action plans in place and intensive care meetings with the Senior Leadership Team are in place to ensure the plans are robust and being achieved. The impact of these measures can be seen from the financial position regarding Children and Families, which at the end of the 2017/18 financial year was in a surplus position for the first time in a number of years, and current forecasts look like this position is set to continue.
130.	For the second time the setting of a balanced budget is not reliant on the utilisation of the General Fund balance. This gives us the opportunity, given the level of economic uncertainty to maintain the level of the balance without any further contributions giving us the opportunity to review this balance in light of the economic uncertainty faced by the council.
131.	In addition to the budget risks the collection of council Tax and the generation of business rates are two key risks which need to be closely monitored. An assessment of the anticipated business rates income has been carried out based on the information available and a provision made for appeals. The anticipated growth in business rates and council tax fed into the estimates has broadly been achieved, with relatively minor slippage in business rates. However 2018/19 not only relies on further growth but also introduces 100% business rates retention which makes us more reliant on business rate income increasing the potential risk associated with these estimates, but in the S151 Officer’s opinion these have been identified and provided for within the Taxation Reserve, which if resources are available will be strengthened at the end of the financial year.
132.	Overall the risk associated with the General Fund and the Housing Revenue Account budget is still at a relatively high status given the quantum and complexity of savings, however these risks have been identified and mitigations put in place.
133.	Looking forward there are a number of potential risks on the horizon;

	• the end of the Comprehensive Spending Review in 2019/20 • the proposal to implement a revised funding formula • increase in the frequency of valuations • the move to 75% Business Rates Retention
134.	As a result of these potential future risks it is the S151's opinion that the General Fund Balance should be maintained at £11.3M, and when possible the taxation reserve increased. However following the analysis it is the S151 officer's opinion that the overall level of reserves and balances are adequate.
	BUDGET CONSULTATION
135.	There has been no need for consultation on the savings proposals that have been put forward. However should the need arise Cabinet will undertake a public consultation process. The Leader and Cabinet are keen to listen to any new ideas on how to reduce costs, to receive feedback on the proposals and on any potential impact of the proposals.
136.	The aims of the public consultation are to: a. Communicate clearly and make residents aware of the financial pressures the council is facing; b. Ensure residents understand what is being proposed in the updated 2018/19 budget and are aware of what this will mean for them; c. Enable any resident, business or stakeholder who wishes to comment on the proposals the opportunity to do so, allowing them to raise any impacts the proposals may have; d. Ensure that the results are analysed in a meaningful, timely fashion, so that feedback is taken into account when final decisions are made; and e. Provide feedback on the results of the consultation and how these results have influenced the final decision.
	STAFFING IMPLICATIONS
137.	The council has on-going financial challenges. As a significant proportion of the council's expenditure is on employee costs in the context of all outcomes being delivered within reducing envelopes, it is inevitable that the draft proposals will have an impact on staff cost and staff numbers.
138.	In light of this, the council has agreed a clear framework for change management with the trade unions to implement a fair and transparent way of achieving the necessary reductions in employee numbers whilst working to reduce the potential for compulsory redundancies. Where any proposals have an impact on workforce numbers, employment status and/or terms and conditions of employment there will be meaningful consultation with due regard to statutory timeframes as a minimum.
139.	Through the consultation process the Cabinet are keen to explore all avenues with the Trade Unions and employees to identify wherever possible alternative options for delivering savings, in order that the level of any proposed workforce reductions and potential redundancies can be reduced. The Cabinet will also continue to ensure that impacted staff are aware of all the available options which can be used to avoid compulsory redundancies including: • Voluntary solutions; • Early and Flexible retirement; and • Voluntary redundancy and proposals from employees such as reduced hours.

	EQUALITY AND SAFETY IMPACT ASSESSMENTS
140.	The Equality Duty is a duty on public bodies which came into force on 5 April 2011. The council will have due regard to the impact of its decisions on its equality duties and the need to advance equality of opportunity between people who have protected characteristics and those who do not.
141.	While the Equality Duty does not impose a legal requirement to conduct an Equality Impact Assessment, it does require public bodies to show how they considered the Equality Duty and that they have been consciously thinking about the aims of the Equality Duty as part of the process of decision-making. To comply with these requirements as well as the Community Safety legislation, the council has used its existing Impact Assessment framework so that it can ensure the use of a consistent, council wide mechanism to evidence how decision making takes into account equality and safety considerations. In addition, in light of the potential impact of the welfare reforms on some residents, the assessments also take into account the impact on poverty.
142.	Equality and Safety Impact Assessments (ESIAs) will need to be completed for any proposals that are identified as requiring an assessment, as they could have an adverse impact on a particular group or individuals.
143.	The individual ESIAs are then analysed to consider the cumulative impacts proposals may have on particular groups and the mitigating actions that could be considered. In order to give the right perspective to budget proposals, the Cumulative Impact Assessment has to be considered in light of the available information on the City's profile, service user and non-user information and staffing profiles as well as the proportion of the council's budget that is currently spent on targeted groups or communities. The first draft of the Cumulative Impact Assessment are completed by a central team of officers within the council, based on the initial ESIAs completed by service managers. This is then published on the council's website.
RESOURCE IMPLICATIONS	
Capital/Revenue	
144.	The capital and revenue implications are fully detailed within the report.
Property/Other	
145.	None
LEGAL IMPLICATIONS	
146.	It is important that Members are fully aware of the full legal implications of the entire budget and council tax making process, when they consider any aspect of setting the council's Budget. Formal and full advice to all Members of the council protects Members, both in their official and personal capacity, as well as the council. If Members have received the appropriate professional legal and financial advice and act reasonably, generally the courts will not interfere in their decisions.
147.	The first and overriding legal duty on Members is their fiduciary duty to weigh the needs of service users against the interests of local taxpayers. In planning the budget, Members are under a fiduciary duty to act prudently, responsibly, in a business-like manner and in their view of what constitutes the best interests of the general body of local taxpayers. In deciding upon expenditure, the council must fairly hold a balance between recipients of the benefits of services provided by the council and its local taxpayers. Members should note that their fiduciary duty includes consideration of future local taxpayers as well as present

	local taxpayers.
148.	It is appropriate for Members to consider their own position as some Members may have expressed support publicly for policies that are not policies of the council. Political documents do not represent a legal commitment on behalf of the council. To treat any political document as a legal commitment by the council would be illegal. Where there is a valid choice before Members, then, at that stage and only at that stage, Members may take political documents into account.
149.	The legal significance of the Annual Budget derives from the council's duty under the Local Government Finance Act 1992 (the 1992 Act) to set a balanced budget. Failure to make a lawful council Tax on or before 11 March 2018 could have serious financial results for the council and make the council vulnerable to an Order from the Courts requiring it to make a council tax. Information must be published and included in the council tax demand notice. The Secretary of State has made regulations, which require charging authorities to issue demand notices in a form and with contents prescribed by these regulations.
150.	There is also a duty under Section 65 of the 1992 Act to consult persons or bodies appearing to be representative of persons subject to non-domestic rates in each area about proposals for expenditure (including capital expenditure) for each financial year.
151.	Under Section 114 (2) and 114 (3) of the Local Government Finance Act 1988 , the Chief Financial Officer is required to make a report, if it appears to him/her that a decision or course of action the council or an officer has agreed or is about to make is unlawful, or that expenditure is likely to exceed resources available.
152.	The Local Government Act 2000 provides a power for councils to promote the economic, social and environmental well-being of their areas and develop community strategies and establishes an ethical framework.
153.	Section 25 of the Local Government Act 2003 imposes a specific duty on the CFO (Section 151 officer) to formally report to council at the time the budget is considered and the council tax is set on the robustness of the budget estimates and the adequacy of financial reserves. This report will be brought forward alongside the Budget and council Tax Setting Report to full council in February.
154.	Of particular importance to the council tax setting process and budget meeting of the full council is the council's budget and Policy Framework Procedure Rules (FPR's) set out in Part 4 of the City Council's Constitution. These provide a legal framework for the decision making process whereby the budget of the city council is determined, and the council tax is set. In addition, Members need to be aware that these rules provide a route whereby the Leader may require the full council to reconsider their position if they do not accept the Executive's recommended budget without amendment.
<u>Other Legal Implications</u>	
155.	The financial forecasts contained in this report have been prepared and are submitted as part of the budget process set out in the council's Constitution. As part of the review process by the Council's Management Team, the proposals contained in this report have been checked from a legal viewpoint.

RISK MANAGEMENT IMPLICATIONS	
156.	The council maintains a financial risk register which details the key financial risks that face the council at a given point in time. This is updated on a quarterly basis and forms part of the Corporate Revenue Monitoring Report included elsewhere on this agenda.
157.	Alongside the risks identified when setting the budget for 2017/18 a number of items have arisen since this time that may need to be addressed outside of those assumptions. Currently those main issues are: • Additional costs are being incurred to install sprinkler systems in all tower blocks on the advice of Hampshire Fire & Rescue and specialist fire safety consultants following the Grenfell Tower Block Fire. These costs are being met by the HRA; • Southampton's joint bid with Portsmouth and the Isle of Wight to become a pool pilot in 2018/19 for 100% retention of business rates has been accepted by the MHCLG. As a result Southampton will benefit more from business rates growth in the pool area, although there is an increased risk of an overall reduction in funding if business rates fall. Arrangements have been put in place as part of the pool agreement to mitigate this risk; • Potential risk of savings proposals not being achieved and insufficient mitigations found to deal with in year – this is covered by the MTFS reserve; • High Needs Funding – due to increasing pupil numbers within special schools and the associated cost of Home to School transport, there is a £3.3M in 2017/18 pressure that will need to be resolved by 2018/19. In this financial year this pressure will be mitigated using DSG roll forward; review of the top-up funding; and an injection from general fund reserves to enable the schools and the service to plan and implement savings; and • There is still a risk from the economic climate due to Brexit and current levels of inflation. These are covered both by the MTFS reserve and by the contingencies (previously known as the risk fund).
158.	The Financial Risk Register is attached as appendix 6.
POLICY FRAMEWORK IMPLICATIONS	
159.	The Medium Term Financial Strategy and the Budget are key parts of the Policy Framework of the council and a budget and council tax for 2018/19 must be proposed by the Cabinet for consideration by the full council under the Constitution.

KEY DECISION?	**Yes**
WARDS/COMMUNITIES AFFECTED:	**All**
SUPPORTING DOCUMENTATION	
Appendices	
1.	Outcome Plan Annexes
2.	Medium Term Financial Strategy 2018/19 to 2021/22
3.	2018/19 Council Tax Calculation

4.	2018/19 Collection Fund Estimates
5.	Statutory Powers To Undertake Proposals In The Report
6.	Key Financial Risks
7.	HRA 30 Year Business Plan Operating Account
8.	HRA Major Repairs & Improvements Plan
9.	HRA Savings Proposals 2018/19

Documents In Members' Rooms

1.	None
2.	

Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	**No**
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	**No**

Other Background Documents
Other Background documents available for inspection at:

	Title of Background Paper(s)	**Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)**
1.		
2.		

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Appendix 1

SOUTHAMPTON IS AN ATTRACTIVE AND MODERN CITY WHERE PEOPLE ARE PROUD TO LIVE AND WORK

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Base Estimate 2017/18	26,645.8	26,645.8	26,645.8	26,645.8
Previously Agreed Savings & Pressures	(527.2)	(327.2)	(527.2)	(527.2)
Base Changes	(300.3)	(300.3)	(300.3)	(300.3)
Allocated Inflationary Pressures	1,237.9	1,237.9	1,237.9	1,237.9
New Pressures				
LATCo - reduction in year 1 income target.	550.0	0.0	0.0	0.0
RePhasing of Treasure Trove Project	200.0	(200.0)	0.0	0.0
Investment in Services				
Street Cleansing - additional mechanical sweeper and staffing resources.	410.0	250.0	250.0	250.0
Enforcement - Additional staffing resources to be made available to support Environmental Health Enforcement activities.	230.0	230.0	230.0	230.0
Parks & Open Spaces - Additional resources to deliver parks and open spaces improvements including investment in safety, cleanliness and play.	100.0	100.0	100.0	100.0
Leisure & Heritage - Additional resources to support applications to bid for sports, recreation & heritage grant funding.	180.0	180.0	180.0	180.0
Investment in Heritage Assets	200.0	0.0	0.0	0.0
Identified Budget Savings Proposals				
None Identified	0.0	0.0	0.0	0.0
Current Budget Requirement Based on existing proposals	**28,926.2**	**27,816.2**	**27,816.2**	**27,816.2**
Budget Requirement reported in February 2017	25,591.4	25,991.4	25,591.4	25,591.4
Overall Change in Budget Requirement	**3,334.8**	**1,824.8**	**2,224.8**	**2,224.8**

CHILDREN AND YOUNG PEOPLE GET A GOOD START IN LIFE

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Base Estimate 2017/18	45,638.6	45,638.6	45,638.6	45,638.6
Previously Agreed Savings & Pressures & Inflation	(5,945.4)	(9,267.4)	(9,267.4)	(9,267.4)
Base Changes	6,687.7	6,687.7	6,687.7	6,687.7
Allocated Inflationary Pressures	364.8	364.8	364.8	364.8
New Pressures				
Home to School Transport Service	390.0	0.0	0.0	0.0
Service Cost Recovery - Non Achievment of Savings	450.0	450.0	450.0	450.0
Investment in Services				
None Identified	0.0	0.0	0.0	0.0
Identified Budget Savings Proposals				
None Identified	0.0	0.0	0.0	0.0
Current Budget Requirement Based on existing proposals	**47,585.7**	**43,873.7**	**43,873.7**	**43,873.7**
Budget Requirement reported in February 2017	39,693.2	36,371.2	36,371.2	36,371.2
Overall Change in Budget Requirement	**7,892.5**	**7,502.5**	**7,502.5**	**7,502.5**

PEOPLE IN SOUTHAMPTON LEAD SAFE, HEALTHY, INDEPENDENT LIVES

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Base Estimate 2016/17	58,930.2	58,930.2	58,930.2	58,930.2
Previously Agreed Savings & Pressures	(9,595.6)	(14,214.6)	(14,214.6)	(14,214.6)
Base Changes	(3,454.7)	(3,454.7)	(3,454.7)	(3,454.7)
Allocated Inflationary Pressures	365.5	365.5	365.5	365.5
New Pressures				
Unachieved savings	1,070.0	1,070.0	1,070.0	1,070.0
Increased Pressures due to demographics / demand :	2,670.0	800.0	1,580.0	1,580.0
Investment in Services				
None Identified	0.0	0.0	0.0	0.0
Identified Budget Savings Proposals				
None Identified	0.0	0.0	0.0	0.0
Current Budget Requirement Based on existing proposals	**49,985.4**	**43,496.4**	**44,276.4**	**44,276.4**
Budget Requirement reported in February 2017	49,334.6	44,715.6	44,715.6	44,715.6
Overall Change in Budget Requirement	**650.8**	**(1,219.2)**	**(439.2)**	**(439.2)**

SOUTHAMPTON IS A CITY WITH STRONG, SUSTAINABLE ECONOMIC GROWTH

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Base Estimate 2017/18	12,669.7	12,669.7	12,669.7	12,669.7
Previously Agreed Savings & Pressures & Inflation	(4,445.2)	(5,021.2)	(5,021.2)	(5,021.2)
Base Changes	(1,325.7)	(1,311.6)	(1,170.1)	(1,170.1)
Allocated Inflationary Pressures	342.7	337.0	486.6	486.6
New Pressures				
Unachieved income targets in relation to reduced opportunities for Property Investment.	500.0	500.0	0.0	0.0
One off saving, previously assumed to be recurring in relation to contract compliance.	500.0	500.0	500.0	500.0
Unachieved income targets linked to Solent Devolution Deal.	100.0	100.0	100.0	100.0
Expected increase in parking income will not be achieved.	70.0	70.0	70.0	70.0
Investment in Services				
Investment in Roads	1,100.0	1,100.0	1,100.0	1,100.0
Identified Budget Savings Proposals				
None Identified	0.0	0.0	0.0	0.0
Current Budget Requirement Based on existing proposals	**9,511.5**	**8,943.9**	**8,735.0**	**8,735.0**
Budget Requirement reported in February 2017	8,224.5	7,648.5	7,648.5	7,648.5
Overall Change in Budget Requirement	**1,287.0**	**1,295.4**	**1,086.5**	**1,086.5**

A SUSTAINABLE MODERN COUNCIL

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Base Estimate 2017/18	24,316.1	24,316.1	24,316.1	24,316.1
Previously Agreed Savings & Pressures	(7,652.1)	(8,677.1)	(9,977.1)	(9,977.1)
Base Changes	(549.0)	(587.3)	(728.8)	(728.8)
Allocated Inflationary Pressures	551.4	550.3	552.2	552.2
New Pressures				
Unachieved digitial savings where assumed staff savings cannot be achieved and staffing pressures from the implementation of Universal Credit	1,260.0	1,200.0	1,200.0	1,200.0
Changes to central funding requirements - pay inflation, grants and minimum revenue provision.	2,520.0	750.0	750.0	750.0
Investment in Services				
Additional Customer Services Resources	200.0	200.0	200.0	200.0
Investment in water fountains	20.0	20.0	20.0	20.0
British Legion Statues	4.0	0.0	0.0	0.0
Investment in Armed Forces Day	20.0	0.0	0.0	0.0
Identified Budget Savings Proposals				
None Identified	0.0	0.0	0.0	0.0
Current Budget Requirement Based on existing proposals	**20,686.4**	**17,772.0**	**16,332.4**	**16,332.4**
Budget Requirement reported in February 2017	16,664.0	15,639.0	14,339.0	14,339.0
Overall Change in Budget Requirement	**4,022.4**	**2,133.0**	**1,993.4**	**1,993.4**

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Agenda Item 9

Appendix 2

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Southampton City Council

MEDIUM TERM FINANCIAL STRATEGY

2018/19 – 2021/22

SOUTHAMPTON
CITY COUNCIL

MEDIUM TERM FINANCIAL STRATEGY 2018/19 – 2021/22
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SECTION 1. Introduction

1.1 Background

The Medium Term Financial Strategy published last year was a step change in the Council's transformation journey being the first time a two year budget was set. This has enabled the Council to set a budget this financial year without the need to consult on further savings proposals. It is intended to continue this practice going forward.

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

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

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

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

1.2 Aims and Purpose of the Medium Term Financial Strategy

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

It helps the Council to respond, in a considered manner, to pressures and changes as a result of many internal and external influences. This is particularly important during a period when the Council will face unprecedented changes and challenges. The MTFS recognises the key role that financial resources play in the future delivery of outcomes and in enabling the effective planning, management and delivery of services that contribute to the outcomes in the Council Strategy 2016-2020. The strategy concentrates on the principles that will provide a strong direction for the medium term.

An overarching MTFS is not only good practice, but is required to provide the strategic financial framework for the authority at a time of considerable pressure and change, be this delivering key priorities and ongoing efficiency gains, closer budget scrutiny, the management of financial pressures, or political change.

The key overriding aim of the MTFS is therefore:

> ***To provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the Council's key strategic outcomes, priorities and sustainable services.***

The 6 key objectives of the MTFS are to:

- Provide financial parameters within which budget and service planning should take place;
- Ensure that the Council sets a balanced and sustainable budget;
- Focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources. Ensuring services are defined on the basis of clear alignment between priority and affordability;

- Ensure that the Council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;
- Plan the level of fees, charges and taxation in line with levels that the Council regard as being necessary, acceptable and affordable to meet the Council's aims, objectives, policies and priorities whilst gradually reducing the Council's reliance on Central Government funding; and
- Ensure that the Council's long term financial health and viability remain sound.

The MTFS enables the Council to move away from the historical position of setting annual budgets in isolation to future years, to integrated service and financial planning over the medium term, using an outcomes based planning and budgeting approach. This approach focuses the planning process on the medium term facilitating a balanced budget by 2019/20 and future years, ready for the expected start of the new funding regime for local government, and the move towards full business rate retention in 2020.

The resulting Medium Term Financial Model provides the framework within which decisions relating to future service provision can be made. The detailed budget, taking account of constantly changing circumstances, will continue to be kept under review over the period and the Council will need to set the level of Council Tax on an annual basis.

1.3 Strategic context

There are a number of strategies, policies and plans which impact on the direction of the Council and the day to day operations therefore impacting on the MTFS. The following diagram puts the MTFS in this strategic context.

1.4 Setting the context: key strategies and plans

1.4.1 SOUTHAMPTON CITY STRATEGY 2015-2025

The MTFS is framed by the City Strategy 2015-2025, and the City Vision, which has been developed by Southampton Connect, a partnership group consisting of representatives from business, the public, voluntary and education sectors and the City Council. The City Strategy identifies three key priorities:

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

It also includes four cross cutting themes:

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

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

1.4.2 SOUTHAMPTON CITY COUNCIL STRATEGY 2016-2020

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

Children and young people get a good start in life

Strong and sustainable economic growth

People in Southampton live safe, healthy, independent lives

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

A modern, sustainable council

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

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

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

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

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

1.4.3 WORKFORCE STRATEGY 2016-2020

In September 2016 Council approved the Workforce Strategy setting out a high level vision, priorities and key outcomes to develop and nurture a motivated and effective workforce who will deliver the Council's priorities. The main outcomes delivered by the Workforce Strategy will be:

- A robust foundation which enables decision making, planning and delivery based on evidence - we will know, understand and project workforce needs, issues and demands and plan accordingly;
- Southampton City Council will be an employer of choice; and
- Southampton City Council perceived as a great place to work.

1.4.4 CUSTOMER STRATEGY 2018-2022

The Council's vision is:

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

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

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

1.4.5 DIGITAL STRATEGY 2018-2022

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

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

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

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

1.4.6 OTHER MAJOR STRATEGIES AND POLICIES

As well as the overarching City Strategy and the Southampton City Council Strategy, there are a range of other strategies and policies and work programmes which will influence the MTFS.

The two other key financial strategies are detailed below:

1.4.7 CAPITAL STRATEGY

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

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

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

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

- £67M for the Schools Expansion;
- Significant digital investment in the Council's main systems including an enterprise resource planning system, and a client case management system;

- Recognition of the need for additional preventative Flood Defence schemes in the city;
- A commitment to provide more Extra Care Accommodation;
- Further expansion of the Roads Programme;
- Bidding for additional funding and working with partners to provide an accelerated housing delivery programme;
- Initial proposals for a Public Sector Community Hub;
- Plans for a Business Incubator;
- Recognition that future capital investment may be required in relation to the proposed Local Authority Trading Company (LATCo); and
- Clearer links to the outcomes, and executive commitments.

1.4.8 TREASURY MANAGEMENT STRATEGY 2018/19 TO 2021/22

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Service Director for Finance and Commercialisation to make decisions on the management of the City Council's debt and investment of surplus funds.

The City Council is able to borrow on a long term basis to finance capital and on a short term basis to manage cash flow fluctuations. The Council is also able to invest surplus funds.

The core elements of the 2018/19 Treasury Management strategy are:

- To continue to make use of short term variable rate debt to take advantage of the market conditions of low interest rates;
- To constantly review longer term forecasts and to lock into longer term rates through a variety of instruments, as appropriate, during the year, in order to provide a balanced portfolio against interest rate risk;
- To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio;
- To invest surplus funds prudently, the Council's priorities being:
  - Security of invested capital;
  - Liquidity of invested capital;
  - An optimum yield which is commensurate with security and liquidity; and
  - To approve borrowing limits that provide for debt restructuring opportunities and pursue debt restructuring where appropriate and within the Council's risk boundaries.

1.4.9 INVESTMENT STRATEGY

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £58M and £101M. As at 31st December 2017, the Council had investments amounting to £69M with an average rate of return of 3.69%.

The current strategy is to minimise our borrowing by utilising investment balances as this is the most cost effective way to manage surplus funds and to continue to diversify into more secure and/or higher yielding asset classes in 2018/19 as there is increasing risk and low returns from short term unsecured bank investments. New banking legislation means local authorities now have reduced protection for unsecured deposits in the event of a bank failing and there is some uncertainty over credit ratings for banks splitting their retail and investment operations.

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

The MTFS asumes that new investments will be made at an average 0.39% short term and 4.50% long term.

1.4.10 BORROWING STRATEGY

The Council's primary focus when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is secondary to this. This is key to managing borrowing costs within the overall financial constraints of the authority.

By doing this the Council is able to minimise net borrowing costs and overall treasury risk. Details of borrowing options are included in full within the Prudential Limits and Treasury Management Strategy 2018/19 to 2021/22.

As at the 31st December 2017, the Council's overall outstanding borrowing was £244M, at an average rate of 3.31% and an average maturity of 21 years. This has decreased by £16M since the start of the financial year (£260M) as this is in line with reducing our investment balances we have not yet replaced all maturing debt. If expenditure is in line with cash flow predictions this is expected to borrow an additional £22M in 2017/18 and a further £41M in 2018/19 bringing estimated borrowing to £307M by the end 2018/19. The long term debt portfolio is made up of loans from the Public Works Loan Board (PWLB) of £212M and market loans of £9M.

The MTFS assumes that new long term borrowing will be at 2.92%.

The budget for debt interest paid in 2018/19 is £14.6M based on an average debt portfolio of £311M at an average interest rate of 2.63%. Investment income for 2018/19 is budgeted at £1.4M based on an average portfolio of £50M at an average of 2.8%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondently different. If the costs are higher than expected the Council will manage these within existing resources however when this cannot be achieved a call on the MTFS reserve can be made in order to avoid in year pressures.

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

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

- Solent Economic Plan 2014-20;
- Health and Wellbeing Strategy;
- Improved Better Care Plan;
- Safe City Strategy;
- Local Plan;
- Local Transport Plan and Transport Asset Management Plan;
- Housing Revenue Account Business Plan 2017/18 to 2046/47; and
- Corporate Property Strategy and Asset Management Plan.

1.4.12 NATIONAL AND EXTERNAL FACTORS

The MTFS is set within the context of national economic and public expenditure plans, and takes into account the national legislation setting out the City Council's ability to borrow and to raise income from Council Tax and other sources.

DEVOLUTION – SOLENT MAYORAL COMBINED AUTHORITY

The City Council has worked with Portsmouth City Council and the Isle of Wight Council to submit a proposal for a Solent Deal based on a Mayoral Combined Authority (MCA). The Deal was submitted in March 2016, and included:

- An allocation of £30M pa for 30 years (75% capital 25% revenue) for economic growth, that can also be capitalised;
- The retention of 100% of the business rates collected within the area which assumed an earlier implementation than the expected national roll-out in 2020 (currently 50% of all business rates collected are passed over to Central Government). The model assumes the proposal will be fiscally neutral to the Government;
- Funding and support for business growth and innovation;
- Control of Adult Education budgets to meet the needs of employers and local residents;

- A support programme to enable unemployed people to progress to work;
- Additional homes in the Solent area;
- New dedicated transport budgets and powers; and
- Measures to support public sector reforms.

The three Unitary Authorities undertook an eight week consultation during summer 2016, which showed a favourable response to progressing with the MCA and devolved powers and funds. Further to the report being approved by the three Councils a proposal was submitted to the Secretary of State to consider the establishment of an MCA in the Solent. Whilst the proposal has been considered a decision has not been announced, the timeline for the announcement has not been confirmed.

SOLENT REGION - BUSINESS RATE RETENTION PILOT

A Business Rate Retention Pilot bid was submitted to the Ministry of Housing, Communities & Local Government MHCLG (formerly the Department for Communities & Local Government – DCLG) on the 27th October 2017. The bid Involved establishing a business rates pool for the Solent Region comprising of Southampton City Council, Portsmouth City Council and the Isle of Wight Council and requesting that the pool retains 100% of the business rates collected and forgoes revenue support grant.

The MHCLG confirmed on the 19th December 2017 that the bid had been successful.

The Pilot bid covers the financial year 2018/19 but with the option to continue as a pool after this point, although all 3 authorities have indicated that they would not want to operate in a pool without the benefits of the 100% Business Rate Retention.

The pilot allows the pool to retain the element of growth (50%) currently paid over to the Government in addition to the locally retained growth.

The arrangement assumes that the original 50% local share of growth in business rates is retained by the individual authority (including Fire & Rescue 1%) as it is now. It is the 50% Government share that is now retained by the pool for future allocation.

It is expected that the council's base funding position, before the pool utilises the governments share of growth, will be broadly unaffected by this change and therefore will no longer receive Revenue Support Grant (RSG) and will in the case of Southampton & Portsmouth become tariff authorities (the IOW council remains a top up authority).

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

Based on the information that has been provided for each local authority for forecast 2018/19 Business Rates Income, the pool is expected to be in a growth position, with each individual authority having growth.

In an overall growth model, the growth pool of the 50% Government Share element will be distributed using the following:

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

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

SOUTHAMPTON BUSINESS IMPROVEMENT DISTRICT

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

The funds are overseen by the businesses via a Board, and allocated for activities to improve the marketing and experience of the City Centre. Delivery must add value to Council services, for which a baseline agreement will be in place. The BID has the potential to match fund and augment existing services, to consider alternative delivery models in the future, and to lever additional resources to the City, This will support the Council's outcomes and priorities, particularly in relation to economic growth.

1.4.13 AUTUMN BUDGET 2017

The Chancellor of the Exchequer presented the 2017 Budget to Parliament on 22nd November 2017. He pledged to use Government funds to "invest to secure a bright future for Britain". The key themes relevant to Southampton City Council were as follows:

Environment and Air Pollution

- In support of the National Air Quality Plan published in July 2017, the Government will provide £220M for a new Clean Air Fund. The money aimed at allowing local authorities with the most challenging pollution problems help individuals and businesses adapt as measures to reduce pollution are implemented; and
- The Council is committed to improving the air quality and has already set up a voluntary Clean Air Zone and will set up a chargeable one by 2020. The council is also already working with business and individuals in the city to change behaviour.

Education and Skills

- Substantial support for maths was announced. £27M will be invested in the "Teaching for Mastery" maths programme into a further 3,000 schools; an extra £600 pupil premium for each pupil studying maths or further maths at 'A Level' or Core Maths; £18M committed to fund an annual £0.35M for every maths school; £8.5M pilot to test innovative approaches to improve GCSE maths resit outcomes; £40M to establish Further Education Centres of Excellence across the country to train maths teachers; and
- £84M committed to upskilling 8,000 computer science teachers.

Universal Credit

- £1.5 billion package to address concerns about the delivery of the benefit, including the abolition of the seven day waiting period and changes to the advances system.

Housing

- A comprehensive package of new policy intended to raise housing supply by the end of this Parliament to its highest level since 1970, on track to reach 300,000 per year, through:
  - o Making available £15.3 billion of new financial support for housing over the next five years, bringing total support for housing to at least £44 billion over this period;
  - o Introducing planning reforms that will ensure more land is available for housing, and that better use is made of underused land in cities and towns; and
  - o £204M of funding for innovation and skills in the construction sector, including to train a workforce to build new homes.
- The Budget also announced plans to increase housing density in urban areas. To ensure that brownfield land and scarce urban land is used as efficiently as possible, the Government will consult on introducing:
  - o Minimum densities for housing development in city centres and around transport hubs, with greater support for the use of compulsory purchase powers for site assembly;
  - o Policy changes to support the conversion of empty space above high street shops;
  - o Policy changes to make it easier to convert retail and employment land into housing; and
  - o A permitted development right to allow commercial buildings to be demolished and replaced with homes.

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- The Government is determined to ensure that land released for housing is put to better use. It is to consult on:
  - o Strengthening the Housing Delivery Test with tougher consequences where planned homes are not being built, by setting the threshold at which the presumption in favour of development applies at 75% of housing delivery by 2020;
  - o Local authorities to bring forward 20% of their housing supply as small sites. This will speed up the building of new homes and supports the government's wider ambition to increase competition in the house building market; and
  - o Speeding up the development process by removing the exemptions from the deemed discharge rules. This will get builders on site more quickly, ensuring that development is not held back by delays in discharging planning conditions.
- In addition, Housing Revenue Account borrowing caps are to be lifted for councils in areas of high affordability pressure, so they can build more council homes. Local authorities will be invited to bid for increases in their caps from 2019/20, up to a total of £1 billion by the end of 2021/22. The Government will monitor how authorities respond to this opportunity, and consider whether any further action is needed.

Affordable Housing

- The Budget also confirmed a further £2 billion of funding for affordable housing - originally announced in October 2017 - including funding for social rented homes. This takes the total budget for the Affordable Homes Programme from £7.1billion to £9.1 billion to 2020/21. It is now expected that this will provide at least 25,000 new affordable homes.

Homelessness

- Rough Sleeping – The Budget sets out the Government's first steps towards its commitment to halve rough sleeping by 2022, and to eliminate it by 2027, including the launch of the Homelessness Reduction Taskforce, which will develop a cross-government strategy to work towards this commitment; and
- Private rented sector access schemes: support for households at risk of homelessness – the Government will also provide £20M of funding for schemes to support people at risk of homelessness to access and sustain tenancies in the private rented sector.

Business Rates

- Business Rates – a further £2.3 billion of support to businesses to be provided to reduce the burden of Business Rates and the extension of the £1,000 discount for pubs with a rateable value of less than £100,000 for one more year (to March 2019).

1.4.14 PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2018/19

The Provisional Local Government Finance Settlement (PLGFS) for 2018/19 was published on the 19th December 2017, which has led to an update of the Council's financial position. The main points were:

- An announcement of the consultation on Fair Funding for implementation by 2020-21.This takes into account the results of the call for evidence requested last year and focuses on potential approaches that have been identified to measure the relative needs of local authorities. The deadline for consultation responses is the 12th March 2018;
- Movement to a "next phase" of business rate retention of 75% by 2020-21including the assumptions around reductions in grant funding to compensate e.g. the removal of Revenue Support Grant and Public Health Grant;
- Existing 100% rate retention pilots will continue into 2019-20;
- 11 new rate retention pilots including London were announced. The Solent Region Pool incorporates Southampton City Council;
- Rural services grant to be maintained at £65M for the settlement period;
- As part of the LGFS 2017, the Government set a baseline growth of 0.4%, below which New Homes

Bonus (NHB) will not be paid. Government retained the right to make adjustments to this baseline in future years in the event of a significant increase in housing growth. There has been no change in the baseline position of 0.4% in the 2018/19 settlement;

- Possibility to increase planning fees by 20% (although conditions apply);
- The capital receipts flexibilities given as part of the LGFS 2017 will continue for another 3 years;
- A review of remaining negative revenue support grant allocations will be consulted on in Spring 2018;
- A Green Paper on future challenges in Adult Social Care will be published in the Summer of 2018;
- Powers to give an additional 1% on the referendum limit for general Council Tax increases has been detailed (i.e. the referendum limit is now 2.99%);
- No action on referendum limit for Town and Parish Councils; and
- A £12 Council Tax flexibility for Police and Crime Commissioner.

It should be noted that due to the roll out of Universal Credit the MTFS assumed the Council would not be receiving Housing Benefit Subsidy Admin Grant going forward. However the information provided following the settlement suggests this will continue into 2018/19.

For Southampton the impact of the settlement in terms of grant funding can be seen in the graph below. The Central Government funding position compared to 2015/16 shows a considerable reduction in resources.

For comparison purposes 2018/19 and future years still contains the RSG the council would have received without the Business Rates Retention Pilot

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

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Current Central Government Funding Position compared to 2015/16

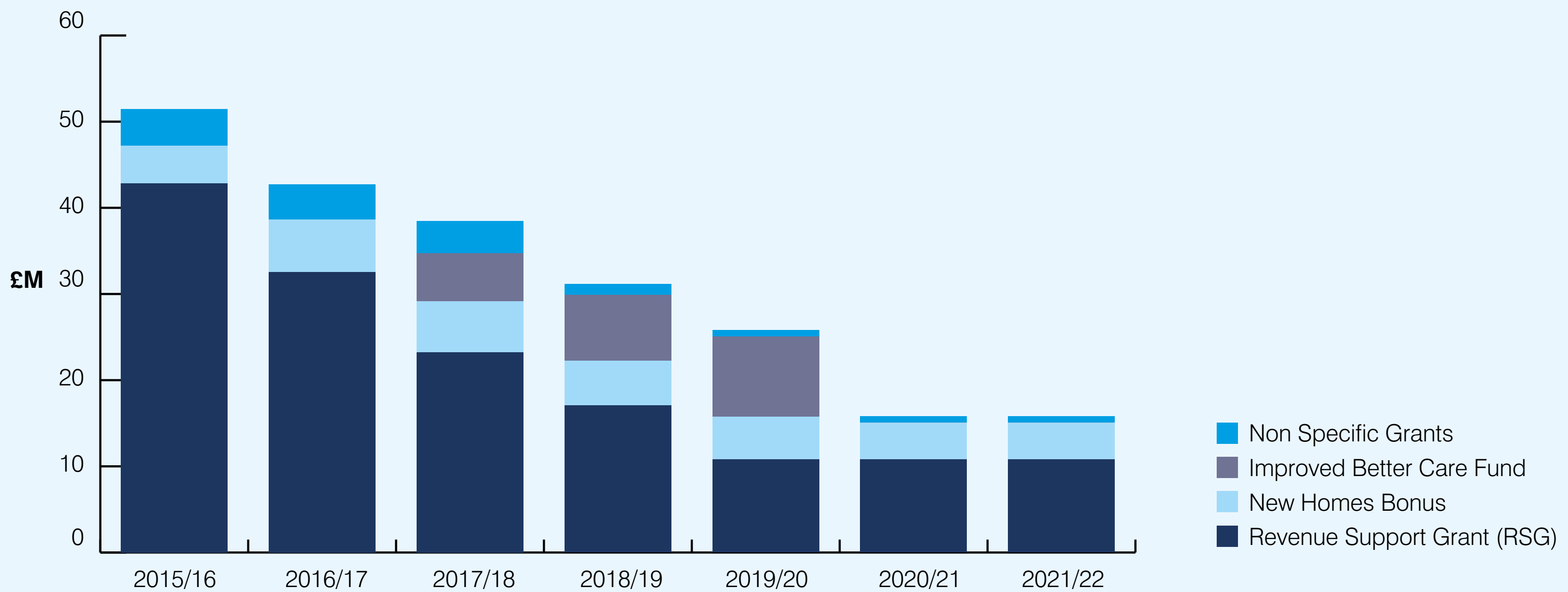


TABLE 1 SUMMARY OF KEY ASSUMPTIONS

Item	2018/19	2019/20	2020/21	2021/22
Business Rates Multiplier	3.0%	2.9%	2.4%	2.2%
Council Tax	2.99%	1.99%	1.99%	1.99%
Social Care Precept	3.00%	0.00%	0.00%	0.00%
Council Tax Base (No of Band D Equivalents)	63,345	64,757	64,757	64,757
Revenue Support Grant *	(26.66%)	(36.7%)	-	-
New Homes Bonus	(8.9%)	(4.1%)	(12.8%)	(16.0%)
Other Grants	(35.93%)	(43.78%)	(36.56%)	0.0%
Consumer Price Index (CPI)	2.4%	1.9%	2.0%	2.0%
Retail Price Index (RPI)	3.3%	2.8%	2.9%	2.9%
Pay Award	2.0%	2.0%	2.0%	2.0%
Superannuation	15.1%	16.1%	16.1%	16.1%
Past Service Costs and Compulsory Added Years	8.8%	8.8%	8.8%	8.8%
Investment Rates (ave)	2.80%	2.80%	2.80%	2.80%
Borrowing Rates (Long Term - GF) (ave)	3.19%	3.07%	3.30%	3.32%
Borrowing Rates (Long Term HRA) (ave)	3.36%	3.26%	3.46%	3.50%
Borrowing Rates (Long Term - consolidated) (ave)	3.30%	3.18%	3.39%	3.42%
Housing Revenue Account Housing Rent Increases	-1.00%	-1.00%	3.00%	3.00%

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

1.5 Key Assumptions

Local authority budgeting is by its very nature difficult to forecast with absolute certainty since there are so many variables that need to be assessed.

1.5.1 Summary of Key Assumptions

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

1.5.2 Business Rate Retention Scheme

The Business Rate Retention (BRR) Scheme was introduced in April 2013 and represented a major change in the way in which local government is funded. It is seen by the Government as providing a direct link between Business Rates growth and the amount of money local authorities have available to spend on local services.

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

The Government's original intention was to introduce a 100% BRR scheme in 2019/20, alongside introducing additional responsibilities for local government to ensure fiscal neutrality for Central Government. However, there has been significant slippage in the timetable, with the Local Government Finance Bill, which contained provision for 100% BRR, falling when Parliament was dissolved for the General Election in June 2017. It was not revived in the Queen's Speech but the Government has confirmed it is still committed to the reforms.

The delay has caused significant uncertainty amongst councils, which has been recognised with the CLG Select Committee launching an inquiry into the impact of the longer implementation period for 100% BRR amid worries within local government as to what happens when their current funding settlements come to an end in 2020.

The Inquiry will assess the implications of the extended implementation period and how it is affecting councils' financial planning.

The PLGPS has indicated a move towards 75% BRR from 2020/21 with BRR pilots able to operate under 100% BRR.

Consultation will also be undertaken to examine the consequences of implementing the Fair Funding Review, which is the Government's review into needs and redistribution, due for implementation in 2020/21.

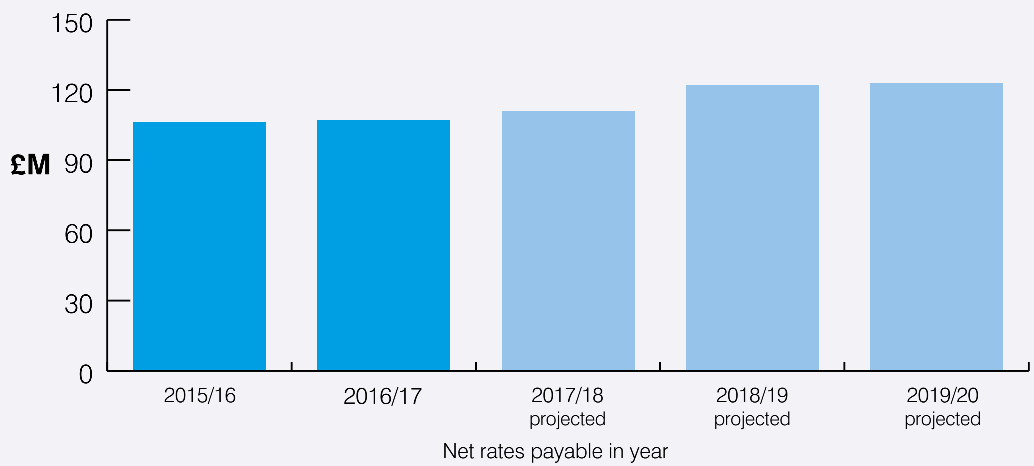
The main points to note are:

- Funding baselines for local authorities (LA) are based on an assessment of relative needs and resources for each LA;
- The methodology for the needs assessment has not been updated since 2013/14;
- Since then, demographic changes and pressures along with the cost of providing those services means that the methodology needs to be updated;
- A call for evidence on needs redistribution was undertaken in 2017/18, the results of which have been considered in preparing the Fair Funding Review consultation;
- The consultation focuses on potential approaches that have been identified to measure the relative needs of local authorities;
- The deadline for consultation responses is the 12th March 2018;
- The result of the review will be to set new baseline funding allocations;
- As Government have been clear that there will continue to be a redistribution of business rates between LA's to take account of relative needs, the review will provide an up to date assessment of those relative needs;
- The review will look at how and if other sources of income such as Council Tax, should be taken into consideration when redistributing business rates linked to the needs assessment;
- It will initially look at those services currently funded through the Local Government finance settlement; and
- Through further engagement and consultation, will aim to keep LA's informed of progress of the review and also to determine what transitional arrangement are needed.

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

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

Net rates payable in year



1.5.3 Council Tax

As set out in Table 1 above, the assumption is that Council Tax rises will be set at the referendum limit of 2.99% in 2018/19 and 1.99 % in future years (plus the Adult Social Care Precept see section 1.5.4).

There has been some growth in the Council Tax base built into the MTFS, this has been calculated in conjunction with the Growth team based on current known levels of development.

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

A new Local Council Tax Scheme (LCTS) was introduced in 2013/14 which, as a result of the localisation of Council Tax Benefits, allows the Council to set its own criteria for offering reduced Council Tax for those eligible. The changes to discounts, exemptions and LCTS are now in place, and the LCTS administration grant has been confirmed and included in the forecast position.

1.5.4 Adult Social Care Precept

Local authorities with Adult Social Care responsibilities were given the ability to increase Council Tax by a total of 8% over the period 2016/17 to 2019/20 through an Adult Social Care Precept with options on how this could be profiled. 2% was applied in 2016/17 with a further 3% applied in 2017/18. The MTFS assumes that the remaining increase will be taken In 2018/19 (i.e. at the earliest opportunity) as the estimated increase in funding needed for Adult Social Care far outweighs the income gained from the Precept.

1.5.5 Revenue Support Grant Update Post Settlement

Historically a major source of funding for the Council has been the Revenue Support Grant (RSG), however since the austerity measures have been introduced this grant has been reduced drastically with the Council suffering a 75% reduction by 2019/20. The MTFS reflects the allocations given in the LGFS. It should be noted however, that RSG will not be received whilst In a Business Rates Pilot Pool or in the event of moving towards increased Business Rate Retention.

1.5.6 Housing Benefit Administration Subsidy

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

Each year the HB administration subsidy has been reduced and this will continue into 2018/19 as the DWP applies a percentage reduction as an efficiency saving based on the previous year's allocation and also takes into account Universal Credit. However the LCTS administration subsidy has brought the overall funding up to much the same overall level each year. A further years grant has been confirmed for 2018/19.

1.5.7 Public Health Grant

The Public Health Grant that was introduced in April 2013, will continue to be a ring-fenced grant to local authorities into 2017/18 and 2018/19. The final allocation of Public Health Grant for 2018/19 is £16.94M. The Public Health Grant will continue to reduce, as outlined in Table 2 below.

TABLE 2 PUBLIC HEALTH GRANT REDUCTIONS

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

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

The grant reduction in 2018/19 is £0.47M, with a further £0.42M to be achieved in 2019/20, as well as inflation and pay awards needing to be contained within expenditure resulting in a requirement to save a total of £0.95M In the next two years. Under further Business Rate Retention, the Public Health Grant will be not be received.

1.5.8 Care Act

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

1.5.9 New Homes Bonus

To encourage an increase in the number of homes available in the UK, in 2011 the Government brought in a grant payable to local authorities referred to as the New Homes Bonus (NHB). This grant was calculated based on the amount of extra Council Tax revenue raised for new build homes, conversions and long term empty homes brought into use, with an additional payment for affordable homes. This grant (in the form of "legacy payments") was payable for 6 years.

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

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

The Government chose to set the Initial baseline in 2017/18 at 0.4%, below which the bonus will not be paid. This level is significantly below the average rate of growth in the 10 years before the introduction of the NHB scheme. The government also retained the option of making adjustments to the baseline In 2018/19 and future years In the event of significant and unexpected housing growth. The PLGFS 2018 confirmed that there will be no changes to the current assumptions.

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

TABLE 3 NEW HOMES BONUS ALLOCATIONS

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
New Homes Bonus Assumption	5.20	5.00	4.30	4.30

1.5.10 Education Services Grant

The Education Services Grant (ESG) was a 'non ring-fenced' Government grant paid to local authorities and academy trusts to pay for specific services to schools. The ESG comprised two elements:

- Retained duties (£15 per pupil In 2016/17) - paid only to local authorities to fund the duties that they delivered for all pupils regardless of whether they attended a maintained school or an academy; and
- General duties funding (£77 per pupil in 2016/17) - paid to local authorities for every pupil in a maintained school and to academies for every pupil on roll.

The 2015 Spending Review announced a £600M cut (around 75%) in the ESG, to be achieved by removing the funding for general duties. Academies also lose their general ESG, but gradually up until 2020.

Total ESG grant for Southampton in 2016/17 was £2.2M. Transitional arrangements were introduced in 2017/18 with reduced funding received for the period April to August 2017 only (amounting to £1.1M).

ESG funding In respect of general duties was withdrawn completely from September 2017.The MTFS only assumes the sum awarded for the retained duties which is paid via the Dedicated Schools Grant and recovered from schools.

1.5.11 National Fairer Funding Schools

The Government has been reforming the school funding system since 2010 with the most significant reform being the planned introduction of the "National Funding Formula" (NFF) for Schools, Early Years and High Needs to match funding directly and transparent to need. This involved creating a new Central Schools Block, allowing local flexibility on the Minimum Funding Guarantee and ring-fencing the Schools Block within the Dedicated Schools Grant (DSG). Whilst the NFF was quickly adopted by Southampton in April 2017 for Early Years (SCC declined the opportunity to phase), the Government has put back introducing the NFF for Schools and High Needs until 2018/19.

Transitional arrangements (using a "soft formula") are to be put in place for Schools for the first two years (i.e. 2018/19 and 2019/20). The NFF will have no direct impact on the overall Southampton Schools funding allocation, with maintained schools given a notional allocation only by the soft formula (i.e. a limited impact in first two years, as school allocations will continue to be made using existing local formula).

Grants outside the DSG (e.g. "Pupil Premium") are not affected by the changes, although there is to be a renamed "Pupil Premium Plus" grant Introduced in 2018/19, funded from 'looked after children' funding contained within the 2017/18 DSG.

The Government has recently stated that spending plans beyond 2019/20 will be set out in a future Spending Review, therefore the exact timing of the hard formula rollout for the Schools NFF is still uncertain.

With regard to High Needs, the NFF is to be introduced in 2018/19 with additional funding of £124M put in nationally by Government (Southampton are set to receive an additional allocation of £1.1M).

1.5.12 Other Grants

The Council receives a variety of other grants from Government and the MTFS assumes these will decline over the life of the forecast to circa £0.7M.

The result of these assumptions is that the Council will receive minimal levels of funding from Central Government by the end of the term of the MTFS.

1.5.13 Pay Inflation

Assumptions have been made in the forecast about the likely level of pay inflation that will apply from April 2018. As a large proportion of the Council's expenditure is pay related, this can have a significant impact if actual rates are much higher than predicated.

The previous MTFS model was based on a pay award of 1% per annum. However, on 5th December 2017, the 'National Employers for Local Government Services' announced a higher pay offer to local government unions for the period 2018 to 2020. The offer comprises a two year deal with a headline flat-rate increase of 2.0% in 2018/19 and 2019/20. A 2% pay award has now been assumed from 2020/21 and future years.

1.5.14 National Living Wage

The Government's July 2015 budget announcement introduced a new premium for those aged 25 and over leading to a new National Living Wage (NLW) of £7.20 in April 2016. The Government's ambition is for the NLW to increase to 60% of the median earnings by 2020, and it will ask the Low Pay Commission to recommend the premium rate in light of this ambition going forward. Based on Office for Budget Responsibility forecasts, this means the NLW is expected to reach over £9 by 2020.

The Council has adopted the National Living Wage Foundation's recommended living wage, which is currently £8.75 (set in November 2017 but implemented by the Council from 1st April 2018), for payment of SCC employees, and this rate is presently higher than the initial NLW (£7.83 from April 2018).

1.5.15 Ending of Contracted out Pensions Schemes

Provision has also been made for the financial impact of changes made to the national pension arrangements which no longer allow National Insurance Rate reductions to public sector employees who opt out of SERPS from 2016/17.This has been based on the assumption that current staffing levels will continue.

1.5.16 General Inflation

Assumptions have been made in the forecast about the likely level of general inflation that will apply from April 2018. If inflation were to increase at a higher rate than anticipated then this would have an impact on the Council, not least because the Council's major outsourced/partnership contracts are uplifted by indexation linked to inflation on an annual basis.

Current indications are that - in the short term at least - an increase is unlikely (in fact inflation is currently forecast to gradually decline over the medium-term). However, the risk has been mitigated by the inclusion of amounts in contingencies to cover key elements of inflation, for example in relation to fuel and energy costs, which can be volatile.

Beyond this provision, it is likely that this would be managed as an 'in year' issue and that services would be expected to absorb the difference.

1.5.17 Pension Fund – Past Service Pension Cost and Compulsory Added Years

Employer contributions to the Hampshire Local Government Pension Scheme (LGPS) were reviewed as part of the 2017 triennial revaluation process. The changes in rates were applied from April 2017. This is likely to give rise to an additional cost of £1.8M by 2019/20. This has been built into the MTFS. It has been confirmed that the position for past service costs and compulsory added years has not changed and has been included within the forecast for 2018/19 to 2019/20. Using the current valuation from Hampshire County Council an 8.8% per annum increase for the six year period 2014/15 to 2019/20 is assumed within the MTFS Model. This has then been assumed to continue at this level In 2021/22.

1.5.18 Public Sector Employment – Restrictions on Exit Payments

The Enterprise Bill for 2015 set up new restrictions on public sector exit payments through the introduction of a £95,000 cap on such payments. The Government's response to the consultation paper was published on 26th September 2016 and set out an expectation that Government departments would put forward proposals for reform within three months, with consultation on proposals to follow the normal process of discussions and negotiations with Trade Unions and other workforce representatives in order to seek agreement to their reform proposals. The Government originally expected discussions to be concluded, agreement reached and the necessary changes made to compensation schemes and other arrangements within nine months. Although the original timetable has slipped, the Government's plans are still expected to progress as planned in due course.

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

- A maximum tariff and base salary on which redundancy payments are calculated;
- A cap on the value of employer funded pension 'top-ups';
- An increase in the minimum age at which an employee is able to receive an employer funded top-up;
- Other general limits on most employer-funded payments made in relation to leaving employment; and
- Consideration of any case for protection during the transition period for those with exit agreements formally agreed on terms that pre-date the new exit compensation arrangements coming into effect.

In addition to the above, new regulations came into force from April 2016 on the requirement to repay exit payments for up to 12 months after payment if further employment is undertaken within the public sector during that time for employees earning over £100,000 per annum. The necessary changes to the leavers' process and paperwork have been introduced and have been communicated as necessary to affected employees.

1.6 Key Risks

There is a significant degree of uncertainty, arising from both internal and external factors, which could have a significant impact on the key assumptions made within the MTFS. The macro financial systems within which the Council operates are complex and highly sensitive to a range of variables and it is therefore important that risks, that could have a material effect on the financial position of the Council, are identified and understood in terms of the potential impact (positive or negative) and the likelihood of occurrence. The foregoing recognises the importance of having adequate mechanisms in place to identify and manage risks in order to support the achievement of financial stability.

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

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

- The lack of certainty in Government funding for future years including grants and the new fair funding formula;
- Changes in function;
- Changes in how services are funded;
- Changes in the economy;
- Changes in Members' priorities;
- Unmanaged service pressures and increases in demand;
- Council tax policy;
- Changes in legislation and government policy;
- Level of future pay awards and general inflation assumptions;
- Adequacy of contingencies in any one period;
- Business Rate Volatility and Business Rate Retention;
- Treasury Management and interest rate changes;
- Projected income levels from fees & charges;
- Non achievement of savings;
- Impact of National Living Wage;
- Level of provision for insurances;
- New burdens;
- Welfare reforms;
- Demographic changes; and
- Impact of Brexit, both nationally and locally.

It is important to note that the revised forecast represents the most realistic forecast position moving forward. However, there are a number of risks associated with these revised forecasts, the main risks being as follows:

1. **Financial Risk** – the majority of the future years' strategy and model is based on a series of assumptions, the further into the future you look the higher the risk that these assumptions are inaccurate.
2. **Political Risk** – The Government are providing more certainty and transparency over central government funding levels for the term to 2019/20. Whilst further clarity has been given with regards to the next steps in the move towards 100% Business Rates Retention there are still some uncertainties on how the scheme will operate and from when. The impact of any new burdens that will be imposed on the local authority as a result of that will need to be considered in due course.
3. **Treasury Risk** – the MTFS is based on a reasonably stable global financial position going forward, taking into consideration that there are unknowns at this stage with regards to the impact that Brexit may have on the council's finances. If the assumptions change it may have a major impact on the financial position of the Council particularly around business rate income, and interest payments. The Treasury Management Strategy sets the parameters in which borrowing is undertaken and along with longer term forecasts for low interest rates the potential risk of having to undertake a major restructuring of debt seems less likely and is currently viewed as less significant than other risks faced by the council. A taxation reserve of £3.7M is held to meet one off shortfall in business rate income as the Council's funding position becomes more reliant on this source of funding.
4. **Transformational Change** – It is essential that the Council continues to further its major change programmes to ensure the organisation is fit for the future and is sustainable. There is a degree of risk associated with this type of change, particularly as the management capacity to drive this change through reduces, and as we seek to deliver significant change against a backdrop of constrained funding.

SECTION 2. Horizon scanning

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

2.1 Demographics

Population forecasts for Southampton and nationally show that more people are living longer and as a consequence average life expectancy is increasing. The fastest growing sector of the population is that aged 90 years and over. Forecasts made using known residential development plans predict the over 90s will rise by 26.6% between 2016 and 2023 whilst the number of people over 75 years is forecast to grow from 5,100 to 6,100, an increase of 23.7%. Longer term projections, based on past trends, predict a 49.6% increase in over 65s in Southampton between 2014 and 2039.

The increasing proportion of older people creates challenges for individuals and policy makers alike, and it increases pressures on social care resources and other public services. Medical advances mean that people who previously might have died at a young age are living longer, often into adulthood, but do so frequently with long-term conditions and needs which require support to help them live as independently as possible. Likewise, with old age being extended, demands for social care and support are increasing. At the same time, the proportion of the working age population (aged 16-64 years) is only due to increase by about 12% between 2014 and 2039, and this may affect availability of informal and community care.

As more people live longer the number of people living with dementia will continue to rise. It is anticipated that as techniques for diagnosing dementia improve, this will add to the total number of individuals requiring support. In 2015/16, there were 1,605 Southampton residents recorded on GP registers as having dementia; this has increased from 1,451 in 2013/14. This increase represents increasing prevalence and the ageing of the population as well as increased diagnosis and recording by GPs.

2.2 National and Local Policy

2.2.1 DEVOLUTION

The Cities and Local Government Devolution Act 2016 provides the legal framework for the implementation of devolution deals with combined authorities and other areas. It is an enabling piece of legislation which provides a legislative framework which can be applied flexibly to different areas by secondary legislation.

A combined authority is a legal structure that may be established, via an Order made by the Secretary of State, at the request of two or more local authorities. The Local Democracy, Economic Development and Construction Act 2009, which has been amended by the Cities and Local Government Devolution Act 2016 provides the legislative framework. In the Government's manifesto they made it clear that combined authorities should have a directly elected mayor to ensure a single point of accountability.

Due to other Government priorities the English devolution agenda is now only moving tentatively forward. In the Autumn 2017 Budget the Chancellor announced that the Government is pursuing deals with North of Tyne and exploring further devolution to the Liverpool City Region and the Tees Valley.

The Council is an active partner in the Solent Deal devolution bid, alongside Portsmouth City Council, and the Isle of Wight Council, further details on these the proposals are highlighted earlier in this strategy.

2.2.2 BREXIT

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

The government has confirmed its intentions to achieve:

- Control of immigration with a commitment to get net migration down to a sustainable level;
- Most free trade possible between EU and UK after leaving the EU's single market and new trade agreements with other countries;
- Protected rights of UK citizens living within the EU and a reciprocal arrangement for EU citizens living in the UK;
- Co-operation on law enforcement and security; and
- Enhanced rights for workers.

The Brexit negotiations are on-going following the triggering of the Article 50 process in March 2017. While the UK Parliament has no formal role in the negotiations, it is dealing with domestic legislation. Parallel to Brexit negotiations, the UK needs to adjust domestic legislation to ensure that it reflects the withdrawal agreement's rights and obligations.

- The Repeal Bill (the European Withdrawal Bill) will:
    - o repeal the European Communities Act 1972 which currently provides legal authority for EU law to have effect as national law in the UK;
    - o convert existing EU law into domestic law; and
    - o give ministers powers to make secondary legislation.
- Customs Bill will:
    - o legislate for the UK's departure of the EU and the EU Customs Union; and
    - o allow the government to create a standalone customs regime and amend the VAT and excise regimes.
- Trade Bill will:
    - o create powers to assist in transition of existing trade agreements;
    - o establish the Trade Remedies Authority to defend UK businesses; and
    - o enable UK to become a member of the Agreement on Government Procurement.

2.2.3 WELFARE REFORMS AND INTRODUCTION OF UNIVERSAL CREDIT (UC)

In May 2016 the Universal Credit full service began to roll out nationally and was rolled out in Southampton in February 2017. Rollout of the Universal Credit full service is due to complete in December 2018. After the rollout process has completed, DWP will then begin moving all remaining existing benefit claimants to the Universal Credit full service starting in 2019. Once Universal Credit is fully implemented, Local Authorities will be asked to provide 3 main services, mainly to the most vulnerable claimants who have complex support needs. These are:

- Supported on-line access, where claimants need one-to-one support to access the UC claimant portal on gov.uk website or to complete the UC on-line application or both;
- Personal Budgeting Support, where the UC claimant needs support to manage financial affairs on a monthly basis; and
- Support for the UC Service Centre for administering the housing element of UC. This includes queries about Housing Benefit and the more complex housing issues that may arise.

'Universal Services – Delivered Locally' will provide the 'partnership framework agreement' for this. Although there have been a range of pilots and projects linked to Universal Credit, it is difficult to predict the direct and indirect impacts locally at this time. However, as part of the HRA forecast position for 2017/18 an assumption has been made that there is a need to provide additional bad debt provision to mitigate the impact of these changes.

The withdrawal of Central Government funding for Local Welfare Provision will also have an impact on the support the Council and other key services in the city can provide for individuals and household in crisis and for crisis prevention.

There is an ongoing timetable of national welfare reforms affecting both in-work and out-of-work claimants. From November 2016, the Government further reduced the Benefit Cap from £500 to £385 a week for couples (with or without children) and single parents with dependent children – and from £350 to £258 a week for a single adult (different rates apply in the Greater London area).

Further changes made from April 2017 included:

- Tax Credits: Support for children through Tax Credits and Universal Credit is limited to two children from April 2017. People starting a family after April 2017 are no longer eligible for the Family Element in tax credits. The equivalent in Universal Credit, known as the first child premium, will also not be available for new claims;
- Employment Support Allowance: New ESA claimants who are placed in the Work-Related Activity Group will receive the same rate of payment as those claiming Jobseeker's Allowance and the equivalent in Universal Credit;
- Universal Credit (Youth Obligation): 18-21 year olds who are on Universal Credit have to either apply for training/ apprenticeships or attend a work placement from six month after the start of their claim, apart from certain exempt groups (those considered to be vulnerable); and
- Universal Credit (Housing Support): Reform to housing and housing support proposed- including removing the entitlement to housing support in Universal Credit for those aged 21 or under.

As part of the 2017 Budget the Chancellor of the Exchequer outlined some changes for Universal Credit including:

- From February 2018 the seven-day waiting period for new claimants has been removed;
- From January 2018 the amount a new claimant can receive from their estimated entitlement increased from 50% to 100%;
- From April 2018, claimants who were previously receiving Housing Benefit will receive a transitional payment of an extra two weeks support; and
- From April 2018 any new claims for UC from claimants in temporary accommodation will have their housing costs met through Housing Benefit. Existing temporary accommodation claimants on UC will also move to Housing Benefit.

2.2.4 BETTER CARE FUND

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

The Southampton Better Care Fund pools funding for a significantly greater number of services than the minimum required which is consistent with the ambition locally to integrate and pool resources at a scale to significantly transform its health and care services.

In 2018/19 the combined Better Care Fund budget is £108.5M and is broken down in Table 4.

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

	NHS Southampton City CCG	Southampton City Council	Total
	£M	£M	£M
Carers	1.24	0.13	1.37
Clusters	47.11	1.38	48.49
Rehab & Reablement	10.58	5.01	15.59
Telecare	0	0.05	0.05
Learning Disability Packages	9.86	16.32	26.18
Prevention & Early Intervention	0	7.47	7.47
Direct Payments	0	0.35	0.35
Long-Term Care	0	3.6	3.6
BRS	0.66	0.41	1.07
SEND team (Jigsaw)	0.52	0.4	0.92
Capital DFG	0	1.88	1.88
TOTAL	**69.97**	**37.00**	**106.97**
JES (Joint Equipment Store)	0.75	0.76	1.51
OVERALL TOTAL	**70.72**	**37.76**	**108.48**

The Southampton Better Care Plan has identified key areas where greater integration between Health and Social Care will make system wide efficiencies that will benefit both organisations. For the Council these efficiencies have been included within the medium-term financial forecast.

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

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

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

Scheme	2017/18 £M	2018/19 £M	2019/20 £M
Direct Payments team	0.27	0.35	
Care Technology	0.05	0.05	
Short stay replacement care	0.25	0.23	
Expanded 7 day social care operation in the hospital discharge team	0.13	0.13	
Speeding up hospital discharges for people with complex needs	0.50	0.50	
Enhanced social care out of hours service	0.10	0.10	
Additional social work capacity in new community-based social wellbeing service	0.00	0.21	
Additional social work capacity in new integrated learning disability service	0.00	0.20	
Meeting increased demand and complexity	1.00	0.80	
Stabilising the provider market	1.33	0.36	
Additional social work capacity to review care needs in accordance with the Care Act 2014	0.00	0.15	
Accelerating the extra care housing programme	0.08	0.08	
Extra nursing home capacity for complex needs	1.27	0.00	
Third year funding to be allocated	0.00	0.00	1.57
	4.98	**3.16**	**1.57**

2.2.5 FORTHCOMING PARLIAMENTARY BILLS

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

- Local Authorities (Removal of Council Tax Restrictions) Bill;
- Local Authorities (Borrowing and Investment) Bill;
- Local Government Finance Bill; and
- School Holidays (Meals and Activities) Bill.

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

Social Care - the green paper has been delayed and is now expected summer 2018, it is expected to cover care and support for older people and a parallel programme of work for working age recipients of social care packages.

- Industrial Strategy;
- Housing - the Chancellor made several announcements in the Autumn 2017 Budget including increasing

  the number of new homes built annually by 300,000 by the middle of the next decade;
- Devolution deals; and
- European Union (Withdrawal) Bill.

2.3 Socio- Economic Factors

CHILDREN LOOKED AFTER

From 2010 to 2015, the rates of referrals of children and young people to Children's Social Services continued to increase year on year. However, as can be seen from the table below, from 2015 to 2017, there has been a decrease in the rate per 10,000 (0-17) children from 1,318.8 in 2015 to 610.0 in 2017. These rates are still higher than national averages (548.3 in 2015 and 548.2 in 2017).

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

Year	Southampton CC	National Averages
2015	1318.8	548.3
2017	610.0	548.2

Over the period from 2010 to 2016, the rate of Children Looked After (per 10,000 children aged under 18) increased by 42.9% in Southampton compared to a 5.3% increase nationally (England average). However, from 2016 to 2017, there has now been a decrease of 10% in Southampton's rate of children looked after per 10,000 aged under 18 at 108.0. It is still higher than the national average, which in 2017 was 62.0 (3% increase from the previous year, and a 9% increase from 2010).

In the year ending March 2017, the council carried out 238.3 Section 47 Child Protection investigations for every 10,000 children compared with 142.3 per 10,000 nationally and the city had 92.2 children subject to an initial child protection conference compared with 64.4 per 10,000 nationally.

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

With regard to Looked After Children (LAC) numbers, from April to November 2017, the average monthly number of children looked after in the city has been 526, when over 2016/17, the figure was 593 on average. The number has, since December 2016, remained under 600, and whilst this is good news plans to meet the LAC reduction trajectory are in place to ensure the associated savings targets are met. The percentage of fostering placements made with independent fostering agencies, (IFA) from April to November 2017 is approx. 26.8% (average). The cost of an IFA is, on average two to three times more expensive than an internal placement. This has created and continues to create a significant pressure on the Children Services budget.

We are continuing to review our contracts with IFAs to negotiate cost reductions as well as also increasing the numbers of 'in-house' foster carers through targeted recruitment, providing more options for in-house placements where appropriate.

The medium term financial forecast incorporates the impact of a reduction in cost of the number of looked after children over the next three years. For the period 2016/17 to 2019/20 the planned trajectory of fostering placement numbers is shown in the Table 6 below.

TABLE 6 LAC TRAJECTORY 2016/17 TO 2019/20

Placement/ Allowance Type	April 2017	April 2018	April 2019	April 2020
In-house Fostering	298	302	306	309
IFA	172	122	76	17
Residential	23	19	15	12
New Independent Living Provision	10	13	15	15
Inter-Agency (adoption)	48	46	36	26
Unaccompanied Asylum Seeking Children	4	4	4	4
Living with Parents	32	9	8	7
Total	**587**	**515**	**460**	**390**

2.4 Physical-environmental factors

HOUSING

In Southampton 25% of residents live in privately rented accommodation, which is higher than the average for comparator cities at 18% and the England average of 17%. There are around 7,000 Houses of Multiple Occupation (HMOs) in the city. Nearly a quarter of all homes are in the social rented sector with 16,500 managed by the Council with 14,000 households on its housing waiting list. The Council has a responsibility to ensure that its own properties meet minimum decency standards. In April 2017, the Council reported that just under 8% of stock was non-decent as a result of the aging profile and the deteriorating condition of components. The Council recognises that the number of new affordable homes available needs to be increased, and the Executive has made a commitment to build 365 new homes per year.

2.5 Wider Partnership Working

2.5.1 COMMUNITY BUDGETING

Southampton has trialled a Community Budgeting approach across skills, employment and criminal justice agencies to meet defined collective outcomes on a 'Performance by Results' (PBR) basis, and the mechanism is still in place to respond to opportunities. The City Deal employment programmes will also be delivered through this route, and recent commissioning of Not in Education, Employment or Training (NEET) support though transfer of grants to commissioning is also funded by PBR. There is an opportunity to further develop Community Budgets in relation to joint strategic objectives, but this would require a human resource to identify priorities, funds and processes.

2.5.2 SOCIAL IMPACT BONDS

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

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

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

2.5.3 ONE PUBLIC ESTATE

Southampton has been involved in the One Public Estate programme that looks to reduce accommodation costs through joint work with other public sector partners. This includes a coordinated redevelopment project involving two health sites, which will achieve considerable estate rationalisation with the opportunity for reduced running costs and land release.

3.1 Forecast Financial Position 2017/18 – 2021/22

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

Where possible factors described in the preceding sections have been built into the financial modelling to ascertain the forecast financial position. The graph below demonstrates the funding gap to 2021/22 as reported to Council in February 2018.

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

This shows the Council is required to make £10.94M savings over the period to 2021/22.

Revenue position

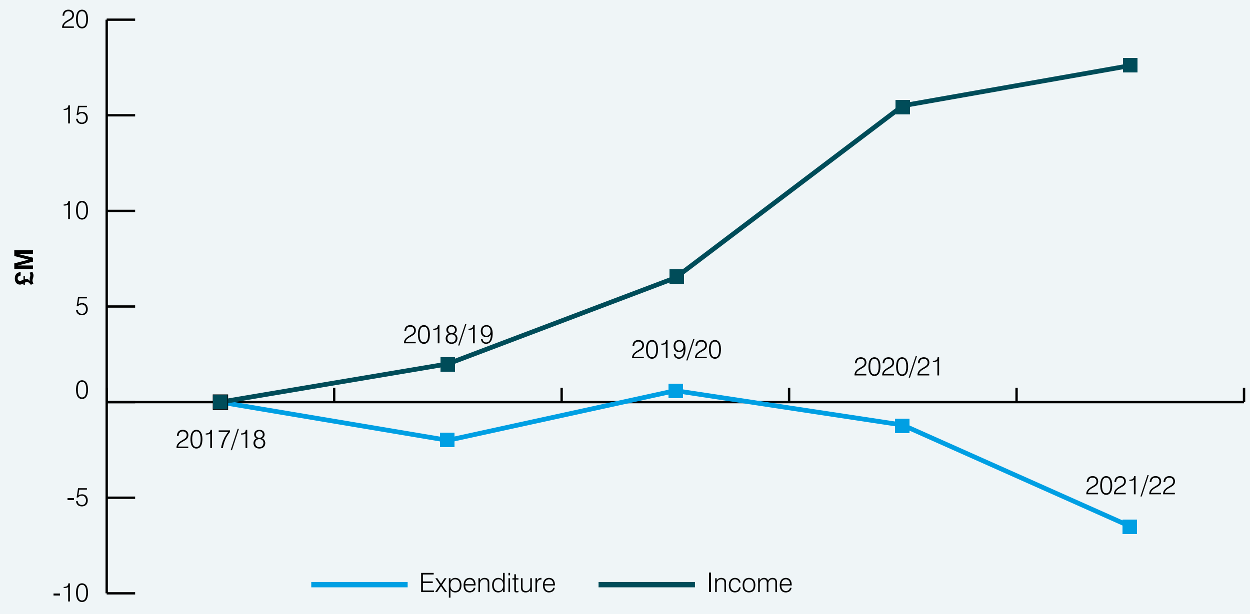

TABLE 7 SUMMARY OF SAVINGS REQUIREMENTS

	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Net Expenditure	178.9	180.9	185.2	196.2	196.3
Baseline Funding	(178.9)	(180.9)	(178.3)	(182.1)	(185.4)
SAVINGS REQUIREMENT	**0.0**	**0.0**	**6.9**	**14.1**	**10.9**

3.2 Pressures

Table 8 summarises the pressures that have been included in the medium term financial forecast in annex 1. These have arisen from the issues described in the preceding sections as well as pressures that have been identified via the individual service areas through regular financial monitoring and budget setting.

TABLE 8 SUMMARY OF PRESSURES

Outcome	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Southampton is a city with Strong Sustainable Growth	1.17	1.17	0.67	0.67
Children & Young People get a Good Start in Life	0.84	0.45	0.45	0.45
People in Southampton live safe, healthy, independent lives	3.74	1.87	2.65	2.65
A sustainable modern council	3.57	3.87	3.97	4.07
Southampton is an attractive and modern city, where people are proud to live and work	0.75	-0.20	0.00	0.00
TOTAL PRESSURES	**10.07**	**7.16**	**7.74**	**7.84**

3.3 New Initiatives & Investments

As well as experiencing pressures the Council have also identified a number of new initiatives that it wishes to undertake to help stimulate the economy as shown in Table 9. The revenue and capital implications have been included in the medium term financial forecast in annex 1.

TABLE 9 NEW INITIATIVES

Outcome	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Southampton is a city with Strong Sustainable Growth	1.10	1.10	1.10	1.10
Children and Young People in Southampton Get a Good Start In Life	0	0	0	0
People in Southampton live safe, healthy, independent lives	0	0	0	0
Southampton is an attractive modern city where people are proud to live and work	1.12	0.76	0.76	0.76
A Modern Sustainable Council	1.42	0.22	0.22	0.22
TOTAL	**3.64**	**2.08**	**2.08**	**2.08**

3.4 Income Generation

The Council's approach regarding income generation is to maximise opportunities where possible and income generation forms a key strand of the Council's Commercialisation Strategy. Income generation targets form part of the overall savings programme to reduce the Council's budget gap. Once proposals are more certain the income generation assumptions contained within the Medium Term Financial Model will be revised.

The Council will set up a Local Authority Trading Company (LATCo) during 2018/19 which will play a pivotal role in progressing the commercialisation agenda.

3.5 Key Financial Commitments

The Council has in previous years entered into a number of strategic contracts which have resulted in ongoing financial commitments. Whilst these contracts can be monitored and performance managed to ensure they deliver value for money, it can be lengthy and more difficult to renegotiate these contracts to reduce expenditure.

The current commitments are:

A) PFI Schools

A PFI contract was approved by the Government to significantly improve the quality of the buildings in three of the City's secondary schools and to provide additional places in two of them.

The contract with Pyramid Schools (Southampton) Ltd started on the 29 October 2001 and will terminate on 31 August 2031. The annual fee (Unitary Charge) is £6.54M supported by an income stream (PFI credits from Government) of £3.86M.

The Department for Education (DfE) have supported the Council in reviewing the PFI contracts with the aim of driving out savings. The Council is working with the three schools, Pyramid and their sub-contractor, Interserve, to identify opportunities to reduce the variable costs of the PFI. Savings have already been made by 'mothballing' unused classroom facilities and a further proposal to switch to the direct payment of utilities costs is currently being reviewed.

A further series of options is currently being reviewed to explore opportunities to further reduce revenue costs including:

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

B) Hampshire Waste Contract

In 1996 the Council entered into a tri-partite arrangement with Hampshire County Council and Portsmouth City Council, in respect of Waste Management Services from Veolia Environmental Services. The contract involved the building and running of three Energy Recovery Facilities, two Material Recycling Facilities and the provision of waste management services. The original contract was for a 25 year period until 2025, but it has recently been extended to 2030. The Council is delivering savings in the contract, which is due to the agreed contract extension. The annual cost to the council from 2015/16 is approximately £7.9M per annum.

C) BUPA Care Homes (Northlands, and Oak Lodge Nursing Homes) Public Private Partnership

The Council has agreed to lease the land, on which the nursing homes have been built, to BUPA for an annual £1 peppercorn rent for 50 years, and has block contracts for 25 years, Northlands until July 2030, and Oak Lodge until 2035.

D) Strategic Services Partnership (SSP)

The Council has outsourced Customer Services, Local Taxation and Benefits, Procurement, Information Technology, Printing, Health and Safety and Human Resources operations to Capita via the SSP, which commenced on 1 October 2007. The SSP is scheduled to run until 30 September 2022, following an exercise in December 2013 of an option to extend it by five years.

The contract was been reset during 2016/17 to drive out further efficiencies and financial savings to the Council. The cost to the Council in 2017/18 is £16.8M circa for the core fixed contract charges.

E) Highways Service Partnership (HSP)

The HSP with Balfour Beatty Living Places Ltd. commenced on 4 October 2010 and has recently been extended to run until 3 October 2025 following approval by the council's Cabinet in June 2017 of a package of savings and changes to the contract. The services covered include highway maintenance, scheme delivery, network management, winter gritting and asset management.

The annual Lump Sum is £2.5M. Current capital and miscellaneous variable spend through the contract is around £10M p.a.

F) City Watch

The City Watch contract commenced on 1 October 2012 and has recently been extended to run until 3 October 2025 following approval by the council's Cabinet in June 2017. The services provided include public safety CCTV cameras and their monitoring, Intelligent Traffic Systems, asset management, Housing Concierge and asset investment and routine repairs.

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

G) Street Lighting PFI

The Street Lighting PFI was designed to support significant investment in the city's street lighting estate during its first five years of 'Core Investment'. The Government awarded the Council £28M of PFI Credits to replace approximately 16,500 lighting columns and convert 10,250 lanterns to create new energy efficient lighting, white light output and install Remote Monitoring and Central Management Systems. The contract commenced on 1 April 2010 and is for a duration of 25 years. The Service Provider is Tay Valley Lighting (Southampton) Ltd who sub contract day-to-day management and operations to SSE. The annual 'Unitary Charge' is currently £4.0M. Energy costs associated with the contract are £0.7M.

H) Leisure Services

Sports and recreation services are outsourced to Places for People who sub contract operational and day-to-day management to Active Nation. The contract commenced on 1 September 2010 and the term is fifteen years. There is a three year extension option built into the contract. The scope of the contract covers the management of leisure facilities including Bitterne Leisure Centre, The Quays, Chamberlayne Leisure Centre, Woodmill, Southampton Water Activities Centre, the Outdoor Sports Centre, Ski Centre and seven outlying sports pitches.

The contract includes provision for the Provider to invest £4.5M of capital expenditure over the contract term through a lifecycle budget. The current annual expenditure for the Management Fee is £1.3M.

I) Southampton Guildhall

The Council entered into a contract on 10 February 2003 with Live Nation to manage Southampton Guildhall. The initial term was ten years, extendible by agreement to twenty five years i.e. until 2028. The Council elected to extend the contract in 2013 for the further ten years and retained the option to extend by a further five years. The net cost of the contract is £0.3M p.a. which consists of a management fee or subsidy of £0.5M less service and energy charges

3.6 Collection Fund

The assumptions made around Council Tax and NDR are reflected initially in the Collection Fund Account, which is a statutory account that records the collection and distribution of taxation.

TABLE 10 COLLECTION FUND ASSUMPTIONS

	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Council Tax - General Precept	88.94	91.43	93.39	95.39
Council Tax - Adult Social Care Precept	6.99	7.04	7.04	7.04
Business Rates	99.21	54.69	57.15	58.33

*It should be noted that 2018/19 is a 100% business rate retention pool pilot year.

The assumptions made around Council Tax and NDR are reflected initially in the Collection Fund Account, which is a statutory account that records the collection and distribution of taxation.

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

3.7 Housing Revenue Account

The national self-financing regime for the Housing Revenue Account (HRA) was introduced in April 2012. A 30 year HRA Business Plan, covering both capital and revenue expenditure projections, has been prepared using the planning principles agreed by Council in November 2011 and amended by subsequent budget reports.

The main points to note are:

- All HRA debt can be repaid over the 30 year life of the Plan.
- The capital spending plans include provision to maintain and improve all existing dwellings and feature an increase in the level of planned expenditure in the early years.

- This investment can be achieved within the Government's borrowing limit of £199.6M, also known as the 'debt cap'. Additionally, a reserve of at least £6M borrowing headroom is retained throughout. In the Autumn Budget 2017 the Government announced plans to lift debt caps to allow councils to build more homes in areas of high affordability pressure (see section 1.4.13 for further details).
- A provision of £93M is set aside for stock replacement, which will support the renewal of any of the existing dwellings that may be required over the next 30 years. This provision has been phased between year 7 and year 30 of the Plan.
- The revenue budget meets the minimum balances of £2M over the life of the Plan.

The HRA Business Plan has consistently shown revenue balances that increase above minimum levels within the 30 year period. This remains the case, although in the proposed updated plan for 2016/17 onwards the year 30 projected revenue balance will be reduced to £3.1M. The surpluses are liable to change annually, either favourably or not, and will reflect the annual review of stock investment needs and estimated unit rates. The predicted revenue surpluses do however begin to significantly exceed minimum levels in 2035/36, rather than 2022/23 in the previous plan. This is linked to the additional fire safety works of £14.9M required as a consequence of the Grenfell Tower disaster which have increased the cost of the capital programme.

The Welfare Reform & Work Bill 2015 - 16 imposed a 1% per annum reduction in rents charged to tenants for a 4 year period from 2016 to 2020. Savings proposals were agreed by Council in Feb 2016 to close the gap in 2016/17 and 2017/18. However, for 2018/19, there is a budget gap of £3.94M and increasing to £7.84M (a further £4.13M) in 2019/20. A budget savings proposal was put to Cabinet for approval in February 2018 to take effect for the 2018/19 financial year.

There is currently a Government consultation on the funding for supported housing from 2019/20 onwards. The results of this will need to be reflected in the future HRA Business Plans. A response to the consultation is currently being carried out by SCC officers.

3.8 Capital

Planned Capital Expenditure and the associated financing is detailed within the Capital Programme report for approval by Council in February 2018. The impact of revenue saving proposals for 2018/19 and future years along with the Executive Commitments on the Capital Programme have been considered by the Council's Capital Board and have been integrated into the proposed Capital Programme for 2018/19 to 2021/22. The proposed Programme includes £194.4M for the General Fund and £216.9M for the HRA. The General Fund Capital Programme includes the following major commitments:

- £67.4M for the secondary schools expansion programme;
- £8.0M for road improvements; and
- £2.0M for investment in phases 2 and 3 of the Digital Strategy.

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

3.9 General Fund Balance

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

The Service Director Finance & Commercialisation recommends that the minimum level of the General Fund Balances should be £11.3M. This is derived by taking a risk-based approach to assessing the overall General Fund Revenue Account, including reviewing income volatility, interest rate exposure, new contracts, potential overspends in demand led areas such as social care and safeguarding for both adults and children and any other potential issues which may need to be taken into consideration.

Balances should only be used to fund one-off revenue expenditure; any one–off draw from balances should be prudent, and subject to agreement by the Chief Financial Officer. Annex 1 details the expected level of General Fund Balance going forward after contributions have been made to fund the capital programme and to support the revenue programme. The balance is forecast to be £11.3M at the end of 2017/18.

3.10 Earmarked Reserves

As well as maintaining a risk based General Fund balance the Council can also set aside Earmarked Reserves (for these purposes earmarked reserves excludes school balances) for specific items.

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

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

Medium Term Financial Risk Reserve

Following on from the compilation of the Council's MTFS, and the identification of the risks that are currently in the funding system, demand pressures and the potential for savings to be delayed as the Council goes through a period of major change, monies have been set aside to mitigate these risks on a non-recurrent basis.

Taxation Reserve

Due to the volatile nature of business rates, the possible recession in 2019/20, the intended move to 100% Business Rate Retention (originally assumed from 2019/20 but now 2020/21), and the unknown consequences of Brexit, monies have been set aside to mitigate against any loss of income from both this and council tax, to enable a smoothing of the impact should the anticipated level of income not be achieved.

Capital Funding Risk Reserve

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

Transformation Reserve

To ensure the Council can continue to transform and innovate in order to reduce costs whilst improving outcomes, a reserve is set aside to pump prime this transformation. This reserve is currently earmarked to support the Digitalisation Programme, including the introduction of an Enterprise Resource Planning System.

Organisational Design Reserve

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

Bearing in mind the current pressures detailed in the report it is recommended that should any underspends or additional monies become available during each financial year they are applied to the key risk reserves identified in paragraph 3.10 in the order listed.

A further review of reserves and balances will be undertaken each year as part of the budget setting and final accounts process to ensure the council has adequate resources to cover uncertainty and risk.

3.11 Efficiency Plan

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

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

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

3.11.1 EFFICIENCY STRATEGY

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

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

Operating Model

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

Digital

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

Service Excellence & Prioritisation

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

HR policies and procedures

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

Procurement & Contract Management

A review of the Council's expenditure on third party service provision, including the re-procurement of services to secure better market rates, as well as a more fundamental look and consideration of the actual need for future services and the introduction of measures that can help suppress demand in the first place. As part of this workstream, negotiations are ongoing with the Council's strategic service delivery partners to deliver further contract efficiencies and savings.

Commercialisation

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

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

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

The use of a Local Authority Trading Company will play an essential role in achieving this strategy.

Council Companies & Partnership Arrangements

As part of the review of the partnership arrangement with the Councils strategic partner Capita, a new company has been set up to provide the majority of services delivered previously by Capita as part of a fixed charging mechanism. The purpose of this is to provide greater transparency of costs and benefits to the Council for the services received. The new company was incorporated on 31st May 2016 and became operational on 1st October 2016. Southampton City Council holds 20% of the equity shares in the company;

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

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

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

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

Prevention and Early Intervention Approach

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

3.12 Outcomes Based Planning and Budgeting

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

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

Implementing an outcome based budgeting approach is not a quick process. Whilst work has progressed, this will continue In 2018/19 to further refine the process.

3.13 Addressing the Budget Gap

The Council has a current budget gap of £7.4M up to the end of 2021/22. The approach to addressing this gap can be seen within a number of work programmes;

- Business as usual monitoring and budget reviews throughout the year;
- Progressing the Service Transformation Programmes providing regular updates to members;
- The implementation of outcome based budgeting to clearly link business planning and budgeting and focus on service outcomes;
- The progression of the Council's digitalisation agenda; and
- The implementation of the Commercialisation Strategy.

3.14 Managing Budgets and Forecasting

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

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

Accountability and Responsibility

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

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

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

Where pressures are identified action plans are required to be agreed and implemented in year which look to address in year pressures and identify ongoing pressures that may need to be addressed as part of setting the budgets over the medium term. A series of 'intensive care' meetings have been established to allow the Senior Leadership Team the opportunity to ensure action plans are robust and being delivered.

Finance Business Partnering

The Finance Service restructured in July 2017. One of the aims of the restructure is to implement a Finance Business Partnering Service in order to support Service Directors and Managers in the financial management of their services.

This service provision is currently being implemented as is expected to be substantially implemented from April 2018.

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

- Look at a specific business problem and propose solutions based on research and insight;
- Perform and analyse benchmarking against other areas and services to drive business decision making;
- Work with business intelligence to understand activity and cost drivers;
- Support services to look at the totality of investment against objectives;
- Support services to focus on being sustainable;
- Support services in developing business cases;
- Work to better understand, manipulate and extract better outcomes from contracts – improving deliverables and forward planning procurement exercises;
- Perform sensitivity analysis across whole systems to understand links between variables and support to make optimal interventions; and
- Support with project managing change through greater involvement in strategic decision making.

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

The Medium Term Financial model is a dynamic model and as such will be changing constantly. It is anticipated that this model will be updated on a quarterly basis via the Quarterly Financial Monitoring Reports. A major review will be undertaken each year following the announcement of the Council's settlement funding, when a review of the financial model and assumptions will need to be undertaken.

Conclusion

This MTFS marks a significant change in the way the Council operates the financial processes and introduced a two year budget for 2017/18 & 2018/19 and has a strong focus on the medium term. The current forecast position is still very challenging.

The Council will have seen a significant reduction in its grant funding alongside increasing demand for services and funding reducing at an unprecedented rate. This has, however, given the opportunity for the Council to reshape how it currently operates and interact with its customers and to develop the Outcomes and Priorities for the Council in the provision of services to the City. Additionally, the opportunity to be part of a Business Rates Pilot for 100% Business Rate Retention affords the council some Insight into the funding opportunities in the medium term and the potential for additional growth funding to support the wider Solent Region.

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ANNEX 1. GENERAL FUND REVENUE ACCOUNT

Appoved budget as at Feb 2017	Approved 2017/18 budget £M	Forecast changes £M	Revised 2017/18 budget £M	Approved 2018/19 budget £M	Forecast changes £M	Revised 2018/19 budget £M	Approved 2019/20 budget £M	Forecast changes £M	Revised 2019/20 budget £M	Approved 2020/21 budget £M	Forecast changes £M	Revised 2020/21 budget £M	Approved 2021/22 budget £M	Forecast changes £M	Revised 2021/22 budget £M
Southampton is a city with Strong Sustainable Growth	9.35	(1.23)	8.12	8.22	1.29	9.51	7.65	1.30	8.94	7.65	1.09	8.73	7.65	1.09	8.73
Children and Young People In Southampton Get a Good Start In Life	44.56	4.55	49.11	39.69	7.90	47.59	36.37	7.50	43.87	36.37	7.50	43.87	36.37	7.50	43.87
People in Southampton live safe, healthy, independent lives	55.26	(0.58)	54.67	49.33	0.65	49.99	44.72	(1.22)	43.50	44.72	(0.44)	44.28	44.72	(0.44)	44.28
Southampton is an attractive, modem city where people are proud to live and work	27.80	(1.98)	25.81	26.12	2.81	28.93	26.32	1.50	27.82	26.12	1.70	27.82	26.12	1.70	27.82
A Modem Sustainable Council	21.38	1.03	22.41	16.66	3.97	20.63	15.64	2.13	17.77	14.34	1.99	16.33	14.34	1.99	16.33
Other Inflationary Pressures	0.00		0.00	8.19	(2.94)	5.25	15.19	(2.03)	13.16	21.49	(2.08)	19.41	21.49	(1.98)	19.51
Outcome Expenditure	**158.34**	**1.79**	**160.13**	**148.23**	**13.67**	**161.90**	**145.88**	**9.18**	**155.06**	**150.68**	**9.76**	**160.44**	**150.68**	**9.86**	**160.54**
Capital Asset Management	9.09		9.09	15.39	(4.00)	11.39	17.69	0.00	17.69	19.99	0.00	19.99	19.99	0.00	19.99
Levies & Contribution	0.63		0.63	0.63	0.00	0.63	0.63	0.00	0.63	0.63	0.00	0.63	0.63	0.00	0.63
Other Expenditure & Income & Centrally Held Allocations	8.57	(1.79)	6.78	8.22	(1.31)	6.91	12.91	(1.03)	11.88	16.15	(1.03)	15.12	16.15	(1.03)	15.12
Transfer to Reserves	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transfer to Highways Capital Programme & Minor Schemes	2.25		2.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
New Responsibilities	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NET REVENUE EXPENDITURE	**178.88**	**0.00**	**178.88**	**172.47**	**8.40**	**180.88**	**177.11**	**8.15**	**185.26**	**187.45**	**8.73**	**196.18**	**187.45**	**8.83**	**196.28**
Funding															
Draw From Balances	0.00		0.00	0.00	(1.18)	(1.18)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Government Grants	(2.39)		(2.39)	(0.81)	(0.70)	(1.51)	(0.92)	0.22	(0.70)	(0.92)	0.22	(0.70)	(0.92)	0.22	(0.70)
Revenue Support Grant	(23.25)		(23.25)	(17.06)	17.06	0.00	(10.79)	0.00	(10.79)	(10.79)	0.00	(10.79)	(10.79)	0.00	(10.79)
New Homes Bonus	(5.78)		(5.78)	(4.40)	(0.80)	(5.20)	(4.20)	(0.80)	(5.00)	(4.20)	(0.10)	(4.30)	(4.20)	(0.10)	(4.30)

Appoved budget as at Feb 2017	Approved 2017/18 budget £M	Forecast changes £M	Revised 2017/18 budget £M	Approved 2018/19 budget £M	Forecast changes £M	Revised 2018/19 budget £M	Approved 2019/20 budget £M	Forecast changes £M	Revised 2019/20 budget £M	Approved 2020/21 budget £M	Forecast changes £M	Revised 2020/21 budget £M	Approved 2021/22 budget £M	Forecast changes £M	Revised 2021/22 budget £M
New Homes Bonus Returned Funding	(0.12)		(0.12)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Adult Social Care Grant	(1.10)		(1.10)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Top Up Grant	(3.74)		(3.74)	(3.94)	32.23	28.29	(4.02)	(0.53)	(4.55)	(4.10)	(0.45)	(4.55)	(4.10)	(0.45)	(4.55)
S31 Business Rates Grants	(2.03)		(2.03)	(2.15)	(4.00)	(6.14)	(2.16)	(1.95)	(4.11)	(2.82)	(1.35)	(4.16)	(2.82)	(1.43)	(4.24)
Collection Fund Account															
Business Rates	(45.56)		(45.56)	(45.36)	(47.99)	(93.35)	(45.79)	(2.98)	(48.77)	(53.54)	2.37	(51.18)	(53.54)	1.18	(52.36)
Southampton is a city with Strong Sustainable Growth - Business Rates Growth	(2.35)		(2.35)	(5.86)	0.00	(5.86)	(5.91)	0.00	(5.91)	(5.97)	0.00	(5.97)	(5.97)	0.00	(5.97)
Council Tax	(83.10)		(83.10)	(84.46)	(2.48)	(86.95)	(86.13)	(2.67)	(88.80)	(87.82)	(2.86)	(90.68)	(87.82)	(4.8)	(92.62)
Adult Social Care Council Tax Levy	(4.18)		(4.18)	(6.84)	(0.16)	(6.99)	(6.97)	(0.07)	(7.04)	(7.11)	0.07	(7.04)	(7.11)	0.07	(7.04)
Southampton is a city with Strong Sustainable Growth - Council Tax Growth	(1.20)		(1.20)	(1.60)	(0.40)	(2.00)	(1.64)	(0.99)	(2.63)	(1.69)	(1.01)	(2.71)	(1.69)	(1.07)	(2.76)
Collection Fund Surplus	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Collection Fund Additional Surplus	(4.10)		(4.10)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL FUNDING	**(178.89)**	**0.00**	**(178.89)**	**(172.47)**	**(8.41)**	**(180.88)**	**(168.54)**	**(9.77)**	**(178.31)**	**(178.98)**	**(3.11)**	**(182.08)**	**(178.98)**	**(6.37)**	**(185.35)**
Savings Requirement	**(0.00)**	**0.00**	**(0.00)**	**(0.00)**	**0.00**	**(0.00)**	**8.58**	**(1.62)**	**6.95**	**8.48**	**5.62**	**14.10**	**8.48**	**2.46**	**10.94**

Housing Revenue Account

HOUSING REVENUE ACCOUNT	2017/18 budget £M	2018/19 budget £M	2019/20 budget £M	2020/21 budget £M	2021/22 budget £M
Net rent Income	(72.59)	(69.63)	(69.64)	(70.52)	(72.45)
Service charges & other income	(2.27)	(2.82)	(2.92)	(3.01)	(3.10)
Misc. Adjustments	0.00	0.00	0.00	0.00	0.00
RTB Admin	(0.13)	(0.13)	(0.10)	(0.10)	(0.10)
TOTAL INCOME	**(74.99)**	**(72.58)**	**(72.65)**	**(73.63)**	**(75.65)**
Management	21.95	21.57	22.22	22.99	23.68
Contribution to Depreciation Reserve	19.26	19.53	19.95	20.51	21.10
Responsive & Cyclical Repairs	13.91	14.79	15.03	15.33	15.52
Other Revenue spend	0.10	0.10	0.17	0.12	0.12
HRA Cost of Rent Rebates	0.00	0.00	0.00	0.00	0.00
Total service expenses	**55.22**	**55.98**	**57.37**	**58.96**	**60.42**
Capital Charges	5.98	6.17	6.49	6.78	6.90
Repayment of loans	5.59	5.96	12.84	12.45	0.25
Revenue Contribution to capital spending	9.19	4.47	0.10	0.00	11.26
TOTAL EXPENDITURE	**75.99**	**72.58**	**76.80**	**78.19**	**78.83**
Savings Requirement	0.00	0.00	(4.15)	(4.42)	(4.68)
(Surplus) /Deficit for the Year	**1.00**	**0.00**	**0.00**	**0.14**	**(1.51)**

Reserves and Balances

	2018/19 budget £M	Forecast changes £M	2019/20 budget £M	Forecast changes £M	2020/21 budget £M	Forecast changes £M	2021/22 budget £M
General Fund Balance	**(11.3)**	0.0	**(11.3)**	0.0	**(11.3)**	0.0	**(11.3)**
HRA Balance	**(2.0)**	0.0	**(2.0)**	0.0	**(2.0)**	0.0	**(2.0)**
Earmarked Reserves - School Balances	**(5.0)**	0.0	**(5.0)**	0.0	**(5.0)**	0.0	**(5.0)**
Earmarked Reserves - Revenue Grants	**(4.5)**	0.0	**(4.5)**	0.0	**(4.5)**	0.0	**(4.5)**
Earmarked Reserves - Revenue Account	**(46.9)**	3.0	**(43.9)**	1.8	**(42.0)**	1.5	**(40.6)**
Earmarked Reserves - Capital	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**
Total Reserves & Balances	**(69.7)**	**3.0**	**(66.7)**	**1.8**	**(64.9)**	**1.5**	**(63.4)**

General Fund & HRA Capital Programme 2017/18 to 2021/22

Programme	Forecast 2017/18 £M	Forecast 2018/19 £M	Forecast 2019/20 £M	Forecast 2020/21 £M	Forecast 2021/22 £M	Total £M
Communities, Culture & Leisure	0.61	1.95	0.00	0.00	0.00	2.56
Education & Childrens Social Care	12.19	21.57	15.81	20.74	29.48	99.79
E&T - City Services	2.37	0.41	2.65	0.00	0.00	5.43
Finance	2.44	4.20	0.27	0.30	0.00	7.21
Health & Community Safety	1.17	0.18	0.00	0.00	0.00	1.35
Housing & Adult Social Care	1.22	0.50	0.50	0.50	0.00	2.72
Leaders	6.74	9.24	0.00	0.00	0.00	15.98
Sustainability	3.14	1.08	0.00	0.00	0.00	4.22
Transport	18.56	29.65	4.75	2.21	0.00	55.17
TOTAL GENERAL FUND PROGRAMME	**48.44**	**68.78**	**23.98**	**23.75**	**29.48**	**194.43**
Housing Revenue Account	44.92	53.12	41.15	43.69	34.01	216.89
TOTAL CAPITAL PROGRAMME	**93.36**	**121.90**	**65.13**	**67.44**	**63.49**	**411.32**
Capital Programme Financing						
*CR - GF Borrowing	(14.51)	(29.71)	(4.37)	(17.79)	(29.48)	(95.86)
*CR - HRA Borrowing	(14.10)	(16.35)	(16.21)	(10.09)	0.00	(56.75)
Capital Receipts	(7.55)	(17.56)	0.00	(0.96)	(1.66)	(27.73)
Contributions	(5.26)	(5.95)	0.00	0.00	0.00	(11.21)
Capital Grants	(18.70)	(24.20)	(19.31)	(5.65)	0.00	(67.86)
Revenue Financing	(13.29)	(14.29)	(1.76)	(10.48)	(11.25)	(51.07)
HRA - MRA	(19.95)	(13.84)	(23.48)	(22.47)	(21.10)	(100.84)
TOTAL PROGRAMME FINANCING	**(93.36)**	**(121.90)**	**(65.13)**	**(67.44)**	**(63.49)**	**(411.32)**

*CR - Council Resources

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

Background

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

The four key outcomes for the Council are:

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

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

Medium Term Financial Strategy

The MTFS focuses on determining the financial position for the period up to and including 2021/22 and takes into account major issues affecting the Council's finances, including international, national and regional economic influences as well as local factors and priorities. It identifies risks and looks to mitigate those risks through provisions within reserves and balances to ensure the council has adequate resources to cover the uncertainty and risk.

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

The MTFS recognises the key role that financial resources play in the future delivery of services, and enabling the effective planning, management and delivery of those services. A sustainable MTFS is therefore key to the effective delivery of the Council's overall aims of achieving better outcomes for residents.

Addressing the Budget Gap

The Council has a current budget gap of £11.1M up to the end of 2021/22. The approach to addressing this gap can be broadly seen within three work programmes;

- Business as usual monitoring and budget reviews throughout the year;
- Progressing the Service Transformation Programmes providing regular updates to members;
- The implementation of outcome based budgeting to clearly link business planning and budgeting and focus on service outcomes;
- The progression of the Council's digitalisation agenda; and
- The implementation of the Commercialisation Strategy.

Efficiency Strategy

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

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

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

Operating Model

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

Digital

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

Service Excellence and Prioritisation

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

HR Policies and Procedures

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

Procurement & Contract Management

A review of the Council's expenditure on third party service provision, including the re-procurement of services to secure better market rates, as well as a more fundamental look and consideration of the actual need for future services and the introduction of measures that can help suppress demand in the first place. As part of this workstream, negotiations are ongoing with the Council's strategic service delivery partners to deliver further contract efficiencies and savings.

Commercialisation

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

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

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

The use of a Local Authority Trading Company will play an essential role in achieving this strategy.

Council Companies & Partnership Arrangements

As part of the review of the partnership arrangement with the Councils strategic partner Capita, a new company has been set up to provide the majority of services delivered previously by Capita as part of a fixed charging mechanism. The purpose of this is to provide greater transparency of costs and benefits to the Council for the services received. The new company was incorporated on 31st May 2016 and became operational on 1st October 2016. Southampton City Council holds 20% of the equity shares in the company;

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

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

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

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

Prevention and Early Intervention Approach

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

Outcomes Based Budgeting

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

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

Implementing an outcome based budgeting approach is not be a quick process, Whilst work has progressed, this will continue In 2018/19 to further refine the process.

Earmarked Reserves

As well as maintaining a risk based General Fund balance the Council can also set aside Earmarked Reserves (for these purposes earmarked reserves excludes school balances) for specific items.

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

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

Medium Term Financial Risk Reserve

Following on from the compilation of the Council's MTFS, and the identification of the risks that are currently in the funding system, demand pressures and the potential for savings to be delayed as the Council goes through a period of major change, monies have been set aside to mitigate these risks on a non-recurrent basis.

Organisational Design Reserve

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

Taxation Reserve

Due to the volatile nature of business rates, the possible recession in 2019/20 and the expected move to 100% Business Rate Retention from 2020/21, and the unknown consequences of Brexit, monies have been set to mitigate against any loss of income from both this and council tax, to enable a smoothing of the impact should the anticipated level of income not be achieved.

Capital Funding Risk Reserve

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

Transformation Reserve

To ensure the Council can continue to transform and innovate in order to reduce costs whilst improving outcomes, a reserve is set aside to pump prime this transformation. This reserve Is currently earmarked to support the Digitalisation Programme, including the introduction of an Enterprise Resource Planning System.

Organisational Design Reserve

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

Bearing in mind the current pressures detailed in the report, it is recommended that should any underspends or additional monies become available during each financial year they are applied to the key risk reserves in the order listed above.

A further review of reserves and balances will be undertaken each year as part of the budget setting and final accounts process to ensure the council has adequate resources to cover uncertainty and risk.

Appendix 3

COUNCIL TAX CALCULATION 2018/19

	2017/18 £M	2018/19 £M	Change £M	Change %
Budget Requirement (a)	**167.2**	**173.0**	**5.8**	**3.47%**
Less NDR	(47.9)	(99.2)		
Plus Tariff	(3.7)	28.3		
S31 Grants	(2.0)	(6.1)		
Less RSG	(23.3)	0.0		
Contribution/(Draw) To/From Balances	0.0	0.0		
Aggregate External Finance	(76.9)	(77.1)	(0.1)	0.18%
Deficit/(Surplus) on Council Tax Collection Fund	(1.0)	0.0		
Deficit/(Surplus) on Business Rates Collection Fund	(0.8)	0.0		
Net Grant Income (b)	(78.7)	(77.1)	1.7	-2.11%
Amount to be met from Council Tax (a - b)	**88.48**	**95.93**	**7.45**	**8.42%**
Tax base	62,900.0	64,345.0	1,445.0	2.30%
Basic amount of Council Tax (Band D)	**1,406.68**	**1,490.94**	**84.26**	**5.99%**
Last years Council Tax		1,406.68		
Council Tax - General Increase	2.99%	42.06		
Council Tax - Social Care Precept	3.00%	42.20		
Total Annual Cash Increase		84.26		
Increase (Cash per Week)		1.62		
Total Increase (%)		5.99%		

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Appendix 4

COLLECTION FUND ESTIMATES 2018/19

	2017/18 £000	2018/19 £000	Change £000	Change %
Southampton City Council Precept	88,480.1	95,934.4	7,454.4	8.42%
Hampshire Police Precept	10,407.5	11,418.7	1,011.2	9.72%
Fire and Rescue Services Precept	4,015.5	4,230.2	214.7	5.35%
Income due from Council Tax Payers	102,903.1	111,583.3	8,680.3	8.44%
Tax Base for Area	62,900.0	64,345.0	1,445.0	2.30%
Basic Amount of Tax for Band D Property	**1,635.98**	**1,734.14**	**98.16**	**6.00%**

Council Tax increase per Property Band 2018/19

	SCC Band Charge	Council Tax Increase	Social Care Precept	SCC Band Charge		Overall Change	
Band	**2017/18**	**2.99%**	**3.00%**	**2018/19**		**£**	**%**
A	£937.79	28.04	28.13	£993.96		56.17	5.99%
B	£1,094.08	32.72	32.82	£1,159.62		65.54	5.99%
C	£1,250.38	37.39	37.51	£1,325.28		74.90	5.99%
D	£1,406.68	42.06	42.20	£1,490.94		84.26	5.99%
E	£1,719.27	51.40	51.58	£1,822.25		102.98	5.99%
F	£2,031.87	60.75	60.96	£2,153.58		121.71	5.99%
G	£2,344.46	70.10	70.33	£2,484.89		140.43	5.99%
H	£2,813.35	84.12	84.40	£2,981.87		168.52	5.99%

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Appendix 5

STATUTORY POWER TO UNDERTAKE PROPOSALS IN THE REPORT

1. INTRODUCTION

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

2. GENERAL POSITION

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

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

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

3. OBLIGATION TO MAKE A COUNCIL TAX

a. The legal significance of the Annual Budget and setting a Council Tax derives from the Council's duty under the Local Government Finance Act 1992 (the 1992 Act) and Part 5 Chapter 1 of the Localism Act 2011to set a balanced budget and Part 5 Chapter 1 of the Localism Act 2011. This is achieved by calculating the aggregate of:

   i. the expenditure it estimates it will incur in the year in performing its functions in the year (including an allowance for contingencies),

ii. the payments it estimates it will make in the year in defraying expenditure already incurred and

iii. expenditure it will incur in funding costs before a transfer of funds is made from the Collection Fund and then deducting such sums as will be paid into the General Fund, i.e. income. Calculations made under this section must be made before 11 March in the preceding financial year.

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

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

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

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

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

4. DEFICIT BUDGETING

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

b. Where these best estimates include sums for unallocated savings or unidentified expectations of income, extreme care must be taken to ensure that the estimates are reasonable and realistic and do not reflect an unlawful intention to incur a deficit. It might be appropriate at budget setting time to require regular monitoring throughout the financial year of such estimated savings or income. Prompt action to reduce spending must be taken, if at any stage it seems likely that a balance between income and expenditure will not be achieved.

5. BORROWING

The rules and regulations governing a local authority's ability to borrow money were altered significantly by the introduction of the Local Government and Housing Act 1989 and subsequent regulations. This has now been abolished and replaced by the self-regulating Prudential Code.

6. OTHER RELEVANT LEGISLATION

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

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

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

7. BEST VALUE: LOCAL GOVERNMENT ACT 1999

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

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

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

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

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

   i. Article 12 contains guidance on decision making and the law.

   ii. The Council Procedure Rules in Part 4 regulate the conduct of the Full Council meeting (although traditionally, some of the rules relating to the conduct of the debate are suspended to allow different arrangements during the budget debate).

   iii. The Members' Code of Conduct must be followed by Members.

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

9. PERSONAL LIABILITY AND SURCHARGE

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

10. LEGAL STATUS OF POLITICAL PROMISES AND DOCUMENTS

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

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

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

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

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

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

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

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

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

11. OTHER LEGAL IMPLICATIONS

The financial forecasts contained in this report have been prepared and are submitted as part of the budget process set out in the Council's Constitution.

KEY FINANCIAL RISKS

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

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

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

- **Robustness of estimates**

	Key Financial Risk	INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FE1.	**Pay Inflation** - underestimated in the original estimates.	Possible	Moderate	*• The MTFS model approved in February 2017 is based on a pay award of 1% over the medium term - this is following the July 2015 budget and the announcement to cap public sector pay awards at 1%* *• It should be noted that the current offer is 2% per annum for 2018/19 and 2019/20. The MTFS model has been updated to reflect this.*	Unlikely	Minor
FE2.	**Interest rates** are underestimated.	Possible	Moderate	*• Reliance placed on market intelligence provided by Treasury Management advisors.* *• Treasury Management Strategy is aligned with CIPFA Code and the CLG Guidance re investing funds prudently and having regard to the security and liquidity of its investments before seeking the highest rate of return.*	Unlikely	Minor
FE3.	**Existing fees and charges:** Projected levels of income within the period are not achieved and/or maintained.	Possible	Moderate	*• As part of the estimate setting process we are reviewing all fees and charges on an basis, to reset these if necessary. If there are 'in year' shortfalls these form part of the budget monitoring processes.* *• Lower risk as existing income streams are known and are therefore more predictable*	Possible	Moderate
FE4.	**New income streams:** Projected levels of income within the period are not achieved.	Possible	Moderate	*• Income generating activity has been identified as part of savings proposals for 2017-18 and onwards. There is a risk that in light of the economic backdrop and Brexit that these levels of income will not be achieved.* *• Higher risk as it is based on new sources of income*	Possible	Moderate
FE5.	**Volatility of Business Rates funding** given the uncertainty around impact of successful appeals (SCC retains almost half the risk from the volatile nature of the receipts).	Likely	Significant	*• The Valuations Office has undertaken a reset of rateable values from 2017/18. The provision has been reviewed in light of the revaluation and known current appeals and will be reviewed on a regular basis, at present this is deemed to be adequate.* *• Appeals can be backdated and as a consequence of this the Council has set aside a provision to deal with this element of the financial impact.* *• In December 2014 the Government announced it was closing the appeals window and that appeals received on or after 1 April 2015 will only be backdated until this date.*	Unlikely	Minor

- **Robustness of estimates**

	Key Financial Risk	INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FE6.	**Increase in demand led spending pressures** (including impact of Welfare Reform, social care, safeguarding) over and above the current budget provision.	Possible	Significant	*• Annual budget setting process developed in consultation with service managers* *• Monitoring of capital (quarterly) and revenue (monthly) budgets, reported to CMT and Cabinet (Quarterly).* *• Action plans to address any significant in year budget variances are agreed with CMT with the status of the agreed actions reported to CMT on a monthly basis* *• Action plans in place that are intended to manage/reduce the number of Looked After Children*	Possible	Moderate
FE7a.	Third party provider costs will increase as a result of the introduction of the **National Living Wage**	Almost certain	Moderate	*• As each contract is procured any impact of this will need to be assessed and addressed to ensure services are procured within budget.*	Possible	Moderate
FE7b.	**Third party provider costs increase** as result of SCC having to 'step in' in the event of potential provide failure (social care providers)	Possible	Moderate	*• ICU contract monitoring arrangements and general market oversight and intelligence*	Unlikely	Minor
FE8.	**Legal challenge to savings proposals** that could result in the proposal being either discontinued or revised.	Possible	Moderate	*• Budget consultation process in place.*	Unlikely	Minor
FE9.	**Pressure on returns from investment properties** in both the short and longer term.	Possible	Significant	*• There is a full and robust process around the financial and legal analysis of the individual investments.* *• Investments are not confined to the Southampton area*	Possible	Moderate
FE10.	**Voluntary sector** is either unwilling or unable to support the delivery of certain services or activities	Possible	Significant	• Review the overall expectation and co-ordination of the services required of the voluntary sector. • Consideration is given to this risk in deciding whether to design services around the voluntary sector	Possible	Moderate
FE11.	The council's **service delivery partners** seek to exit an agreement or are no longer able to deliver the required service.	Unlikely	Significant	• Central Contracts Team monitors and work closely with the council significant service delivery partners. • Contractual obligations on both parties that set out the respective roles and responsibilities.	Very Unlikely	Moderate

- **Adequacy of proposed financial reserves**

	Key Financial Risk	INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Impact	Likelihood		Impact	Likelihood
FR1.	**Business Rate Retention & Council Tax Growth** - the council fails to collect, retain and grow business rate income	Possible	Significant	• *The assumption built into the MTFS is based on an annualised CPI Rate reflecting the uplift set by government.* • *The current MTFS includes assumptions on growth which have been developed in conjunction with the Growth service area and recognise pipeline developments and their assumed operation dates. These will be monitored on a monthly basis as part of the standard monitoring.*	Possible	Moderate
FR2.	**Delivery of all of the agreed savings** is not achieved.	Possible	Major	• *Progress and delivery of the overall Programme and individual projects is monitored at Service Director level, and thereafter by SLT and CMT, with any non achievement forming part of the normal budget monitoring action plan process.* • *CMT and SLT review the validity and achievability of projects and provide approval (or not) to projects*	Unlikely	Significant
FR3.	The Government could impose a lower **Council Tax referendum** threshold (currently 2.99%) and/or reduce or remove the **Adult Social Care Levy** (3%)	Possible	Moderate	• *Assumption is that Council Tax rises will be set at just below the 3% referendum limit in 2018/19 at 2.99% and future years at 1.99% (excluding the Adult Social Care Levy).* • *The Adult Social Care Levy was only introduced as part of the Autumn 2015 Spending Review and allows local authorities with social care responsibilities to increase Council Tax by a further 3% (17-18 & 18-19). No further assumptions have been made beyond 2019-20 for any increase in this income over and above the 6%.* • *The MTFS assumes this levy will be taken in all years as the calculated increase in funding for adult social care far outweighs the income gained from this levy.*	Unlikely	Moderate
FR4.	**Slippage in capital receipts** (not accompanied by a slippage in spend).	Possible	Moderate	• *Non-receipt of any planned income will require a permanent draw from balances, additional borrowing or for savings to be found in the capital programme.* • *Impact reflects the cost of borrowing in short term (the interest payments).*	Possible	Minor
FR5.	If **building inflation** was to exceed general inflation over a prolonged period, this would have a significant adverse impact on **HRA balances** and, in turn, the business model in respect of the redevelopment and refurbishment of the SCC Housing stock.	Possible	Significant	• *Surpluses are liable to change annually, either favourably or not, and this will be reflected the annual review of stock investment needs and estimated unit rates.* • *Monitoring and assessment of potential impact with business model sufficiently flexible to allow for reassessment of priority outcomes against available budget*	Possible	Moderate
FR6.	As schools transfer to Academy status the council's **share of the retained and general element of the Education Services Grant** may reduce.	Almost certain	Moderate	• *Costs need to be reduced in line with reductions in funding.* • *Development of a strategy in terms of whether / what services SCC may choose to still offer to Academy Schools*	Possible	Minor
FR7.	The level of funds within **the internal insurance provisions** is inadequate to meet current or future demand	Possible	Moderate	• *The adequacy of the provision is informed by the output from periodical (at least triennial) external actuarial reviews of the funds.* • *The level of funding is required is reviewed as part of annual budget setting process and the position, in respect of potential liabilities is reviewed on a monthly basis.*	Unlikely	Moderate

- **Adequacy of proposed financial reserves**

	Key Financial Risk	INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Impact	Likelihood		Impact	Likelihood
FR8.	**Ad hoc or unforeseen events / emergencies.**	Possible	Significant	• *The Council's Reserves may utilised in respect of the financial impact of such an event.* • *Subject to the nature of the event alternative sources of funding might be available e.g. Bellwin Scheme.*	Possible	Significant
FR9.	The cost of implementing the **Care Act** 2014 is greater than anticipated.	Unlikely	Moderate	• *Current assumption is for the cost of this new burden to be met by the funding allocation provided within the Better Care Fund and the new Carers and Care Act Implementation grant* • *This funding has now been included within the Revenue Support Grant and the main implications of the Care Act have been deferred until 2019-20.*	Unlikely	Moderate
FR10.	**CCG** could seek to reduce it level of contribution to the **'pooled budgeting '** arrangement with SCC	Possible	Significant	• *Ongoing relationship and dialogue with CCG re shared objectives and outcomes.*	Unlikely	Moderate
FR11.	The council is unable to quantify the financial impact on both vulnerable individuals and key council services arising from implementation **of welfare reforms**	Possible	Moderate	*The impact of Welfare Reform on all service areas will be difficult to monitor or to mitigate against.*	Possible	Moderate
FR12.	**Inflation increases** at a higher rate than anticipated	Possible	Moderate	• *Assumptions have been made in the forecast about the likely level of general inflation that will apply from April 2018. Current indications are that an increase is likely. CPI is likely to increase to 2.4% in 2018/19 reducing to 2.0% over the medium term. This has been assumed in the MTFS model.* • *Market intelligence provided by Arlingclose - independent treasury advisors* • *An amount is included in the MTFS to cover key elements of inflation, for example in relation to fuel and energy costs, which can be volatile.* • *Beyond this provision, it would be managed as an 'in year' issue and services would be expected to absorb the difference.*	Unlikely	Minor
FR13.	Brexit - Uncertainty and economic forces, at least in the short term, within both the local business and wider business sector may have an adverse impact on investment decisions and local employment which, in turn, would impact on business rate income.	Likely	Moderate	• *National and local modelling in respect of the future approach to business rate retention will need to reflect changes in the financial environment.* • *There may be either pressure or incentives for non UK owned business to move operations back to within an EU country.* • *Treasury Management advisors are regularly updating the Council on the economic impact of Brexit, the strength of the pound, inflation and interest rates.*	Likely	Moderate
FR14.	There are unplanned and unforeseen consequences (and costs) arising from the implementation of new, or changed, systems and processes across service areas within the organisation	Possible	Moderate	• *A Programme Management Office has been established and will be liaising with Finance to track benefits and unintended consequences. A full programme management process is being put in place including planning and risk assessment.*	Unlikely	Moderate
FR15.	New accounting rules for financial investments may result in adverse valuation movements being charged to the General Fund in year that they occur.	Possible	Moderate	• *New accounting rules require gains/losses from valuation movements for certain types of financial investments to be recognised in the year they occur, rather than when the investments are sold. The Risk Reserve will be used to manage the volatility that the timing difference may cause.*	Possible	Moderate

Agenda Item 9
Appendix 7

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

		Income				Expenditure															
Year	Year	Net rent Income	Other income	Misc Income	Total Income	Managt.	Depreciation	Revenue R&M	Other Revenue spend	Misc expenses	Total expenses	Capital Charges	**Net Operating (Expenditure)**	Repayment of loans	RCCO	**Surplus (Deficit) for the Year**	**Surplus (Deficit) b/fwd**	**Interest**	**Surplus (Deficit) c/fwd**	**Provision for debt re-payment**	**Surplus (Deficit) c/fwd**
		£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	**£,000**	£,000	£,000	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**	£,000
1	2018.19	69,398	2,818	231	72,447	(21,436)	(19,528)	(14,785)	(100)	0	(55,849)	(6,202)	**10,396**	(5,963)	(4,473)	**(40)**	**2,000**	**4**	**1,963**		**1,963**
2	2019.20	69,635	2,918	0	72,553	(22,144)	(19,968)	(15,040)	(172)	4,157	(53,167)	(6,602)	**12,784**	(12,844)	0	**(60)**	**1,963**	**3**	**1,907**		**1,907**
3	2020.21	70,516	2,999	0	73,515	(22,825)	(20,451)	(15,289)	(118)	4,406	(54,278)	(6,960)	**12,277**	(12,447)	0	**(170)**	**1,907**	**3**	**1,741**		**1,741**
4	2021.22	72,447	3,086	0	75,534	(23,486)	(21,018)	(15,460)	(122)	4,666	(55,421)	(7,109)	**13,004**	(250)	(11,161)	**1,593**	**1,741**	**5**	**3,338**		**3,338**
5	2022.23	74,047	3,176	0	77,223	(24,167)	(21,465)	(15,626)	(126)	4,941	(56,443)	(7,041)	**13,739**	(4,000)	(4,959)	**4,781**	**3,338**	**10**	**8,129**		**8,129**
6	2023.24	76,041	3,268	0	79,309	(24,867)	(21,902)	(15,789)	(131)	5,233	(57,457)	(6,974)	**14,878**	0	(13,019)	**1,859**	**8,129**	**16**	**10,004**		**10,004**
7	2024.25	79,301	3,370	0	82,671	(25,588)	(22,358)	(15,977)	(135)	5,542	(58,516)	(6,982)	**17,173**	(4,000)	(13,961)	**(788)**	**10,004**	**17**	**9,233**		**9,233**
8	2025.26	79,035	3,468	0	82,503	(26,329)	(22,876)	(16,204)	(140)	5,869	(59,680)	(6,848)	**15,975**	(4,000)	(15,027)	**(3,052)**	**9,233**	**14**	**6,195**		**6,195**
9	2026.27	80,387	3,569	0	83,956	(27,092)	(23,463)	(16,455)	(144)	6,215	(60,940)	(6,717)	**16,299**	(4,000)	(15,110)	**(2,811)**	**6,195**	**9**	**3,393**		**3,393**
10	2027.28	81,754	3,672	0	85,427	(27,877)	(24,064)	(16,710)	(149)	6,582	(62,220)	(6,656)	**16,550**	0	(15,981)	**570**	**3,393**	**7**	**3,969**		**3,969**
11	2028.29	83,152	3,779	0	86,930	(28,685)	(24,681)	(17,139)	(154)	6,970	(63,690)	(6,643)	**16,598**	(886)	(14,503)	**1,209**	**3,969**	**8**	**5,186**		**5,186**
12	2029.30	84,563	3,888	0	88,451	(29,516)	(25,314)	(17,578)	(160)	7,381	(65,186)	(6,628)	**16,637**	0	(14,878)	**1,759**	**5,186**	**11**	**6,956**		**6,956**
13	2030.31	87,657	4,001	0	91,658	(30,372)	(25,962)	(18,028)	(165)	7,817	(66,710)	(6,628)	**18,321**	0	(15,263)	**3,057**	**6,956**	**15**	**10,028**		**10,028**
14	2031.32	87,465	4,117	0	91,582	(31,252)	(26,627)	(18,489)	(171)	8,278	(68,261)	(6,628)	**16,694**	0	(15,658)	**1,036**	**10,028**	**19**	**11,083**		**11,083**
15	2032.33	88,956	4,237	0	93,192	(32,157)	(27,308)	(18,962)	(177)	8,766	(69,838)	(6,628)	**16,726**	0	(16,063)	**663**	**11,083**	**21**	**11,766**		**11,766**
16	2033.34	90,467	4,359	0	94,826	(33,089)	(28,007)	(19,447)	(183)	9,283	(71,443)	(6,488)	**16,895**	(8,050)	(7,498)	**1,348**	**11,766**	**22**	**13,136**		**13,136**
17	2034.35	91,999	4,486	0	96,485	(34,048)	(28,723)	(19,944)	(190)	9,831	(73,073)	(6,245)	**17,166**	(6,000)	(7,695)	**3,471**	**13,136**	**27**	**16,634**		**16,634**
18	2035.36	95,358	4,616	0	99,974	(35,035)	(29,457)	(20,453)	(197)	10,411	(74,730)	(6,034)	**19,209**	(2,878)	(7,897)	**8,434**	**16,634**	**38**	**25,105**		**25,105**
19	2036.37	95,145	4,750	0	99,895	(36,050)	(30,209)	(20,976)	(168)	11,025	(76,377)	(5,970)	**17,548**	(6,723)	(8,104)	**2,721**	**25,105**	**48**	**27,874**		**27,874**
20	2037.38	96,752	4,888	0	101,640	(37,095)	(30,980)	(21,511)	(173)	11,676	(78,083)	(5,814)	**17,743**	(2,459)	(8,318)	**6,967**	**27,874**	**56**	**34,897**		**34,897**
21	2038.39	98,393	5,029	0	103,423	(38,170)	(31,771)	(22,060)	(178)	12,365	(79,814)	(5,645)	**17,965**	(7,399)	(958)	**9,608**	**34,897**	**71**	**44,576**	**(11,267)**	**33,309**
22	2039.40	100,061	5,175	0	105,236	(39,276)	(32,581)	(22,622)	(183)	13,094	(81,568)	(5,398)	**18,270**	(4,000)	(990)	**13,280**	**44,576**	**92**	**57,949**	**(22,534)**	**35,415**
23	2040.41	101,748	5,325	0	107,073	(40,414)	(33,412)	(23,199)	(188)	13,867	(83,346)	(5,164)	**18,563**	(10,000)	(1,023)	**7,540**	**57,949**	**111**	**65,599**	**(33,801)**	**31,799**
24	2041.42	105,457	5,480	0	110,937	(41,585)	(34,264)	(23,790)	(194)	14,685	(85,148)	(4,868)	**20,921**	(9,000)	(1,057)	**10,865**	**65,599**	**128**	**76,592**	**(45,068)**	**31,524**
25	2042.43	105,213	5,639	0	110,852	(42,790)	(35,137)	(24,396)	(199)	15,551	(86,970)	(4,631)	**19,250**	(6,698)	(1,092)	**11,461**	**76,592**	**148**	**88,201**	**(56,335)**	**31,866**
26	2043.44	106,991	5,802	0	112,793	(44,030)	(36,031)	(25,017)	(205)	16,469	(88,814)	(4,445)	**19,535**	(1,888)	(7,119)	**10,528**	**88,201**	**168**	**98,897**	**(67,601)**	**31,296**
27	2044.45	108,794	5,970	0	114,765	(45,306)	(36,948)	(25,653)	(211)	17,440	(90,678)	(4,421)	**19,666**	0	(7,308)	**12,357**	**98,897**	**189**	**111,444**	**(78,868)**	**32,575**
28	2045.46	110,629	6,144	0	116,773	(46,619)	(37,888)	(26,305)	(217)	18,469	(92,560)	(4,421)	**19,792**	0	(7,503)	**12,288**	**111,444**	**212**	**123,944**	**(90,135)**	**33,808**
29	2046.47	112,496	6,322	0	118,818	(47,970)	(38,851)	(26,974)	(223)	19,559	(94,460)	(4,421)	**19,937**	0	(7,704)	**12,234**	**123,944**	**234**	**136,411**	**(101,402)**	**35,009**
30	2047.48	116,586	6,505	0	123,091	(49,361)	(39,838)	(27,659)	(230)	20,713	(96,375)	(4,421)	**22,296**	0	(7,909)	**14,386**	**136,411**	**258**	**151,056**	**(112,669)**	**38,387**

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Agenda Item 9

Appendix 8

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

		Expenditure			**Financing**						
Year	Year	Capital Programme £,000	Estate Regeneration & New Build £,000	Total Expenditure £,000	Borrowing £,000	RTB 141 Receipts £,000	Other RTB Receipts £,000	Other £,000	MRR £,000	RCCO £,000	Total Financing £,000
1	2018.19	28,216	19,288	47,504	16,886	2,912	2,405	1,300	19,528	4,473	47,504
2	2019.20	28,620	11,164	39,783	14,860	3,184	1,402	375	19,962	0	39,783
3	2020.21	38,077	3,831	41,908	19,418	639	1,446	0	20,405	0	41,908
4	2021.22	29,767	4,117	33,884	0	172	1,481	0	21,070	11,161	33,884
5	2022.23	24,579	3,373	27,952	0	0	1,528	0	21,465	4,959	27,952
6	2023.24	33,464	3,035	36,499	0	0	1,577	0	21,902	13,019	36,499
7	2024.25	34,196	3,751	37,947	0	0	1,628	0	22,358	13,961	37,947
8	2025.26	35,029	3,859	38,888	0	0	986	0	22,876	15,027	38,888
9	2026.27	35,926	3,971	39,897	305	0	1,020	0	23,463	15,110	39,897
10	2027.28	37,074	4,086	41,161	60	0	1,055	0	24,064	15,981	41,161
11	2028.29	36,071	4,205	40,276	0	0	1,092	0	24,681	14,503	40,276
12	2029.30	36,995	4,327	41,322	0	0	1,130	0	25,314	14,878	41,322
13	2030.31	37,941	4,452	42,394	0	0	1,168	0	25,962	15,263	42,394
14	2031.32	38,912	4,581	43,493	0	0	1,208	0	26,627	15,658	43,493
15	2032.33	39,907	4,714	44,621	0	0	1,250	0	27,308	16,063	44,621
16	2033.34	31,945	4,851	36,797	0	0	1,292	0	28,007	7,498	36,797
17	2034.35	32,762	4,992	37,753	0	0	1,336	0	28,723	7,695	37,753
18	2035.36	33,598	5,136	38,735	0	0	1,381	0	29,457	7,897	38,735
19	2036.37	34,456	5,285	39,741	0	0	1,428	0	30,209	8,104	39,741
20	2037.38	35,335	5,439	40,774	0	0	1,476	0	30,980	8,318	40,774
21	2038.39	28,658	5,596	34,255	0	0	1,525	0	31,771	958	34,255
22	2039.40	29,389	5,759	35,148	0	0	1,577	0	32,581	990	35,148
23	2040.41	30,138	5,926	36,064	0	0	1,629	0	33,412	1,023	36,064
24	2041.42	30,906	6,098	37,004	0	0	1,683	0	34,264	1,057	37,004
25	2042.43	31,693	6,274	37,967	0	0	1,739	0	35,137	1,092	37,967
26	2043.44	38,490	6,456	44,947	0	0	1,797	0	36,031	7,119	44,947
27	2044.45	39,469	6,644	46,113	0	0	1,856	0	36,948	7,308	46,113
28	2045.46	40,472	6,836	47,309	0	0	1,917	0	37,888	7,503	47,309
29	2046.47	41,501	7,035	48,535	0	0	1,980	0	38,851	7,704	48,535
30	2047.48	42,555	7,239	49,793	0	0	2,045	0	39,838	7,909	49,793

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HRA SAVINGS PROPOSALS 2018/19

Saving Reference	Service Activity	Efficiency, Service Reduction, or Income	Saving Proposal	Description	2018/19 £
HOU 1	Housing Management	Increased income	Garage income.	Increase rent on garages by 15%.	11,800
HOU 2	Housing Management	Increased income	Parking Space income.	Increase rents on parking spaces by 10%.	8,000
HOU 3	Housing Management	Service reduction	Decent Neighbourhood Budget	Reduction in the Decent Neighbourhoods Budget.	200,000
HOU 4	Housing Management	Service reduction	Environmental Improvement Budget.	Reduces the amount that is available for Environmental Improvement projects.	100,000
HOU 5	Capital Assets Team	Service reduction	Review of the Capital programme.	Reduction in capital spend funded through revenue contributions.	2,940,000
HOU 7	Housing Management	Efficiency savings	Service Manager (post deleted)	Deletion of the Service Manager Customer Experience.	62,600
HOU 8	Housing Management	Efficiency savings	Decent Neighbourhood Part Post deletion	Reduction of part of a post.	7,700
HOU 10	Capital Assets Team	Service reduction	Reductions in the Special Decorations Scheme.		123,400
HOU 12	Housing Management	Service reduction	Reduction in the Tenant Participation Budget.		10,000
HOU 13	Housing Management	One-off contribution	HRA Heating Account re-payment.	Payback of the 'loan' from the HRA previously paid to the heating account.	391,000
HOU 16	Housing Services	Efficiency savings	Cease CIH subscription.		5,000
HOU 17	Housing Services	Efficiency savings	Cease HouseMark subscription.		12,000
HOU 18	Housing Services	Service Reduction	Reduction in Tenants Incentive Scheme budget.	Limited impact as there is now very little update of this scheme.	20,000
HOU 19	Housing Services	Efficiency savings	Review of Recharges from the General Fund.		50,000
TOTAL PROPOSED SAVINGS					**3,941,500**

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DECISION-MAKER:		CABINET		
SUBJECT:		CAPITAL FINANCIAL MONITORING FOR THE PERIOD TO THE END OF DECEMBER 2017.		
DATE OF DECISION:		13 FEBRUARY 2018		
REPORT OF:		CABINET MEMBER FOR FINANCE		
CONTACT DETAILS				
AUTHOR:	**Name:**	**Sue Cuerden**	**Tel:**	**023 8083 4153**
	E-mail:	**sue.cuerden@southampton.gov.uk**		
Director	**Name:**	**Mel Creighton**	**Tel:**	**023 8083 4897**
	E-mail:	**mel.creighton@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY
NOT APPLICABLE

BRIEF SUMMARY		
The purpose of this report is to inform Cabinet of any major changes in the overall General Fund and Housing Revenue Account (HRA) capital programme for the period 2017/18 to 2021/22, highlighting the changes in the programme since the last reported position to Cabinet in December 2017. The report also notes the major forecast variances against the approved estimates.		
RECOMMENDATIONS:		
It is recommended that Cabinet:		
	(i)	Notes the revised proposed General Fund Capital Programme, which totals £194.43M (as detailed in paragraph 36) and the associated use of resources.
	(ii)	Notes the revised proposed HRA Capital Programme, which totals £216.89M (as detailed in paragraph 36) and the associated use of resources.
	(iii)	Notes that the forecast position at Quarter 3 is £94.08M, resulting in a potential overspend of £0.72M, as detailed in paragraph 11 and Appendix 1.
	(iv)	Notes that the capital programme remains fully funded up to 2021/22 based on the latest forecast of available resources although the forecast can be subject to change; most notably with regard to the value and timing of anticipated capital receipts and the use of prudent assumptions of future Government Grants to be received.
REASONS FOR REPORT RECOMMENDATIONS		
1.	The Capital Programme is reviewed on a quarterly basis in accordance with the Council's Capital Strategy. The forecast position is reported to the Council Capital Board with any required programme update reported to Cabinet and	

	Council for approval. This is required to enable schemes in the programme to proceed and to approve additions and changes to the programme.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	The update of the Capital Programme is undertaken within the resource constraints imposed on it. No new schemes can be added unless specific additional resources are identified. Alternative options for new capital spending are considered as part of the budget setting process in the light of the funding available and the overall financial position.
DETAIL (Including consultation carried out)	
	CONSULTATION
3.	Service Directors, Service Leads and Project Managers have been consulted in preparing the reasons for variations contained in this report. The General Fund and HRA capital programme monitoring report summarises additions to the capital programme and slippage and rephasing since the last approved programme reported in November 2017. Each addition has been subject to the relevant consultation process which reflects the role played by Council Capital Board. The content of this report has been subject to consultation with Finance Officers for each service.
	THE FORWARD CAPITAL PROGRAMME
4.	Table 1 shows a comparison of the latest capital expenditure for the period 2017/18 to 2021/22 compared to the previously reported programme.
	Table 1 – Programme Comparison

	2017/18 £M	**2018/19 £M**	**2019/20 £M**	**2020/21 £M**	**2021/22 £M**	**Total £M**
Latest Programme	93.36	121.90	65.13	67.44	63.49	411.32
Previous Programme	162.27	78.87	39.69	44.22	0.00	325.05
Variance	**(68.91)**	**43.03**	**25.44**	**23.22**	**63.49**	**86.27**

5.	The overall increase in the programme of £86.27M includes a decrease of £37.20M primarily due to budget allocations to alternative projects within the programme, which is offset by an increase of £123.47M relating to additions to the programme either approved under delegated powers, by Cabinet or will be requested for approval as part of the capital programme update by Council in February 2018.
6.	Table 2 below shows that the Capital Programme has increased by £86.27M, £52.26M within the General Fund and £34.01M in the HRA.

	CHANGES TO THE OVERALL PROGRAMME

Table 2 – Changes in Portfolio Programmes

	Latest Programme £M	Previous Programme £M	Total Change £M
Communities, Culture & Leisure	2.56	2.19	0.37
Education & Children's Social Care	99.79	33.69	66.10
E&T - City Services	5.43	5.15	0.28
Finance	7.21	6.01	1.20
Health & Community Safety	1.35	1.33	0.02
Housing & Adult Care	2.72	4.12	(1.40)
Leaders	15.98	42.93	(26.95)
Sustainability	4.22	4.22	0.00
Transport - E&T	55.17	42.53	12.64
General Fund Programme	**194.43**	**142.17**	**52.26**
HRA Programme	**216.89**	**182.88**	**34.01**
Total Capital Programme	**411.32**	**325.05**	**86.27**

7. It should be noted that approval for future year's additions to the programme, along with all other changes to the programme will be sought as part of the capital update being reported to Council on 21st February 2018.

SLIPPAGE AND REPHASING

8. The proposed programme assumes £34.30M of net slippage and rephasing from 2017/18 into future years. £19.16M relates to the General Fund and £15.14M to the HRA.

9. Approval will be sought for all slippage and rephasing as part of the capital update being reported to Council on 21st February 2018.

2017/18 MONITORING POSITION

10. The forecast performance of individual capital programmes in 2017/18 is summarised in table 3 below.

11. The latest programme position shown assumes all proposed additions and slippage or rephasing will be approved by Council on 21st February.

Table 3 – Summary of the General Fund & HRA Capital Forecast 2017/18

Portfolio	**Latest Programme £M**	**Forecast £M**	**Variance £M**	**%**
Communities, Culture & Leisure	0.61	0.61	0.00	0.00
Education & Childrens Social Care	12.19	10.80	(1.39)	(11.40)
E&T - City Services	2.37	2.36	(0.01)	(0.42)
Finance	2.44	2.44	0.00	0.00
Portfolio	**Latest**	**Forecast**	**Variance**	**%**

	Programme £M	£M	£M	
Health & Community Safety	1.17	1.16	(0.01)	(0.85)
Housing & Adult Care	1.22	1.22	0.00	0.00
Leaders	6.74	10.87	4.13	61.28
Sustainability	3.14	3.13	(0.01)	(0.32)
Transport - E&T	18.56	18.55	(0.01)	(0.05)
General Fund Programme	**48.44**	**51.14**	**2.70**	**5.57**
HRA Programme	**44.92**	**42.94**	**(1.98)**	**(4.41)**
Total Programme	**93.36**	**94.08**	**0.72**	**0.77**
Funded by:				
*CR - GF Borrowing	(14.51)	(17.05)	(2.54)	(17.51)
*CR - HRA Borrowing	(14.10)	(14.10)	0.00	0.00
Capital Receipts	(7.55)	(6.80)	0.75	9.93
Contributions	(5.26)	(5.24)	0.02	0.38
Capital Grants	(18.70)	(18.84)	(0.14)	(0.75)
Revenue Financing	(13.29)	(13.34)	(0.05)	(0.38)
HRA – MRA	(19.95)	(18.71)	1.24	6.22
Total Funding	**(93.36)**	**(94.08)**	**(0.72)**	**(0.77)**

12. The programme is currently forecast to be overspent by £0.72M in 2017/18.

Education & Childrens Social Care

13. Primary Review (£0.18M Forecast Underspend)

The scheme has now been completed and the retention payment has been paid. Therefore the £0.18M is not required.

14. Building for Excellence (£1.00M Forecast Underspend)

This programme was delayed due to the finalisation of the overall Schools Expansion programme. A programme of immediate Works has been agreed with forecast expenditure now established and this has identified an underspend of £1M.

15. Portswood Primary Expansion (£0.13M Forecast Underspend)

The scheme has been completed, with residual issues resolved, giving a forecast underspend on the scheme of £0.13M.

E&T - City Services

16. Southampton Common Play Area (£0.04M Forecast Overspend)

The overspend is due to a number of small additions to the contracted works including £10,000 for top soil and £13,000 for additional surfacing around the centre nest feature. This will help to reduce future top up costs of bark chips. The funding will be sourced from the Play Area Section 106.

	Health & Community Safety
17.	Estate Parking Improvements (£0.01M Forecast Underspend) There is a forecast underspend of £0.01M on the Estate Parking Improvements project within the Support to RSL's scheme. Elements of the scheme have not progressed due to difficulties in getting agreement with owner/occupiers on the proposed works.
	Leaders
18.	Southampton New Arts Complex (Studio 144) (£4.65M Overspend) The overspend to the scheme has been driven by the recent award by the Contract Administrator in regard to Extension of Time claims submitted by the Fit-out Contractor. The award for the South Building is primarily referencing the substantial flooding of the South Building and the consequences of the building contractor being on site at the same time as the fit-out contractor. The award for the North Building is primarily referencing the issues with the design of the Primary Containment and the subsequent impacts to the fit-out contractor. Further claims have been raised regarding the installation of Lifts during the project and the Council are awaiting the particulars to be issued to the Contract Administrator for assessment. While the council is challenging this, a 2.5% contingency on the forecast value of the fit out works (£0.43M) has been included in the forecast overspend. This sum is based on the 20th December 2017 Cost and Programme report following practical completion of both sections of the works on the 28th November 2017. Also included within the forecast overspend position is a pressure of £0.23M which has arisen from confirming the funding arrangements for an element of the project. In November 2016, the Chancellor announced an additional £1.6M in government grant funding for the scheme, as part of the Autumn Statement. This has not yet been added to the scheme and the remaining balance of £3.00M will need to be funded from Council resources.
19.	Southampton New Arts Complex – Developer Payments (£0.10M Underspend) On 20 November 2013 Council delegated authority to the Chief Financial Officer to draw down a sum of up to £0.10M from Contingencies should funding be required for either of two issues set out in a report on the Southampton New Arts Centre. An additional £0.01M relating to a sewer issue was not needed, the other issue was related to a new clause in the Development Agreement providing a rent guarantee of up to £0.09M to the Developer, thereby picking up some of the pre-let risk exposure. Agreement has been reached with the developer where by this payment is not now required along with the final lease premium payment of £0.10M.
	Sustainable Living
20.	Priory Road - Property Level Protection (£0.01M Forecast Underspend) There is a forecast underspend of £0.01M on the Priory Road - Property Level Protection project within the Flood Risk Management scheme due to the costs for the DEFRA funded flood defence equipment coming in less than anticipated. Therefore the project is unlikely to require the full budget.

	HRA
21.	Fire Safety / Sprinkler Project (£4.24M Forecast Overspend) This is the result of need to install sprinkler systems in all tower blocks to make them safer based on advice from Hampshire Fire and Rescue Service and specialist fire safety consultants. Additional costs were not factored into the budget. Funding for this overspend is under review but may result in the need to fund from reserves.
22.	ECO City Energy Scheme (£4.24M Forecast Underspend) The ECO Project work was put on hold for this year as British Gas have withdrawn from contract. No further work is planned.
23.	Communal Building Services (£0.12M Forecast Underspend) There is a reduction in the level of work expected.
24.	Communal Heating Systems (£0.04M Forecast Underspend) There is a reduction in the level of work expected.
25.	External Windows and Doors (£0.86M Forecast Underspend) There is a reduction in the level of work expected.
26.	Programme Management Fees (£0.67M Forecast Underspend) The full programme budget is not required in 2017/18.
27.	Electrical Heating Systems (£0.25M Forecast Underspend) There is a reduction in the level of work expected.
28.	The capital programme is being monitored on a monthly basis. Identified under and overspends are reported to the Council Capital Board. Programme changes for these will not be made until the outturn position is known and will be reported as part of the outturn report in June 2018, with approval to update the programme for these being sought at that time.
29.	Any over spends on individual schemes are financed from identified additional funding or from savings elsewhere in the programme. Portfolios are required to balance their capital programmes within the resources available to them and this may result in reduced outputs where an over spend results in reductions being made elsewhere in the programme.
	CAPITAL RESOURCES
30.	The resources which can be used to fund the capital programme are as follows: • Council Resources - Borrowing • Council Resources - Capital Receipts from the sale of HRA assets • Council Resources - Capital Receipts from the sale of General Fund assets • Contributions from third parties • Central Government Grants and from other bodies • Revenue Financing
31.	Capital Receipts from the sale of Right to Buy (RTB) properties are passed

	to the General Fund capital programme to support the Private Sector Housing schemes within the Sustainability Portfolio.
32.	It should be noted that the revised General Fund Capital Programme is based on prudent assumptions of future Government Grants to be received. The majority of these grants relate to funding for schools and transport and are unringfenced. However in 2017/18 these grants have been passported to these areas.

Table 4 shows the current level of available resources.

Table 4 – Available Capital Funding

Resource	Balance B/Fwd £M	Received to Date 2017/18 £M	Allocated To Current Programme £M	Available Funding £M	Anticipated Receipts 2017/18 £M
Capital Receipts	(13.54)	0.00	12.60	(0.94)	(4.16)
CIL	(5.84)	(3.77)	2.80	(6.81)	(2.23)
S106	(9.24)	(1.85)	6.13	(4.96)	(0.25)
	(28.62)	**(5.62)**	**21.53**	**(12.71)**	**(6.64)**

33.	The table shows that the largest resource currently available is Community Infrastructure Levy (CIL) funding. A review has been undertaken of all S106 and CIL monies to ensure that programmes of work are matched to the appropriate funding and to identify areas where business cases are required for new projects. This work will be ongoing as part of the monitoring process.
34.	Funding for the capital programme has previously been heavily reliant on capital receipts from the sale of Council properties. These receipts have always had a degree of uncertainty regarding their amount and timing, but the economic climate has increased the Council's risk in this area.
35.	Table 5 below shows the previous and current capital receipt assumptions, together with the actual receipts received in year for the General Fund. There has been no movement since the last reported position. It should be noted that both the previous and latest forecast positions have been adjusted to remove receipts for properties not yet on the market.

	B/Fwd £M	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	Total £M
Latest Forecast	13.54	4.16	0.78	0.00	0.00	0.00	18.48
Previous Forecast	13.54	4.16	0.78	0.00	0.00	0.00	18.48
Variance	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Table 5 – General Fund Capital Receipts Estimates

OVERALL CAPITAL PROGRAMME

36.	Table 6 and 7 show capital expenditure by portfolio and the use of resources to finance the General Fund Capital Programme up to and including 2021/22, including amendments that will be requested as part of the budget update.

Table 6 – Capital Expenditure by Programme

	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	Total £M
Communities, Culture & Leisure	0.61	1.95	0.00	0.00	0.00	2.56
Education & Childrens Social Care	12.19	21.57	15.81	20.74	29.48	99.79
E&T - City Services	2.37	0.41	2.65	0.00	0.00	5.43
Finance	2.44	4.20	0.27	0.30	0.00	7.21
Health & Community Safety	1.17	0.18	0.00	0.00	0.00	1.35
Housing & Adult Care	1.22	0.50	0.50	0.50	0.00	2.72
Leaders	6.74	9.24	0.00	0.00	0.00	15.98
Sustainability	3.14	1.08	0.00	0.00	0.00	4.22
Transport – E&T	18.56	29.65	4.75	2.21	0.00	55.17
General Fund Programme	**48.44**	**68.78**	**23.98**	**23.75**	**29.48**	**194.43**
HRA Programme	**44.92**	**53.12**	**41.15**	**43.69**	**34.01**	**216.89**
Total Capital Programme	**93.36**	**121.90**	**65.13**	**67.44**	**63.49**	**411.32**

Table 7 – Use of Resources

	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	Total £M
*CR - GF Borrowing	(14.51)	(29.71)	(4.37)	(17.79)	(29.48)	(95.86)
*CR - HRA Borrowing	(14.10)	(16.35)	(16.21)	(10.09)	(0.00)	(56.75)
Capital Receipts	(7.55)	(17.56)	(0.00)	(0.96)	(1.66)	(27.73)
Contributions	(5.26)	(5.95)	(0.00)	(0.00)	(0.00)	(11.21)
Capital Grants	(18.70)	(24.20)	(19.31)	(5.65)	(0.00)	(67.86)
Revenue Financing	(13.29)	(14.29)	(1.76)	(10.48)	(11.25)	(51.07)
HRA – MRA	(19.95)	(13.84)	(23.48)	(22.47)	(21.10)	(100.84)
Total Financing	**(93.36)**	**(121.90)**	**(65.13)**	**(67.44)**	**(63.49)**	**(411.32)**

**CR – Council Resources*

37. Table 7 demonstrates that the most significant amount for funding for the General fund programme is provided by Council Resources, which at present, will be mainly through borrowing. Borrowing costs are in the main met within a central provision. The HRA programme is primarily funding by MRA.

RESOURCE IMPLICATIONS

Capital/Revenue

38. This report principally deals with capital and the implications are set out in the main body of the report. However, the revenue implications arising from borrowing to support the capital programme are considered as part of the General Fund revenue budget. In addition any revenue consequences arising from new capital schemes are considered as part of the approval process for each individual scheme.

Property/Other	
39.	There are no specific property implications arising from this report other than the schemes already referred to within the main body of the report.
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
40.	Financial reporting is consistent with the Chief Financial Officer's duty to ensure good financial administration within the Council. The Capital Programme update is prepared in accordance with the Local Government Acts 1972 – 2003.
Other Legal Implications:	
41.	None directly, but in preparing this report, the Council has had regard to the Human Rights Act 1998, the Equality Act 2010, the duty to achieve best value and statutory guidance issued associated with that, and other associated legislation.
RISK MANAGEMENT IMPLICATIONS	
42.	None.
POLICY FRAMEWORK IMPLICATIONS	
43.	The update of the Capital Programme forms part of the overall Budget Strategy of the Council.

KEY DECISION?	~~Yes~~/No
WARDS/COMMUNITIES AFFECTED:	NONE
SUPPORTING DOCUMENTATION	
Appendices	
1.	Forecast Variances
Documents In Members' Rooms	
1.	
2.	
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.	~~Yes~~/No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	~~Yes~~/No
Other Background Documents **Equality Impact Assessment and Other Background documents available for inspection at:**	

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.		
2.		

2017/18 FORECAST VARIANCES as at DECEMBER 2017

Portfolio	Scheme	Forecast (Under)/ Overspend £M	Report Paragraph Ref.
Education & Childrens Social Care	St Monica	(0.06)	14
	Shirley Warren Primary	(0.06)	14
	Building For Excellence	(1.00)	16
	Portswood Primary Expansion	(0.13)	17
	Various Minor Schemes	(0.14)	
	Education & Childrens Social Care Total	**(1.39)**	
E&T - City Services	Central Depot	(0.04)	
	Southampton Common Play Area	0.04	17
	Various Minor Schemes	(0.01)	
	E&T - City Services Total	**(0.01)**	
Health & Community Safety	Estate Parking	(0.01)	18
	Health & Community Safety Total	**(0.01)**	
Leaders	Cultural Quarter	4.35	19-20
	Council Energy Company	(0.05)	
	Station Quarter	(0.10)	
	Various Minor Schemes	(0.07)	
	Leaders' Total	**4.13**	
Sustainability	Property Level Protection Scheme	(0.01)	21
	Sustainability Total	**(0.01)**	
Transport - E&T	Various Minor Schemes	(0.01)	
	Transport - E&T Total	**(0.01)**	
HRA	Fire Safety/Sprinkler Project	4.24	22
	ECO City Energy Scheme	(4.24)	23
	Communal Building Services	(0.12)	24
	Communal Heating Systems	(0.04)	25
	External Windows and Doors	(0.86)	26
	Programme Management Fees	(0.67)	27
	Electrical Heating Systems	(0.25)	28
	Various Minor Schemes	(0.04)	
	HRA Total	**(1.98)**	
	Total	**0.72**	

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DECISION-MAKER:	CABINET COUNCIL			
SUBJECT:	THE GENERAL FUND & HOUSING REVENUE ACCOUNT CAPITAL STRATEGY & PROGRAMME 2017/18 TO 2021/22			
DATE OF DECISION:	13 FEBRUARY 2018 21 FEBRUARY 2018			
REPORT OF:	CABINET MEMBER FOR FINANCE			
CONTACT DETAILS				
AUTHOR:	**Name:**	**Sue Cuerden**	**Tel:**	**023 8083 4153**
	E-mail:	**sue.cuerden@southampton.gov.uk**		
Director	**Name:**	**Mel Creighton**	**Tel:**	**023 8083 4897**
	E-mail:	**mel.creighton@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY
NOT APPLICABLE

BRIEF SUMMARY

The purpose of this report is to update the Capital Strategy and to inform Council of any major changes in the overall General Fund and HRA Capital Programme for the period of 2017/18 to 2021/22, highlighting the changes in the programme since the last reported position to Cabinet in November 2017.

The net result of the changes since the previous report is that the current overall programme has increased by £86.27M, £52.26M within the General Fund programme and £34.01M within the HRA programme.

RECOMMENDATIONS:

It is recommended that Cabinet:

	(i)	Notes the revised General Fund Capital Programme, which totals £194.43M (as detailed in paragraph 77) and the associated use of resources.
	(ii)	Notes the revised Housing Revenue Account (HRA) Capital Programme, which totals £216.89M (as detailed in paragraph 77) and the associated use of resources.
	(iii)	Notes that £1.21M has been added to the programme, with approval to spend, either under delegated powers or by Cabinet subject to the relevant financial limits. These additions are detailed in paragraph 7 and Appendix 1.
	(iv)	Notes the addition of £0.25M to the Communities, Culture & Leisure programme and the request for approval to spend £0.25M as detailed in paragraphs 9 - 10 and Appendix 1.
	(v)	Notes the addition of £67.45M to the Education & Children's Social Care programme and the request for approval to spend

		£67.45M as detailed in paragraph 11 and Appendix 1.
	(vi)	Notes the virement of £1.53M within the Education & Childrens Social Care programme as detailed in paragraph 11 and Appendix 1.
	(vii)	Notes the addition of £0.16M to the E&T – City Services programme and the request for approval to spend £0.16M as detailed in paragraph 12 and Appendix 1.
	(viii)	Notes the addition of £1.20M to the Finance programme and the request for approval to spend £1.20M as detailed in paragraph 13 and Appendix 1.
	(ix)	Notes the reduction of £1.50M to the Housing & Adult Social Care programme as detailed in paragraph 14 and Appendix 1.
	(x)	Notes the addition of £0.09M to the Leaders programme and the request for approval to spend £0.09M as detailed in paragraph 15 and Appendix 1.
	(xi)	Notes the virement of £7.13M within the Leaders programme as detailed in paragraph 16 and Appendix 1.
	(xii)	Notes the reduction of £20.10M to the Leaders programme as detailed in paragraphs 17 – 18 and Appendix 1.
	(xiii)	Notes the addition of £11.97M to the Transport – E&T programme and the request for approval to spend £11.97M as detailed in paragraphs 19 - 21 and Appendix 1.
	(xiv)	Notes the addition of £34.01M to the HRA programme and the request for approval to spend £34.01M as detailed in paragraphs 22 - 26 and Appendix 1.
	(xv)	Notes the slippage and re-phasing as set out in paragraph 27 – 70 and as detailed in Appendix 2.
	(xvi)	Notes that the capital programme remains fully funded up to 2021/22 based on the latest forecast of available resources although the forecast can be subject to change; most notably with regard to the value and timing of anticipated capital receipts and the use of prudent assumptions of future Government Grants to be received.
	(xvii)	Note that a review of the Council's capital strategy has been undertaken as detailed in Appendix 4.
It is recommended that Council:		
	(i)	Approve the revised General Fund Capital Programme, which totals £194.43M (as detailed in paragraph 77) and the associated use of resources.
	(ii)	Approve the revised HRA Capital Programme, which totals £216.89M (as detailed in paragraph 77) and the associated use of resources.
	(iii)	Note that £1.21M has been added to the programme, with approval to spend, either under delegated powers or by Cabinet

		subject to the relevant financial limits. These additions are detailed in paragraph 7 and Appendix 1.
	(iv)	Approve the addition of £0.25M to the Communities, Culture & Leisure programme and the request for approval to spend £0.25M as detailed in paragraph 10 and Appendix 1.
	(v)	Approve the addition of £67.45M to the Education & Childrens Social Care programme and the request for approval to spend £67.45M as detailed in paragraph 11 and Appendix 1.
	(vi)	Approve the reduction of £1.53M to the Education & Childrens Social Care programme as detailed in paragraph 11 and Appendix 1.
	(vii)	Approve the addition of £0.16M to the E&T – City Services programme and the request for approval to spend £0.16M as detailed in paragraph 12 and Appendix 1.
	(viii)	Approve the addition of £1.20M to the Finance programme and the request for approval to spend £1.20M as detailed in paragraph 13 and Appendix 1.
	(ix)	Approve the reduction of £1.50M to the Housing & Adult Social Care programme as detailed in paragraph 14 and Appendix 1.
	(x)	Notes the addition of £0.09M to the Leaders programme and the request for approval to spend £0.09M as detailed in paragraph 15 and Appendix 1.
	(xi)	Approve the virement of £7.13M within the Leaders programme as detailed in paragraph 16 and Appendix 1.
	(xii)	Approve the reduction of £20.10M to the Leaders programme as detailed in paragraphs 17 – 18 and Appendix 1.
	(xiii)	Approve the addition of £11.97M to the Transport – E&T programme and the request for approval to spend £11.97M as detailed in paragraphs 19 - 21 and Appendix 1.
	(xiv)	Approve the addition of £34.01M to the HRA programme and the request for approval to spend £34.01M as detailed in paragraphs 22 - 26 and Appendix 1.
	(xv)	Approve the slippage and re-phasing as set out in paragraph 27 – 70 and as detailed in Appendix 2.
	(xvi)	Notes that the capital programme remains fully funded up to 2021/22 based on the latest forecast of available resources although the forecast can be subject to change; most notably with regard to the value and timing of anticipated capital receipts and the use of prudent assumptions of future Government Grants to be received.
	(xvii)	Approve the Capital Strategy as detailed in Appendix 4.
REASONS FOR REPORT RECOMMENDATIONS		

1.	The Capital Programme is reviewed on a quarterly basis in accordance with the Council's Capital Strategy. The forecast position is reported to the Council Capital Board with any required programme update reported to Cabinet and Council for approval. This is required to enable schemes in the programme to proceed and to approve additions and changes to the programme.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	The update of the Capital Programme is undertaken within the resource constraints imposed on it. No new schemes can be added unless specific additional resources are identified. Alternative options for new capital spending are considered as part of the budget setting process in the light of the funding available and the overall financial position.
DETAIL (Including consultation carried out)	
	CONSULTATION
3.	Service Directors, Service Leads and Project Managers have been consulted in preparing the reasons for variations contained in this report. The General Fund and HRA capital programme monitoring report summarises additions to the capital programme and slippage and rephasing since the last approved programme reported in November 2017. Each addition has been subject to the relevant consultation process which reflects the role played by Council Capital Board. The content of this report has been subject to consultation with Finance Officers for each service.
	THE FORWARD CAPITAL PROGRAMME
4.	Table 1 shows a comparison of the latest capital expenditure for the period 2017/18 to 2021/22 compared to the previously reported programme.

Table 1 – Programme Comparison

	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	Total £M
Latest Programme	93.36	121.90	65.13	67.44	63.49	411.32
Previous Programme	162.27	78.87	39.69	44.22	0.00	325.05
Variance	**(68.91)**	**43.03**	**25.44**	**23.22**	**63.49**	**86.27**

5.	The overall increase in the programme of £86.27M includes a decrease of £37.20M primarily due to budget allocations to alternative projects within the programme, which is offset by an increase of £123.47M relating to additions to the programme either approved under delegated powers, by Cabinet or requested within this report as detailed in appendix 1.
6.	Table 2 below shows that the Capital Programme has increased by £86.27M, £52.26M within the General Fund and £34.01M in the HRA. Appendix 1 provides details of each variation by portfolios.

	CHANGES TO THE OVERALL PROGRAMME

Table 2 – Changes in Portfolio Programmes

	Latest Programme £M	Previous Programme £M	Total Change £M
Communities, Culture & Leisure	2.56	2.19	0.37
Education & Children's Social Care	99.79	33.69	66.10
E&T - City Services	5.43	5.15	0.28
Finance	7.21	6.01	1.20
Health & Community Safety	1.35	1.33	0.02
Housing & Adult Care	2.72	4.12	(1.40)
Leaders	15.98	42.93	(26.95)
Sustainability	4.22	4.22	0.00
Transport - E&T	55.17	42.53	12.64
General Fund Programme	**194.43**	**142.17**	**52.26**
HRA Programme	**216.89**	**182.88**	**34.01**
Total Capital Programme	**411.32**	**325.05**	**86.27**

7. Appendix 1 summarises the changes by individual portfolio programmes to new schemes and changes to existing schemes, both where approval has been previously given by Council, Cabinet or made under delegated authority to amend the programme since the last reported position in November 2017 and where approval is sought as part of this report. The changes, where approval has already been given total £1.21M.

The proposed programme includes the following net additions, totalling £85.06M, which require approval as part of this report. Approval is being sought where the overall scheme value is greater than the Delegated Decision Notice approval limit, as set out in the Financial Procedure Rules (FPR). These are summarised in Appendix 1.

8. The capital strategy, attached as appendix 4, provides further details of how the proposed capital spend supports the Outcomes and priorities of the Council. The following table summarises the items of major spend by Outcome.

Table 3 – Major Schemes by Outcome

Outcome	Major Project	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Children and young people getting a good start in life;	Primary Review & Expansion	2.18	1.74	0.10	0.00	0.00
	School Maintenance	2.94	4.27	0.00	0.00	0.00
	Secondary Review & Expansion	2.80	8.99	15.71	20.74	29.48
	Early Years Expansion	0.42	1.01	0.00	0.00	0.00
	Springwell Expansion	3.80	5.48	0.00	0.00	0.00
	Play Area Improvements	1.07	0.25	0.00	0.00	0.00
	Other	0.13	0.08	0.00	0.00	0.00
Southampton is a city with strong, sustainable economic growth.	Bridges Programme	0.34	1.50	0.00	0.00	0.00
	Property Investment Fund	1.38	7.13	0.00	0.00	0.00
	Affordable Housing	0.93	0.00	0.00	0.00	0.00
	Integrated Transport	4.71	8.76	4.58	2.16	0.00
	Purchase of Vehicles	1.08	0.09	0.10	0.00	0.00
	Other	0.78	0.79	0.07	0.05	0.00
People in Southampton lead safe, healthy independent lives	Disabled Facilities Grant	2.48	1.08	0.00	0.00	0.00
	Health & Adult Social Care	1.33	0.50	0.50	0.50	0.00
	Hampshire Community Bank	1.03	0.00	0.00	0.00	0.00
	Estate Regeneration	5.51	18.56	11.55	4.34	4.13
	Modern Facilities	4.52	5.72	6.80	20.38	11.70
	Safe Wind/Weather Tight	19.68	14.48	13.31	12.35	12.62
	Warm & Energy Efficient	10.54	9.19	6.11	4.20	3.44
	Communal Facilities	4.67	5.18	3.38	2.42	2.12
	Anti-Terrorism Measures	0.75	0.00	0.00	0.00	0.00
	Other	0.71	0.00	0.00	0.00	0.00
A modern attractive city where people are proud to live and work.	Roads Programme	10.61	11.39	0.00	0.00	0.00
	Millbrook Roundabout	0.31	7.19	0.00	0.00	0.00
	Arts & Heritage	0.16	1.42	0.00	0.00	0.00
	AWC	0.23	0.00	2.65	0.00	0.00
	QE2 Mile	0.00	0.96	0.00	0.00	0.00
	Watermark West Quay	0.07	0.45	0.00	0.00	0.00
	Studio 144	3.49	0.00	0.00	0.00	0.00
	Minor Park Development Works	0.72	0.00	0.00	0.00	0.00
	Outdoor Sports Centre Improvements	0.03	0.50	0.00	0.00	0.00
	Other	1.45	0.99	0.00	0.00	0.00
Modern sustainable Council	Resources	0.15	2.17	0.27	0.30	0.00
	Digital & IT	2.28	2.03	0.00	0.00	0.00
	Other	0.08	0.00	0.00	0.00	0.00
	TOTAL	**93.36**	**121.90**	**65.13**	**67.44**	**63.49**

	Communities, Culture & Leisure
9.	Outdoor Sports Centre (Addition of £0.05M in 2017/18) A grant has been awarded by the Park Life Programme for 60% funding towards the cost of development designs to install an all-weather football pitch at the Sports Centre. The scheme already includes funding for the remainder of this cost. Approval is sought for the addition of £0.05M to the Communities, Culture & Leisure Programme and for approval to spend this sum in 2017/18, to be funded by grant monies. (see paragraph 30)
10.	Ancient Scheduled Monuments (Addition of £0.20M in 2018/19) A number of Ancient Scheduled Monuments (ASM) currently require investment. Works will be undertaken on the 'Walk the City Walls' experience, ahead of the Mayflower 400th anniversary. In order to carry out the conservation across the city, approval is sought for the addition of £0.20M to the Communities, Culture & Leisure Programme and for approval to spend this sum in 2018/19, to be funded by Direct Revenue Financing (DRF).

	Education & Childrens Social Care
11.	Secondary Schools Expansion Programme (Addition of £67.45M) Southampton, like many other LAs, is currently facing an increase in the number of secondary age pupils it will have to accommodate in its schools, peaking around 2023/24. In order to achieve this a substantial secondary school expansion programme will be required. Plans are currently been finalised and will require further consultation, for which a separate paper will be presented to Cabinet/Council as appropriate. Approval is sought for the addition £67.45M to the Education & Children's Social Care Programme, phased £2.81M in 2018/19, £14.63M in 2019/20, £20.53M in 2020/21 and £29.48M in 2021/22, and for approval to spend this sum, to be funded by £20.92M grant monies and £46.53M council resources (which includes a virement of £1.53M from the schools programme).
	E&T - City Services
12.	Mechanical Sweeper (Addition of £0.16M in 2018/19) To support additional street cleaners within the City Centre, an additional mechanical sweeper is required. Approval is sought for an additional £0.16M to the Environment & Transport – City Services Programme and for approval to spend this sum in 2018/19. The sweeper will be funded by Direct Revenue Financing (DRF).
	Finance
13.	Civic Centre Upgrade (Addition of £1.20M in 2018/19) In order to gain maximum efficiency from recent restructures, an environment that facilitates flexible working is required. This project will allow the creation of a working environment that will facilitate efficient working practices, and improve retention of staff. Approval is sought for the addition of £1.20M to the Finance Programme and for approval to spend this sum in 2018/19, to be funded from reserves specifically held for that purpose.

	Housing & Adult Care
14.	Holcroft House (Reduction of £1.50M in 2017/18) Following a detailed review this project is no longer a viable option due to time limited funding constraints. Alternative options are currently being examined in which the associated Integrated Better Care Fund funding can be used, with further approval to be obtained once confirmed. Approval is sought for the reduction £1.50M from the Housing & Adult Care Programme in 2017/18, which was to be funded by grant monies.
	Leaders
15.	Water Fountains (Addition of £0.09M in 2018/19) In support of the recent initiative to reduce plastic waste, by providing refill stations, a number of water fountains are planned to be installed across the City. Approval is sought for the addition £0.09M to the Leaders Programme and for approval to spend this sum in 2018/19, to be funded by Community Infrastructure Levy contributions.
16.	Car Park Acquisition (Virement of £7.13M from 2017/18 to 2018/19) An opportunity has arisen to acquire of a strategic site linked to the Central Business District Project. Approval is sought for the addition £7.13M to the Leaders Programme and for approval to spend this sum in 2018/19, to be funded by a virement of council resources from the Property Investment Fund project, reducing this project in 2017/18. This acquisition will generate income initially to offset revenue costs.
17.	Property Investment Fund (Reduction of £35.00M in 2017/18) Due to market conditions early in 2017/18, there was a lack of suitable opportunities to invest in property. In line with the Property Investment Fund (PIF) strategy, an investment was therefore made into a managed property fund, CCLA Investment Management Ltd. Therefore the £20m funds are not available for direct property investment. Approval is sought for the reduction of £20.00M, funded by council resources, to the Leaders programme in 2017/18. In addition, as detailed in paragraphs 16 and 19, virements totalling £15.13M have been identified to support other capital schemes.
18.	Station Quarter Southside (Reduction of £0.10M in 2018/19) This project has not yet commenced and has been reviewed. The review proposes that the project is not progressed in isolation, but should be incorporated into future plans for a Central Business District. Therefore approval is sought for the reduction of £0.10M, funded by council resources, to the Leaders programme in 2018/19.
	Transport – E&T
19.	Additional Roads Programme (Addition of £8.00M in 2018/19) An additional programme of works is planned to address roads that currently have a concrete surface, by replacing the existing surfaces with a more durable coverage. Approval is sought for an addition of £8.00M to the Transport – E&T Programme and for approval to spend this sum in 2018/19. It will be funded by a £6.94M virement of council resources from the Property Investment Fund project, and £1.06M through S106 contributions. Revenue

	implications associated with this project have been reflected in the MTFS.
20.	Thomas Lewis / Stoneham Lane (Addition of £1.28M in 2018/19 and £2.44M in 2019/20) Improvements through widening local junctions and installing new traffic signals will ease congestion and improve journey times, as well as improving air quality in support of the Clean Air Zone. The creation of new cycle ways and pedestrian points will improve safety. Approval is sought for the addition of £3.72M to the Transport – E&T Programme and for approval to spend this sum, phased £1.28M in 2018/19 and £2.44M in 2019/20, to be funded by grant monies.
21.	Anti-terrorist Measures (Addition of £0.25M in 2017/18) The scope of the project has been expanded to include the installation of bollards at Guildhall Square. Approval is sought for the addition £0.25M to the Transport – E&T Programme and for approval to spend this sum in 2017/18, to be funded by the On Street Reserve (DRF).
	HRA
22.	Estate Regeneration and New Build (Addition of £4.13M in 2021/22) In line with the HRA 30 year business plan an additional £4.13M is needed for Estate Regeneration and New Build in 2021/22. Approval is sought for the addition £4.13M to the HRA Programme and for approval to spend this sum in 2021/22, to be fully funded by the Major Repairs Allowance (MRA).
23.	Safe Wind & Weather Tight (Addition of £12.62M in 2021/22) In line with the HRA 30 year business plan an additional £12.62M is needed for Safe Wind & Weather Tight in 2021/22. Approval is sought for the addition £12.62M to the HRA Programme and for approval to spend this sum in 2021/22, to be fully funded by MRA.
24.	Modern Facilities (Addition of £11.70M in 2021/22) In line with the HRA 30 year business plan an additional £11.70M is needed for Modern Facilities in 2021/22. Approval is sought for the additional £11.70M to the HRA Programme and for approval to spend this sum in 2021/22, to be funded by £6.01M MRA and £5.69M Direct Revenue Financing (DRF).
25.	Well Maintained Communal Facilities (Addition of £2.12M in 2021/22) In line with the HRA 30 year business plan an additional £2.12M is needed for Well Maintained Communal Facilities in 2021/22. Approval is sought for the additional £2.12M to the HRA Programme and for approval to spend this sum in 2021/22, to be fully funded by DRF.
26.	Warm & Energy Efficient (Addition of £3.44M in 2021/22) In line with the HRA 30 year business plan an additional £3.44M is needed for Warm & Energy Efficient in 2021/22. Approval is sought for the additional £3.44M to the HRA Programme and for approval to spend this sum in 2021/22, to be fully funded by Direct Revenue Financing (DRF).
	SLIPPAGE AND REPHASING

27.	The proposed programme identifies £34.30M of net slippage and rephasing from 2017/18 into future years as summarised in Table 4 below and detailed by scheme in Appendix 2. The reason for the major items of slippage and rephasing are detailed below.

Table 4 – Slippage and Rephasing by Portfolio

	(Slippage)/ Rephasing £M
Communities, Culture & Leisure	(0.55)
Education & Childrens Social Care	(9.23)
Finance	(2.14)
Leaders	(0.42)
Transport - E&T	(6.82)
Total General Fund	**(19.16)**
Total HRA	**(15.14)**
Total Slippage/Rephasing	**(34.30)**

Communities, Culture & Leisure

28. Tudor House Museum (Slippage of £0.03M from 2017/18 to 2018/19)

An Archaeology report is required as part of the planning conditions attached to this project. It is anticipated that this report will be compiled in the 2018/19 financial year.

29. Water Ingress Project at Westgate and Tudor House (Slippage of £0.02M from 2017/18 to 2018/19)

Delays have arisen whilst specialists and specific materials required for a Grade 1 listed building are sourced.

30. Outdoor Sports Centre Improvements (Slippage of £0.50M from 2017/18 to 2018/19)

Development designs are being produced and will be completed in the current financial year. The project has been on hold whilst additional funding options have been explored. It is now moving forward following a successful grant award. Improvements works will commence in 2018/19. (see paragraph 9)

Education & Childrens Social Care

31. Springwell School Main Expansion (Slippage of £4.31M for 2017/18 to 2018/19)

Due to variations in sequence of works, Phase 1 works on site was delayed in agreement with the school for noise and disturbance to pupils. Phase 1 has now been completed. The Phase 2 planning application has been submitted and design is progressing but there will a slippage into 2018/19.

32. R&M Programme for School (Slippage of £3.42M for 2017/18 to 2018/19)

An estimation of £3.42M is set to be the cost for the delivery and resource of the programme. In comparison to previous years, this is a significant increase. Design capacity has restricted the number of projects able to be

	planned and delivered within the summer holiday period to avoid disruption to the school during term time.
33.	<u>Solar PV Resources Project (Slippage of £0.10M for 2017/18 to 2018/19)</u> Retention monies for the scheme will be released in 2018/19.
34.	<u>Bitterne Park Autism Resource Base (Slippage of £0.15M for 2017/18 to 2018/19)</u> The project is being developed and is forecast to go ahead in 2018/19.
35.	<u>School Access Initiative (Slippage of £0.28M for 2017/18 to 2018/19)</u> The budget meets the demand for suitable alterations and access improvements to school buildings to facilitate mobility needs of a pupils that has been offered places at schools. The requirement for this general provision is being reviewed.
36.	<u>Asbestos (Slippage of £0.45M for 2017/18 to 2018/19)</u> This is a general allocation set aside to deal with asbestos risk. As a result of contractual underspends, a review of this and the access budget will be undertaken in the capital review. Until then profiling is being proposed.
37.	<u>Early Years Expansion (Slippage of £0.41M for 2017/18 to 2018/19)</u> Delays due to the late notification of the Early Years entitlement of 30 hours allocation changes and the TUPE transfer of property staff from Capita have led to a delay in two of the projects resulting in slippage into 2018/19. All other projects will be delivered as planned.
	<u>Finance</u>
38.	<u>Desktop Refresh Programme (Slippage of £0.11M from 2017/18 to 2018/19)</u> Current year spend is on hold pending completion of the desktop estate and volumes review which could impact the phasing and cost of the refresh programme. The refresh programme will recommence once future plans for the desktop estate are agreed, to include the management of any future pressure from potential price increases.
39.	<u>Digital Investment Phase 2 (Slippage of £2.03M from 2017/18 to 2018/19)</u> Having delivered the first wave of digital transformation the council is now looking to reprioritise its capital investment on broader organisational wide initiatives with a focus on deeper integration of systems and applications that will significantly increase efficiency, e.g. further investment in an holistic Enterprise Resource Planning Platform (ERP) solution, a refocus of customer relationship platforms and applications and a rationalisation of infrastructure, data storage and software applications. Slippage is therefore anticipated pending completion of the reprioritisation and planning process. The current year forecast reflects pending spend on an ERP solution, the update on which was the subject of a report to Cabinet on 19th Dec 2017.
	<u>Leaders</u>
40.	<u>West Quay Phase 3 WWQ – (Slippage of £0.10M from 2017/18 to 2018/19)</u> Phase 1 of West Quay 3 construction work is now complete and costs

	expected to be incurred in 2017/18 are in respect of dealing with the final account and progression of phase 2. The remaining budget will be slipped into 2018/19 to progress phase 2.
41.	<u>QE2 Mile Bargate Square – (Slippage of £0.10M from 2017/18 to 2018/19)</u> No further spend on this project is expected this year as this project will be delivered in line with the shopping centre development in 2019. The remaining budget will be slipped into 2018/19.
42.	<u>Town Depot – (Slippage of £0.06M from 2017/18 to 2018/19)</u> The development at Chapel Riverside will require costs to be incurred in 2017/18 to progress the scheme and agree the grant of the building lease to the developer. The remaining budget will be slipped into 2018/19.
43.	<u>Royal Pier – (Slippage of £0.10M from 2017/18 to 2018/19)</u> The development proposals for this site are complex and are taking longer to resolve than originally anticipated, requiring the current year budget to be slipped to 2018/19.
44.	<u>Mayflower Park Spitfire Memorial – (Slippage of £0.01M from 2017/18 to 2018/19)</u> Due to the delay in the Royal Pier development proposals, the budget will be slipped to 2018/19.
45.	<u>West Quay Phase 3 Site B – (Slippage of £0.05M from 2017/18 to 2018/19)</u> The development is proceeding and enabling works have commenced. However work on this scheme will extend into 2018/19 therefore slippage is required into 2018/19.
	<u>Transport – E&T</u>
46.	<u>Bassett Avenue Road Improvement (Rephase £1.00M from 2018/19 to 2017/18)</u> £1.00M of the Bassett Avenue Road Improvement Scheme has been brought forward from 2018/19 to 2017/18. Resources were available to progress this scheme ahead of schedule.
47.	<u>Millbrook Roundabout (Slippage of £3.45M from 2017/18 to 2018/19)</u> This is due to the delay in programme delivery of adjacent major works. The Millbrook Roundabout scheme is likely to start in September 2018, following completion of the Redbridge Roundabout Scheme, which is due to commence in March 2018. It is not feasible to work on 2 major roundabouts at the same time.
48.	<u>Bitterne Park Triangle (Slippage of £0.09M from 2017/18 to 2018/19)</u> Works at Bitterne Park Triangle will now be linked with a project for St Denys Corridor and the delivery date for both projects has slipped to 2018/19.
49.	<u>Bus Corridor Minor Works (Slippage of £0.35M from 2017/18 to 2018/19)</u> Bus Corridor Minor Works funding comes from various S.106 contributions from adjoining developments. The amounts received do not cover the costs of construction, and in reality construction of these schemes can only occur when there are adjoining works. As such, the budget is required to be slipped into 2018/19 to await adjoining projects to be carried out.
50.	<u>Cycling (Slippage of £0.35M from 2017/18 to 2018/19)</u>

	Many of the proposed routes will be required as diversion routes for Millbrook Roundabout project in September 2018. Therefore, to minimise disruption, these have been put on hold until 2018/19.
51.	Electric Vehicle Action Plan (Slippage of £1.08M from 2017/18 to 2018/19) The Electric Vehicle Action Plan has been slipped due to complications with the Hampshire County Council framework used to procure services. This has now been addressed and delivery of the project is scheduled for 2018/19.
52.	Improved Safety – Engineering (Slippage of £0.15M from 2017/18 to 2018/19) Awaiting further design work to be carried out meaning that the delivery of the project is likely to be delayed.
53.	Intelligent Transport System (Slippage of £0.39M from 2017/18 to 2018/19) Redbridge Village Traffic Management has been slipped to 2018/19 following discussions with the Redbridge Residents Association and The Leader, where the suggestion to consult on proposals to mitigate the impact of a development will occur in 2018/19. A study for St Denys corridor has now been combined with the Bitterne Park Triangle scheme to increase economies of scale.
54.	Northern Cycle Route: Ave East Lodge Rd – Dorset St (Slippage of £0.08M from 2017/18 to 2018/19) This project has been delayed due to complications with planning approval. The route will impact on Common Land, thus requiring substantial ecological consultation which was not anticipated at the time of project creation
55.	Platform for Prosperity (Slippage of £0.11M from 2017/18 to 2018/19) The residual retention costs are expected to be paid in 2018/19.
56.	School & Workplace Travel Plan Measures (Slippage of £0.05M from 2017/18 to 2018/19) School Travel Plan – The match funding from the Department for Transport in respect of this project was secured later than anticipated, which led to a delay in scheme delivery. The project is now progressing. Workplace Travel Plan – A delay in recruitment required to deliver the project resulted in a delay in identifying suitable schemes to implement. The position is in now in place and works have commenced. Delivery will continue into 2018/19.
57.	Thomas Lewis Way/Stoneham Lane (Slippage of £0.73M from 2017/18 to 2018/19) Thomas Lewis Way/Stoneham Lane project has been delayed while grant funding for the project was secured. Although construction will commence in 2017/18, the project will continue into 2018/19.
58.	Travel to School (Slippage of £0.09M from 2017/18 to 2018/19) The Millbrook Travel Hub project is still awaiting a suitable location to be identified, and will also be delayed due to the adjoining works required on Millbrook Roundabout. A site will be found for implementation in 2018/19.
59.	Urban Freight Strategy - Delivery Service Plans (Slippage of £0.06M from 2017/18 to 2018/19) The original external partner for the Urban Freight Study project has been replaced, which caused a delay in delivering the new site selected for the

	project.
60.	WCR: Phase 2 – 2nd Ave (Slippage of £0.54M from 2017/18 to 2018/19) Second Avenue has been delayed due to complications with a planning application lodged by an adjoining land owner. This issue needs to be resolved with a target date of construction in 2018/19.
61.	Mobile Working (Slippage of £0.05M from 2017/18 to 2018/19) Work is on hold, pending some urgent work in the planning policy partnership with Eastleigh Borough Council. The Masterplan needs to be completed before work can be carried out in 2018/19.
62.	Footways (Slippage of £0.25M from 2017/18 to 2018/19) Delays to works have been caused by difficulties sourcing the highly reflective lining materials required for cycle ways. Minor works on footways have been delayed due to insufficient feedback received to date via social media and the cycling community.
	HRA
63.	Estate Regeneration - Woodside / Wimpson Scheme (Slippage of £8.29M from 2017/18 to 2019/20 and £2.64M from 2017/18 to 2020/21) Tendering process completed in May 2017 but the agreed workflow projection from the supplier is for main works to commence in Quarter 4 and thus creating slippage in this scheme.
64.	ECO Project (Slippage of £6.04M from 2017/18 to 2018/19) ECO Project has been put on hold because British Gas have withdrawn from the contract. Awaiting a revaluation of options for this project.
65.	Estate Regeneration City Wide Framework (Slippage of £0.10M from 2017/18 to 2018/19) Work on Modular Housing has been postponed until 2018/19, due to supporting external funding from the Solent Local Enterprise Partnership being delayed. Resources have been prioritised on projects that have started.
66.	Roads/Paths/Hard Standing (Slippage of £0.24M from 2017/18 to 2018/19) This is due to delays arising from an ongoing dispute with the supplier over additional costs to provide design and cost information included as part of the agreed retainer.
67.	Townhill Park Regeneration (Rephase £1.94M from 2018/19 to 2017/18) Building work has started on Plot 1 sooner than anticipated so necessary to bring forward funds into 2017/18.
68.	Supported Housing Area Programme (Slippage of £0.25M from 2017/18 to 2018/19) Delay to this programme is due to re-designation of some SHAP schemes. The plan is to lower the qualifying age for Supported Housing.
69.	Decent Neighbourhood: Cuckmere Lane (Rephase £0.70M from 2018/19 to 2017/18) Drainage issues have been resolved so work was able to take place in

	2017/18.
70.	Decent Neighbourhoods Schemes (Slippage of £0.22M from 2017/18 to 2018/19) Delays in the programme delivery have occurred as a result of lack of specific internal resources. A new landscape architect is due to be appointed, allowing works to progress as planned in 2018/19.
	CAPITAL RESOURCES
71.	The resources which can be used to fund the capital programme are as follows: • Council Resources - Borrowing • Council Resources - Capital Receipts from the sale of HRA assets • Council Resources - Capital Receipts from the sale of General Fund assets • Contributions from third parties • Central Government Grants and from other bodies • Revenue Financing
72.	Capital Receipts from the sale of Right to Buy (RTB) properties are passed to the General Fund capital programme to support the Private Sector Housing schemes within the Sustainability Portfolio.
73.	It should be noted that the revised General Fund Capital Programme is based on prudent assumptions of future Government Grants to be received. The majority of these grants relate to funding for schools and transport and are unringfenced. However in 2017/18 these grants have been passported to these areas.
	Table 5 shows the current level of available resources.

Table 5 – Available Capital Funding

Resource	Balance B/Fwd £M	Received to Date 2017/18 £M	Allocated To Current Programme £M	Available Funding £M	Anticipated Receipts 2017/18 £M
Capital Receipts	(13.54)	0.00	12.60	(0.94)	(4.16)
CIL	(5.84)	(3.77)	2.80	(6.81)	(2.23)
S106	(9.24)	(1.85)	6.13	(4.96)	(0.25)
	(28.62)	**(5.62)**	**21.53**	**(12.71)**	**(6.64)**

74.	The table shows that the largest resource currently available is Community Infrastructure Levy (CIL) funding. A review has been undertaken of all S106 and CIL monies to ensure that programmes of work are matched to the appropriate funding and to identify areas where business cases are required for new projects. This work will be ongoing as part of the monitoring process.
75.	Funding for the capital programme has previously been heavily reliant on capital receipts from the sale of Council properties. These receipts have always had a degree of uncertainty regarding their amount and timing, but the economic climate has increased the Council's risk in this area.
76.	Table 6 below shows the previous and current capital receipt assumptions,

	together with the actual receipts received in year for the General Fund. There has been no movement since the last reported position.

Table 6 – General Fund Capital Receipts Estimates

	B/Fwd £M	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	Total £M
Latest Forecast	13.54	4.16	0.78	0.00	0.00	0.00	18.48
Previous Forecast	13.54	4.16	0.78	0.00	0.00	0.00	18.48
Variance	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

OVERALL CAPITAL PROGRAMME

77. Table 7 and 8 show capital expenditure by portfolio and the use of resources to finance the General Fund Capital Programme up to and including 2021/22. Appendix 3 provides details of each portfolios latest programme and the financing of that programme.

Table 7 – Capital Expenditure by Programme

	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	Total £M
Communities, Culture & Leisure	0.61	1.95	0.00	0.00	0.00	2.56
Education & Childrens Social Care	12.19	21.57	15.81	20.74	29.48	99.79
E&T - City Services	2.37	0.41	2.65	0.00	0.00	5.43
Finance	2.44	4.20	0.27	0.30	0.00	7.21
Health & Community Safety	1.17	0.18	0.00	0.00	0.00	1.35
Housing & Adult Care	1.22	0.50	0.50	0.50	0.00	2.72
Leaders	6.74	9.24	0.00	0.00	0.00	15.98
Sustainability	3.14	1.08	0.00	0.00	0.00	4.22
Transport – E&T	18.56	29.65	4.75	2.21	0.00	55.17
General Fund Programme	**48.44**	**68.78**	**23.98**	**23.75**	**29.48**	**194.43**
HRA Programme	**44.92**	**53.12**	**41.15**	**43.69**	**34.01**	**216.89**
Total Capital Programme	**93.36**	**121.90**	**65.13**	**67.44**	**63.49**	**411.32**

Table 8 – Use of Resources

	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M	Total £M
*CR - GF Borrowing	(14.51)	(29.71)	(4.37)	(17.79)	(29.48)	(95.86)
*CR - HRA Borrowing	(14.10)	(16.35)	(16.21)	(10.09)	(0.00)	(56.75)
Capital Receipts	(7.55)	(17.56)	(0.00)	(0.96)	(1.66)	(27.73)
Contributions	(5.26)	(5.95)	(0.00)	(0.00)	(0.00)	(11.21)
Capital Grants	(18.70)	(24.20)	(19.31)	(5.65)	(0.00)	(67.86)
Revenue Financing	(13.29)	(14.29)	(1.76)	(10.48)	(11.25)	(51.07)
HRA – MRA	(19.95)	(13.84)	(23.48)	(22.47)	(21.10)	(100.84)
Total Financing	**(93.36)**	**(121.90)**	**(65.13)**	**(67.44)**	**(63.49)**	**(411.32)**

	**CR – Council Resources*
78.	Table 8 demonstrates that the most significant amount of funding for the General fund programme is provided by Council Resources, which at present, will be mainly through borrowing. Borrowing costs are in the main met within a central provision. The HRA programme is primarily funding by MRA.
	CAPITAL STRATEGY
79.	The Council needs to have a fit for purpose Capital Strategy to ensure that all the priorities within the Council Strategy are accounted for in the allocation of resources to the capital programme. A review has therefore been undertaken to update the Capital Strategy for the period 2017/18 to 2021/22 and this is attached in Appendix 4.
80.	As part of the December 2017 update of the Prudential Code for Capital Finance in Local Authorities a requirement to produce a capital strategy has been introduced. The guidance outlines a number of key factors which they recommend be included in a capital strategy. Due to short timeframe between issuing the guidance and preparing a strategy to be approved before 31st March 2018, the Treasury and Capital Management Panel have issued a statement recognising that full implementation may not be possible until 2019/20. Southampton City Council already fulfil the requirement to produce a capital strategy, and have been doing so for a number of years. Additional information as required by the updated code will assessed over the coming months and update as appropriate.
RESOURCE IMPLICATIONS	
Capital/Revenue	
81.	This report principally deals with capital and the implications are set out in the main body of the report. However, the revenue implications arising from borrowing to support the capital programme are considered as part of the General Fund revenue budget. In addition any revenue consequences arising from new capital schemes are considered as part of the approval process for each individual scheme.
Property/Other	
82.	There are no specific property implications arising from this report other than the schemes already referred to within the main body of the report.
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
83.	Financial reporting is consistent with the Chief Financial Officer's duty to ensure good financial administration within the Council. The Capital Programme update is prepared in accordance with the Local Government Acts 1972 – 2003.
Other Legal Implications:	
84.	None directly, but in preparing this report, the Council has had regard to the Human Rights Act 1998, the Equality Act 2010, the duty to achieve best value and statutory guidance issued associated with that, and other associated legislation.

RISK MANAGEMENT IMPLICATIONS	
85.	None.
POLICY FRAMEWORK IMPLICATIONS	
86.	The update of the Capital Programme forms part of the overall Budget Strategy of the Council.

KEY DECISION?	~~Yes~~/No	
WARDS/COMMUNITIES AFFECTED:		NONE
SUPPORTING DOCUMENTATION		
Appendices		
1.	Variations Since the November 2017 Capital Update	
2.	Major Slippage & Rephasing	
3.	General Fund & HRA Capital Programme – Scheme Details	
5.	Capital strategy 2017/18 – 2021/22	
Documents In Members' Rooms		
1.		
2.		
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.		~~Yes~~/No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		~~Yes~~/No
Other Background Documents **Equality Impact Assessment and Other Background documents available for inspection at:**		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.		
2.		

Appendix 1

VARIATIONS SINCE NOVEMBER 2017 CAPITAL UPDATE

Portfolio	Scheme	£M	*Cabinet **Delegated Approval	Funding Source	Report Paragraph Ref.
Additions to the Programme					
Communities, Culture & Leisure	Outdoor Sports Centre	0.05		Grant	9
	Ancient Scheduled Monuments	0.20		DRF	10
	Gods House Tower	0.12	**	Council Resources	
		0.37			
Education & Childrens Social Care	Secondary Schools Programme	67.45		Grant/Council Resources	11
	Bitterne Park 6th Form	0.18	**	Grant	
		67.63			
E&T - City Services	Mechanical Sweper	0.16		DRF	12
	Cobden Meadows and Riverside Play Area	0.03	**	S106 Contributions	
	Daisy Dip Play Area	0.01	**	S106 Contributions	
	Coxford Play Area	0.02	**	S106 Contributions	
	Lydgate Green Play Area	0.02	**	S106 Contributions	
	Edith Haisman Play Area	0.04	**	S106 Contributions	
		0.28			
Finance	Civic Centre Upgrade	1.20			13
		1.20			
Health & Community Safety	CCTV Cameras	0.02	**	S106 Contributions	
		0.02			
Housing & Adult Social Care	32B Kentish Road	0.03	**	Capital Receipts	
	Post 19 Learning & Skills Hub	0.07	**	Capital Receipts	
		0.10			
Leaders	Water Fountains	0.09		CIL Contributions	15
	Car Park Acquisition	7.13		Council Resources	16
		7.22			
Transport - E&T	Additional Roads Programme	8.00		Council Resources/S106 Contributions	19
	Thomas Lewis / Stoneham Lane	3.72		Grant	20
	Anti-Terrorist Measures	0.25		DRF (On Street Reserve)	21
	Highways Improvements	0.45	**	S106 Contributions	
	Multi Storey Car Park Shutters	0.22	**	DRF (On Street Reserve)	
		12.64			
	TOTAL GF	**89.46**			
HRA	Estate Regeneration and New Build	4.13		Capital Receipts/MRA	22
	Safe Wind & Weather Tight	12.62		MRA	23
	Modern Facilities	11.70		MRA / DRF	24
	Well Maintained Communal Facilities	2.12		DRF	25
	Warm & Energy Efficient	3.44		DRF	26
	TOTAL HRA	**34.01**			
	TOTAL PROGRAMME ADDITIONS	**123.47**			
Reductions from the Programme					
Education & Childrens Social Care	Schools Programme	(1.53)		Council Resources	11
		(1.53)			
Housing & Adult Social Care	Holcroft House	(1.50)		Grant	14
		(1.50)			
Leaders	Property Investment Fund	(7.13)		Council Resources	16
	Property Investment Fund	(20.00)		Council Resources	17
	Property Investment Fund	(6.94)		Council Resources	19
	Station Quarter Southside	(0.10)		Council Resources	18
		(34.17)			
	TOTAL GF	**(37.20)**			
	TOTAL PROGRAMME REDUCTIONS	**(37.20)**			
Total Variations to the Overall Programme		**86.27**			

* - Approved By Cabinet	0.00
** - Approved under Delegated Powers	1.21
To be Approved	85.06
	86.27

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Appendix 2

SLIPPAGE & REPHASING AS AT DECEMBER 2017 CAPITAL UPDATE

Portfolio	Scheme	(Slippage)/ Rephasing £M	Report Paragraph Ref.
Communities, Culture & Leisure	Tudor House Museum	(0.03)	**28**
	Water Ingress Project at Westgate and Tudor House	(0.02)	**29**
	Outdoor Sports Centre Improvements	(0.50)	**30**
		(0.55)	
Education & Childrens Social Care	Springwell Expansion	(4.31)	**31**
	Schools R&M	(3.42)	**32**
	Solar PV Project	(0.10)	**33**
	Bitterne Park Autism Resource Base	(0.15)	**34**
	School Access Initiative	(0.28)	**35**
	Asbestos	(0.45)	**36**
	Early Years Expansion	(0.41)	**37**
	Various Minor Schemes	(0.11)	
		(9.23)	
Finance	Desktop Refresh Programme	(0.11)	**38**
	Digital Investment	(2.03)	**39**
		(2.14)	
Leader's	West Quay Phase 3 WWQ	(0.10)	**40**
	QE2 Mile Bargate Square	(0.10)	**41**
	Town Depot	(0.06)	**42**
	Royal Pier	(0.10)	**43**
	Mayflower Park Spitfire Memorial	(0.01)	**44**
	West Quay Phase 3 Site B	(0.05)	**45**
		(0.42)	
Transport - E&T	Bassett Avenue Road Improvement	1.00	**46**
	Millbrook Roundabout	(3.45)	**47**
	Bitterne Park Triangle	(0.09)	**48**
	Bus Corridor Minor Works	(0.35)	**49**
	Cycling	(0.35)	**50**
	Electric Vehicle Action Plan	(1.08)	**51**
	Improved Safety – Engineering	(0.15)	**52**
	ITS	(0.39)	**53**
	NCR: Ave East Lodge Rd – Dorset St	(0.08)	**54**
	Platform for Prosperity	(0.11)	**55**
	School & Workplace Travel Plan Measures	(0.05)	**56**
	Thomas Lewis Way/Stoneham Lane	(0.73)	**57**
	Travel to School	(0.09)	**58**
	Urban Freight Strategy - Delivery Service Plans	(0.06)	**59**
	WCR: Phase 2 – 2nd Ave	(0.54)	**60**
	Mobile Working	(0.05)	**61**
	Footways	(0.25)	**62**
		(6.82)	
	GF PROGRAMME TOTAL	**(19.16)**	
HRA	Estate Regeneration - Woodside / Wimpson Scheme	(10.93)	**63**
	ECO Project	(6.04)	**64**
	Estate Regeneration City Wide Framework	(0.10)	**65**
	Roads/Paths/Hard Standing	(0.24)	**66**
	Townhill Park Regeneration	1.94	**67**
	Supported Housing Area Programme	(0.25)	**68**
	Decent Neighbourhood: Cuckmere Lane	0.70	**69**
	Future Decent Neighbourhood Schemes	(0.22)	**70**
	HRA PROGRAMME TOTAL	**(15.14)**	
	OVERALL PROGRAMME TOTAL	**(34.30)**	

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Agenda Item 11

Appendix 3

COMMUNITIES, CULTURE & LEISURE

Scheme No.	Description	Budget 2017/18 £M	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Total £M
L1000	Oaklands Swimming Pool Feasibility	0.036	0.000	0.000	0.000	0.000	0.036
L1010	Bargate Monument Repairs	0.004	0.000	0.000	0.000	0.000	0.004
L1020	Guildhall Square Electricity Supply Enhancement	0.036	0.000	0.000	0.000	0.000	0.036
L1440	Tudor House Museum Phase 1	0.000	0.005	0.000	0.000	0.000	0.005
L6790	Sections 106 Playing Field Improvement	0.071	0.000	0.000	0.000	0.000	0.071
L810U	Art in Public Places – Millbrook and Weston	0.017	0.000	0.000	0.000	0.000	0.017
L8260	Tudor House Museum Phase 2 Implementation	0.000	0.030	0.000	0.000	0.000	0.030
L8370	Woolston Library	0.085	0.000	0.000	0.000	0.000	0.085
(blank)	Ancient Scheduled Monuments	0.000	0.200	0.000	0.000	0.000	0.200
L1011	Water ingress repairs project at Westgate & Tudor House	0.008	0.016	0.000	0.000	0.000	0.024
L1013	Upgrade of Gamma Data system project	0.006	0.000	0.000	0.000	0.000	0.006
L1015	SeaCity Treasure Trove	0.000	0.700	0.000	0.000	0.000	0.700
L6792	Outdoor Sports Centre Improvements	0.032	0.501	0.000	0.000	0.000	0.533
L1016	Woodmill Outdoor Activity Centre (Stone Repair - Tidal Wall)	0.191	0.000	0.000	0.000	0.000	0.191
L1014	Arts Gallery Improvements	0.000	0.500	0.000	0.000	0.000	0.500
	Total Programme	**0.611**	**1.952**	**0.000**	**0.000**	**0.000**	**2.563**
Sources of Finance							
	Council Resources	0.491	0.721	0.000	0.000	0.000	1.212
	Contributions	0.120	0.453	0.000	0.000	0.000	0.573
	Central Govt Grants	0.000	0.048	0.000	0.000	0.000	0.048
	Other Grants	0.000	0.030	0.000	0.000	0.000	0.030
	Direct Revenue	0.000	0.700	0.000	0.000	0.000	0.700
	Total Programme	**0.611**	**1.952**	**0.000**	**0.000**	**0.000**	**2.563**

EDUCATION & CHILDREN'S SOCIAL CARE

Scheme No.	Description	Budget 2017/18 £M	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Total £M
E5005	Primary Review P2 - Shirley Warren Primary	0.075	0.000	0.000	0.000	0.000	0.075
E5011	Primary Review P2 - Fairisle Infant & Nursery	0.007	0.000	0.000	0.000	0.000	0.007
E5017	Primary Review P2 - Valentine Primary School Westwood Block	0.000	1.431	0.103	0.000	0.000	1.534
E5018	Primary Review P2 - Sholing Junior	0.133	0.000	0.000	0.000	0.000	0.133
E5019	Primary Review P2 - Tanners Brook Junior	0.060	0.000	0.000	0.000	0.000	0.060
E5020	Primary Review P2 - Fairisle Junior	1.186	0.000	0.000	0.000	0.000	1.186
E5022	Primary Review Contingency	0.001	0.026	0.000	0.000	0.000	0.027
E5027	Expansion of St Johns Primary & Nursery	0.023	0.000	0.000	0.000	0.000	0.023
E5030	Portswood Primary Expansion	0.314	0.000	0.000	0.000	0.000	0.314
E5031	Bitterne Manor Primary Expansion	0.012	0.000	0.000	0.000	0.000	0.012
E5037	Springwell School - Main Expansion 15/16	3.795	5.477	0.000	0.000	0.000	9.272
E5039	Remedial Works at Sholing-Springwell Intake 2015	0.000	0.007	0.000	0.000	0.000	0.007
E5041	Springhill Primary Academy School - one modular building	0.145	0.000	0.000	0.000	0.000	0.145
E5044	St Monica (Bulge class)	0.093	0.000	0.000	0.000	0.000	0.093
E5046	Thornhill Expansion	0.030	0.000	0.000	0.000	0.000	0.030
E5047	PSBP Valentine and St Denys	0.097	0.300	0.000	0.000	0.000	0.397
E7203	Health and Safety Capital	0.200	0.000	0.000	0.000	0.000	0.200
E7205	Solar PV Resources Project	0.000	0.102	0.000	0.000	0.000	0.102
E7206	Renewable Heat Incentive	0.005	0.000	0.000	0.000	0.000	0.005
E7209	Chamberlayne Capital Maintenance	0.031	0.000	0.000	0.000	0.000	0.031
E7217	R&M Planned Programme 14-15	0.677	0.000	0.000	0.000	0.000	0.677
E7218	R&M Programme for School 2016/17 (inc 17/18)	1.750	3.417	0.000	0.000	0.000	5.167
E7220	Early Years Expansion Programme	0.388	0.000	0.000	0.000	0.000	0.388
E7221	Early Years Expansion 2016/17	0.036	1.014	0.000	0.000	0.000	1.050
E8160	ICT Harnessing Technology Grant	0.006	0.000	0.000	0.000	0.000	0.006
E8185	Civil Service Sports Ground	0.000	0.075	0.000	0.000	0.000	0.075
E9022	Schools Access Initiative	0.005	0.000	0.000	0.000	0.000	0.005
E9058	Bitterne Park 6th Form	0.175	0.000	0.000	0.000	0.000	0.175
E9061	Mayfield Academy	0.029	0.000	0.000	0.000	0.000	0.029
E9062	Lordshill Academy	0.219	0.000	0.000	0.000	0.000	0.219
E9093	Increased Places at St Mary's Primary - Phase 2	0.004	0.000	0.000	0.000	0.000	0.004
E9117	Asbestos Removal	0.012	0.000	0.000	0.000	0.000	0.012
E9121	Bitterne Park Secondary Building Programme - planning contribution	0.197	0.000	0.000	0.000	0.000	0.197
E9122	Bitterne Park Autism Resource Base	0.000	0.150	0.000	0.000	0.000	0.150
E9130	Building for Excellence	1.000	0.000	0.000	0.000	0.000	1.000
E9131	Health & Safety Programme 2016/17	0.223	0.000	0.000	0.000	0.000	0.223
E9133	School Access Initiative 2016/17	0.017	0.283	0.000	0.000	0.000	0.300
E9140	Asbestos 2016/17	0.050	0.445	0.000	0.000	0.000	0.495
E0NEW	Schools Programme	0.000	2.812	14.627	20.528	29.483	67.450
E9123	Radstock Road-Loft Conversion	0.037	0.000	0.000	0.000	0.000	0.037
E9134	St George's Expansion	0.000	1.780	0.012	0.000	0.000	1.792
E9135	Sholing Technical College Renovation	0.400	1.500	0.572	0.000	0.000	2.472
	Total Programme	**12.185**	**21.569**	**15.814**	**20.738**	**29.483**	**99.789**
Sources of Finance							
	Council Resources	4.035	11.527	1.084	17.253	29.483	63.382
	Central Govt Grants	8.150	10.042	14.730	3.485	0.000	36.407
	Total Programme	**12.185**	**21.569**	**15.814**	**20.738**	**29.483**	**99.789**

CITY SERVICES

Scheme No.	Description	Budget 2017/18 £M	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Total £M
C2921	Weekly Collection Support Scheme	0.010	0.000	0.000	0.000	0.000	0.010
E3001	Houndwell Park Play Area	0.007	0.000	0.000	0.000	0.000	0.007
E3011	Deep Dene Play Area	0.009	0.000	0.000	0.000	0.000	0.009
E3013	The Common Play Area	0.553	0.000	0.000	0.000	0.000	0.553
J333B	Central Depot Development	0.071	0.000	0.000	0.000	0.000	0.071
J426L	Southampton Common	0.091	0.000	0.000	0.000	0.000	0.091
J4310	Deep Dene Improvements	0.003	0.000	0.000	0.000	0.000	0.003
J4440	Sports Centre Water Supply Upgrade	0.014	0.000	0.000	0.000	0.000	0.014
J4450	Riverside Park Pitch & Putt Irrigation System Upgrade	0.050	0.000	0.000	0.000	0.000	0.050
J4480	Green Park	0.002	0.000	0.000	0.000	0.000	0.002
J4490	Hum Hole	0.040	0.000	0.000	0.000	0.000	0.040
J4500	Lordsdale Greenway	0.005	0.000	0.000	0.000	0.000	0.005
J4520	Riverside Park	0.059	0.000	0.000	0.000	0.000	0.059
J4540	Sullivan Recreation Ground	0.002	0.000	0.000	0.000	0.000	0.002
J4560	Westwood Greenway	0.003	0.000	0.000	0.000	0.000	0.003
J4570	Mayfield Park Improvements	0.023	0.000	0.000	0.000	0.000	0.023
J8100	Mobile Working for P & C Frontline	0.007	0.000	0.000	0.000	0.000	0.007
J814B	St James Park - Implementation	0.002	0.000	0.000	0.000	0.000	0.002
J4610	City Pride - Improvements to Queens Park	0.112	0.000	0.000	0.000	0.000	0.112
J8290	Realignment of Park Walk Entrance to East Park	0.029	0.000	0.000	0.000	0.000	0.029
E3027	Adey Close Play Area	0.005	0.000	0.000	0.000	0.000	0.005
E3029	Cedar Lodge Play Area	0.013	0.000	0.000	0.000	0.000	0.013
(blank)	Mechanical Sweeper	0.000	0.160	0.000	0.000	0.000	0.160
J4630	Shoreburs Greenway Footpath Improvment Project	0.200	0.000	0.000	0.000	0.000	0.200
E3033	Masefield Green Play Area	0.009	0.000	0.000	0.000	0.000	0.009
E3035	Newtown Adventure Playground	0.020	0.000	0.000	0.000	0.000	0.020
E3037	St James Park Play Area	0.037	0.000	0.000	0.000	0.000	0.037
E3038	Sullivan Recreation Ground Play Area	0.008	0.000	0.000	0.000	0.000	0.008
E3030	Green Lane Copse / Watts Close Play Area	0.004	0.000	0.000	0.000	0.000	0.004
E3031	Lamberhurst Close / Ropley Close Play Area	0.010	0.000	0.000	0.000	0.000	0.010
E3034	Mayfield Park Play Area	0.250	0.000	0.000	0.000	0.000	0.250
J4632	Portswood Entrance Improvements	0.049	0.000	0.000	0.000	0.000	0.049
E3036	Octavia Road Play Area	0.020	0.000	0.000	0.000	0.000	0.020
C2922	AWC Implementation Works	0.223	0.000	2.650	0.000	0.000	2.873
J8281	Tree Surgery MEWP	0.075	0.000	0.000	0.000	0.000	0.075
J8282	Wildflower Area Mower	0.035	0.000	0.000	0.000	0.000	0.035
J4640	Blechynden Terrace Park	0.200	0.000	0.000	0.000	0.000	0.200
Man	Mansel Park Play Area	0.000	0.250	0.000	0.000	0.000	0.250
E3039	Cobden Meadows and Riverside Park Play Area	0.030	0.000	0.000	0.000	0.000	0.030
E3040	Daisy Dip Play Area	0.010	0.000	0.000	0.000	0.000	0.010
E3041	Lydgate Green Play Area	0.022	0.000	0.000	0.000	0.000	0.022
	Total Programme	**2.373**	**0.410**	**2.650**	**0.000**	**0.000**	**5.433**
Sources of Finance							
	Council Resources	0.830	0.189	2.650	0.000	0.000	3.669
	Contributions	1.158	0.061	0.000	0.000	0.000	1.219
	Central Govt Grants	0.010	0.000	0.000	0.000	0.000	0.010
	Other Grants	0.152	0.000	0.000	0.000	0.000	0.152
	Direct Revenue	0.223	0.160	0.000	0.000	0.000	0.383
	Total Programme	**2.373**	**0.410**	**2.650**	**0.000**	**0.000**	**5.433**

FINANCE

Scheme No.	Description	Budget 2017/18 £M	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Total £M
M9710	Accommodation Strategy Action Programme (ASAP)	0.000	0.254	0.000	0.000	0.000	0.254
P5100	Desktop Refresh Programme	0.125	0.458	0.270	0.300	0.000	1.153
P5120	Works to Enable Accommodation Strategy	0.001	0.259	0.000	0.000	0.000	0.260
P5140	Customer Portal	0.028	0.000	0.000	0.000	0.000	0.028
T1000	Digital Investment Phase 1	0.056	0.000	0.000	0.000	0.000	0.056
T1001	Digital Investment Phase 2 &3	2.224	2.030	0.000	0.000	0.000	4.254
P5150	Civic Centre Upgrade	0.000	1.200	0.000	0.000	0.000	1.200
	Total Programme	**2.435**	**4.201**	**0.270**	**0.300**	**0.000**	**7.206**
Sources of Finance							
	Council Resources	0.108	0.553	0.040	0.040	0.000	0.741
	Capital Receipts	2.225	2.030	0.000	0.000	0.000	4.255
	Direct Revenue	0.102	1.618	0.230	0.260	0.000	2.210
	Total Programme	**2.435**	**4.201**	**0.270**	**0.300**	**0.000**	**7.206**

HEALTH & COMMUNITY SAFETY

Scheme No.	Description	Budget 2017/18 £M	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Total £M
G6430	Support for Estate Regeneration	0.932	0.000	0.000	0.000	0.000	0.932
G6580	Estate Parking Improvements	0.060	0.178	0.000	0.000	0.000	0.238
C718D	CCTV Cameras (C7180)	0.068	0.000	0.000	0.000	0.000	0.068
	Total Programme	**1.171**	**0.178**	**0.000**	**0.000**	**0.000**	**1.349**
Sources of Finance							
	Contributions	1.171	0.178	0.000	0.000	0.000	1.349

Total Programme	**1.171**	**0.178**	**0.000**	**0.000**	**0.000**	**1.349**

HOUSING & ADULT CARE

Scheme No.	Description	Budget 2017/18 £M	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Total £M
R9330	National Care Standards and H&S Work	0.026	0.000	0.000	0.000	0.000	0.026
R9340	Replacement of Appliances and Equipment	0.036	0.000	0.000	0.000	0.000	0.036
R9700	Common Assessment Framework	0.004	0.000	0.000	0.000	0.000	0.004
R9720	Residential Homes fabric furnishing CQC	0.012	0.000	0.000	0.000	0.000	0.012
R9777	Integrated Working	0.546	0.000	0.000	0.000	0.000	0.546
R9600	Telecare Equipment	0.500	0.500	0.500	0.500	0.000	2.000
R9919	32B Kentish Rd Capital Upgrade	0.030	0.000	0.000	0.000	0.000	0.030
RCAP1	Post 19 Learning & Skills Hub	0.064	0.000	0.000	0.000	0.000	0.064
	Total Programme	**1.218**	**0.500**	**0.500**	**0.500**	**0.000**	**2.718**

Sources of Finance

Council Resources	1.046	0.500	0.500	0.500	0.000	2.546
Capital Receipts	0.096	0.000	0.000	0.000	0.000	0.096
Central Govt Grants	0.076	0.000	0.000	0.000	0.000	0.076
Total Programme	**1.218**	**0.500**	**0.500**	**0.500**	**0.000**	**2.718**

LEADER'S

Scheme No.	Description	Budget 2017/18 £M	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Total £M
C620Y	QE2 Mile - Bargate Square	0.000	0.960	0.000	0.000	0.000	0.960
L8200	Southampton New Arts Centre (SNAC)	3.387	0.000	0.000	0.000	0.000	3.387
L8201	Southampton New Arts Centre - Developer Payments	0.103	0.000	0.000	0.000	0.000	0.103
M8000	Station Quarter Southside	0.100	0.000	0.000	0.000	0.000	0.100
M9370	Town Depot	0.040	0.197	0.000	0.000	0.000	0.237
M9390	Royal Pier	0.000	0.406	0.000	0.000	0.000	0.406
M9400	Mayflower Park Spitfire Memorial	0.000	0.012	0.000	0.000	0.000	0.012
M9420	West Quay Phase 3 WWQ	0.050	0.405	0.000	0.000	0.000	0.455
M942B	West Quay Phase 3 Site B	0.020	0.045	0.000	0.000	0.000	0.065
M9430	Northern Above Bar Fees - T&G Marketing Fees	0.023	0.000	0.000	0.000	0.000	0.023
M9480	Fruit & Veg (Disposal)	0.010	0.000	0.000	0.000	0.000	0.010
M9500	Northern Above Bar - Guildhall Square	0.197	0.000	0.000	0.000	0.000	0.197
M9830	Feasibility - Major Site Devlpmnt	0.059	0.000	0.000	0.000	0.000	0.059
M9000	Property Investment Fund	0.000	0.000	0.000	0.000	0.000	0.000
(blank)	Water Fountains	0.000	0.090	0.000	0.000	0.000	0.090
M9100	Enterprise Centre	1.377	0.000	0.000	0.000	0.000	1.377
M7000	Council Energy Services Company	0.050	0.000	0.000	0.000	0.000	0.050
M6000	Bitterne Public Services Hub	0.300	0.000	0.000	0.000	0.000	0.300
M5000	Hampshire Community Bank	1.000	0.000	0.000	0.000	0.000	1.000
M2000	Solent Credit Union Deferred Shares	0.025	0.000	0.000	0.000	0.000	0.025
	Total Programme	**6.741**	**9.240**	**0.000**	**0.000**	**0.000**	**15.981**

Sources of Finance

Council Resources	5.071	9.017	0.000	0.000	0.000	14.088
Contributions	0.129	0.223	0.000	0.000	0.000	0.352
Other Grants	1.541	0.000	0.000	0.000	0.000	1.541
Total Programme	**6.741**	**9.240**	**0.000**	**0.000**	**0.000**	**15.981**

SUSTAINABILITY

Scheme No.	Description	Budget 2017/18 £M	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Total £M
C257F	Civic Centre IT server room	0.078	0.000	0.000	0.000	0.000	0.078
C257G	Lighting Upgrades Salix Works	0.008	0.000	0.000	0.000	0.000	0.008
C257I	Insulation Salix Works	0.004	0.000	0.000	0.000	0.000	0.004
G4620	Handyperson Service	0.040	0.000	0.000	0.000	0.000	0.040
G4690	Disabled Facilities Grants Approved in 2015/16	0.029	0.000	0.000	0.000	0.000	0.029
G4720	HIL/DFG Repayments	0.055	0.000	0.000	0.000	0.000	0.055
C2440	Priory Road - Property Level Protection Scheme	0.186	0.000	0.000	0.000	0.000	0.186
G4730	Disabled Facilities Grants - Approved Adaptations	2.142	1.082	0.000	0.000	0.000	3.224
G4740	Disabled Facilities Grants - Support Costs	0.305	0.000	0.000	0.000	0.000	0.305
	Total Programme	**3.142**	**1.082**	**0.000**	**0.000**	**0.000**	**4.224**

Sources of Finance

Capital Receipts	0.629	0.200	0.000	0.000	0.000	0.829
Contributions	0.118	0.000	0.000	0.000	0.000	0.118
Central Govt Grants	2.395	0.882	0.000	0.000	0.000	3.277
Total Programme	**3.142**	**1.082**	**0.000**	**0.000**	**0.000**	**4.224**

ENVIRONMENT & TRANSPORT

Scheme No.	Description	Budget 2017/18 £M	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Total £M
C2100	Purchase of vehicles	1.061	0.090	0.100	0.000	0.000	1.251
C240E	Itchen Masterplan	0.000	0.003	0.000	0.000	0.000	0.003
C2410	Mobile Working	0.000	0.048	0.000	0.000	0.000	0.048
C273C	Itchen Bridge Toll Automation Delivery Supervision	0.014	0.000	0.000	0.000	0.000	0.014
C550G	Improved Safety 2015/16 - Engineering	0.002	0.000	0.000	0.000	0.000	0.002
C550H	Improved Safety – Engineering	0.200	0.155	0.000	0.000	0.000	0.355
C7112	Road Safety Partnership	0.032	0.000	0.000	0.000	0.000	0.032
C7131	Cycling	0.580	0.927	0.450	0.450	0.000	2.407
C713S	Cycle Network Improvements	0.067	0.000	0.000	0.000	0.000	0.067
C7141	Public Transport	0.150	0.290	0.290	0.290	0.000	1.020
C7151	Improved Safety	0.000	0.206	0.200	0.200	0.000	0.606
C7161	Travel to School	0.140	0.288	0.134	0.134	0.000	0.696
C716M	Workplace Travel Plan Measures	0.025	0.045	0.000	0.000	0.000	0.070
C716N	School Travel Plan Measures	0.040	0.021	0.000	0.000	0.000	0.061
C7171	Accessibility	0.205	0.250	0.250	0.250	0.000	0.955
C717C	District Schemes Programme	0.007	0.000	0.000	0.000	0.000	0.007
C717N	Estate Regeneration - Transport Policy Contribution	0.076	0.000	0.000	0.000	0.000	0.076
C717R	Kingsbridge Lne Public Realm Enhancements	0.916	0.000	0.000	0.000	0.000	0.916
C717S	Station Boulevard	0.152	0.000	0.000	0.000	0.000	0.152
C717T	Local Transport Improvement Fund	0.100	0.498	0.000	0.000	0.000	0.598
C7181	ITS	0.469	2.471	3.250	0.800	0.000	6.990
C718F	LTP Monitoring	0.066	0.000	0.000	0.000	0.000	0.066
C718H	Network Capacity Improvements	0.015	0.000	0.000	0.000	0.000	0.015
C718S	Redbridge Roundabout Junction Improvements	0.294	0.000	0.000	0.000	0.000	0.294
C718T	Urban Freight Strategy - Delivery Service Plans	0.000	0.055	0.000	0.000	0.000	0.055
C718U	Upper Shirley High Street	0.034	0.000	0.000	0.000	0.000	0.034
C718V	Hospital Access Improvements (Coxford Road)	0.240	0.000	0.000	0.000	0.000	0.240
C718W	Thomas Lewis Way/Stoneham Lane	0.180	0.729	0.000	0.000	0.000	0.909
C718X	Electric Vehicle Action Plan	0.105	1.082	0.000	0.000	0.000	1.187
C718Y	C-ITS Bluetooth	0.110	0.000	0.000	0.000	0.000	0.110
C719B	Essential Highways Minor Works	0.050	0.000	0.000	0.000	0.000	0.050
C719D	Pothole Action Fund	0.141	0.080	0.000	0.000	0.000	0.221
C719E	Cycleways Improvements Programme	0.500	0.500	0.000	0.000	0.000	1.000
C719F	Anti-Terrorist Measures	0.750	0.000	0.000	0.000	0.000	0.750
C723B	Major Cycle Route Signage	0.033	0.000	0.000	0.000	0.000	0.033
C723H	WCR: Phase 2 – 2nd Ave	0.065	0.535	0.000	0.000	0.000	0.600
C723J	Eastern strategic cycle route development	0.000	0.096	0.000	0.000	0.000	0.096
C723K	NCR: Ave East Lodge Rd – Dorset St	0.061	0.080	0.000	0.000	0.000	0.141
C723L	Cycle parking at key locations	0.012	0.000	0.000	0.000	0.000	0.012
C723M	Bitterne Precinct Access Scheme	0.050	0.000	0.000	0.000	0.000	0.050
C723N	Bitterne Park Triangle	0.014	0.171	0.000	0.000	0.000	0.185
C724B	Bus Lane & Traffic Enforcement	0.021	0.000	0.000	0.000	0.000	0.021
C724D	Bus Corridor Minor Works	0.090	0.373	0.000	0.000	0.000	0.463
C772A	Millbrook Rounabout Highway Capacity Improvements	0.050	0.378	0.000	0.000	0.000	0.428
C774A	Northam Rail BRidge and corrider improvements	0.010	0.000	0.000	0.040	0.000	0.050
C777C	B2P Northam River Bridge	0.034	0.000	0.000	0.000	0.000	0.034
C777E	b2P - Vicarage Bridge	0.035	0.000	0.000	0.000	0.000	0.035
C791H	Other Bridge Works	0.175	1.402	0.000	0.000	0.000	1.577
C791U	Northam River Bridge Containment	0.100	0.100	0.000	0.000	0.000	0.200
C7921	Various Principal	2.812	0.000	0.000	0.000	0.000	2.812
C8000	Classified Roads	1.942	0.500	0.000	0.000	0.000	2.442
C806X	Scrim lead projects (Various)	0.040	0.000	0.000	0.000	0.000	0.040
C808M	Bitterne Road West (Athelstan Road to Rampart Road)	0.002	0.000	0.000	0.000	0.000	0.002
C808N	Bitterne Road West (Outside 509 to outside 693)	0.002	0.000	0.000	0.000	0.000	0.002
C808P	West Quay Road (Mayflower Roundabout to Southern Road)	0.002	0.000	0.000	0.000	0.000	0.002
C809A	Millbrook Roundabout Detailed Design	0.310	7.193	0.000	0.000	0.000	7.503
C8100	Unclassified Roads	3.628	1.420	0.000	0.000	0.000	5.048
C816C	Footways - Various Treatments	0.750	0.750	0.000	0.000	0.000	1.500
C818R	Rother Dale	0.001	0.000	0.000	0.000	0.000	0.001
C818S	Footway Improvements - Kathleen Road	0.007	0.000	0.000	0.000	0.000	0.007
C818Z	Bitterne Precinct Public Realm Works	0.414	0.000	0.000	0.000	0.000	0.414
C820A	Highways Drainage Investigations	0.138	0.124	0.000	0.000	0.000	0.262
C825B	Burgess Road (Approach to Bassett Ave / The Avenue)	0.002	0.000	0.000	0.000	0.000	0.002
C826P	Portswood Road (Grosvenor Road to outside Waggoners Arms PH)	0.001	0.000	0.000	0.000	0.000	0.001
C826Q	Bath Road (Bursledon Road to Bitterne Road East)	0.001	0.000	0.000	0.000	0.000	0.001
C826S	Stoneham lane (Bassett Green Road to Channel farm Road)	0.001	0.000	0.000	0.000	0.000	0.001
C826T	Butts Road (Shooters Hill Close to outside Butts Crescent)	0.025	0.000	0.000	0.000	0.000	0.025
C826U	Mousehole lane (Witts Hill to West End Road roundabout)	0.001	0.000	0.000	0.000	0.000	0.001
C826V	Botley Road (Portsmouth Road to Bursledon Road)	0.001	0.000	0.000	0.000	0.000	0.001
C826X	Athelstan Road (Cross Road to outside 5 Athelstan Road)	0.001	0.000	0.000	0.000	0.000	0.001
C826Y	Woodmill Lane (Oliver Road to approach to Thomas Lewis Way)	0.001	0.000	0.000	0.000	0.000	0.001
C829Q	Fullerton Close (par)	0.001	0.000	0.000	0.000	0.000	0.001
C829V	Trent Close	0.002	0.000	0.000	0.000	0.000	0.002
C8300	St Lighting	0.061	0.000	0.000	0.000	0.000	0.061
C881F	Road Restraint Systems	0.164	0.250	0.000	0.000	0.000	0.414
C890J	Bernard Street, Queensway & Bargate Public Realm	0.027	0.000	0.000	0.000	0.000	0.027
C890S	Guildhall Square Access Improvements	0.030	0.000	0.000	0.000	0.000	0.030
C8911	Platform for Prosperity	0.003	0.114	0.000	0.000	0.000	0.117
C893B	North of Station - Phase 2	0.030	0.000	0.000	0.000	0.000	0.030
C9120	Highways Improvements (Developer)	0.395	0.349	0.000	0.000	0.000	0.744
C920A	Highways Maintenance Risk Fund	0.144	0.000	0.000	0.000	0.000	0.144
C920B	Highways Maintenance Compensation Event Fund	0.018	0.000	0.000	0.000	0.000	0.018
C947J	Emergency Repairs to MSCPs	0.062	0.000	0.000	0.000	0.000	0.062
C947K	Grosvenor MSCP Shutters	0.075	0.070	0.070	0.050	0.000	0.265
(blank)	Additional Roads Programme	0.000	8.000	0.000	0.000	0.000	8.000
		18.564	**29.645**	**4.745**	**2.214**	**0.000**	**55.168**

Sources of Finance

	Budget 2017/18 £M	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Total £M
Council Resources	2.935	7.203	0.100	0.000	0.000	10.238
Capital Receipts	2.917	4.567	0.000	0.000	0.000	7.484
Contributions	2.560	3.352	0.000	0.000	0.000	5.912
Central Govt Grants	6.377	13.203	4.575	2.164	0.000	26.319

Other Grants	0.000	0.000	0.000	0.000	0.000	0.000
Direct Revenue	3.775	1.320	0.070	0.050	0.000	5.215
Total Programme	**18.564**	**29.645**	**4.745**	**2.214**	**0.000**	**5.516**

HOUSING REVENUE ACCOUNT

Sum2	Scheme No.	Description	Budget 2017/18 £M	Budget 2018/19 £M	Budget 2019/20 £M	Budget 2020/21 £M	Budget 2021/22 £M	Total £M
HRA06	H6370	Exford Parade	0.007	0.000	0.000	0.000	0.000	0.007
HRA06	H6490	Estate Regeneration City Wide Framework	0.100	0.100	0.000	0.000	0.000	0.200
HRA06	H6570	Townhill Park Regeneration	4.295	7.639	0.550	1.700	0.000	14.184
HRA06	H6700	Erskine Court Rebuild	0.168	0.000	0.000	0.000	0.000	0.168
HRA06	H6720	Estate Regeneration Woodside/Wimpson	0.944	10.817	11.000	2.639	0.000	25.400
HRA06	HRA06	(blank)	0.000	0.000	0.000	0.000	4.131	4.131
HRA06 Total			5.514	18.556	11.550	4.339	4.131	44.090
HRA08	H1116	External Windows and Doors	0.909	2.280	1.598	3.083	0.000	7.870
HRA08	H125A	Garage Maintenance - Approved	0.005	0.000	0.000	0.000	0.000	0.005
HRA08	H0255	HRA Business Case Resources	0.146	0.000	0.000	0.000	0.000	0.146
HRA08	H1290	HFRS Fire Safety / Sprinkler Project	1.257	0.000	0.000	0.000	0.000	1.257
HRA08	H1121	Roof Finish-Pitched/Structure/Gutter/Downpipes etc	0.651	0.533	0.474	0.549	0.000	2.207
HRA08	H1123	Chimney	0.134	0.126	0.103	0.137	0.000	0.500
HRA08	H1113	Structural Works.	7.744	5.420	2.013	0.651	0.000	15.828
HRA08	H1122	Wall Structure & Finish	1.000	1.000	1.926	1.848	0.000	5.774
HRA08	H1174	Golden Grove Balconies	0.000	0.168	0.000	0.000	0.000	0.168
HRA08	H114A	Programme Management Fees - Current	0.665	0.689	0.713	0.737	0.000	2.804
HRA08	H4593	Tennant Alteration Budget	0.189	0.311	0.331	0.331	0.000	1.162
HRA08	H113A	Lift Refurbishment – Canberra Towers	0.080	0.225	0.000	0.000	0.000	0.305
HRA08	H1146	Lift Refurbishments – Sturminster House	0.000	0.000	0.526	0.592	0.000	1.118
HRA08	H1152	Lift Refurbishment - Graylings, Canute, St James	0.040	0.011	0.000	0.000	0.000	0.051
HRA08	H1153	Lift Refurbishment Albion Towers	0.071	0.370	0.000	0.000	0.000	0.441
HRA08	H1154	*Lift Refurbishment - Shirley Towers*	0.000	0.424	0.000	0.000	0.000	0.424
HRA08	H144A	Manston Court - External Lift	0.280	0.000	0.000	0.000	0.000	0.280
HRA08	H1740	Renew Warden Alarm	0.308	0.435	0.414	0.518	0.000	1.675
HRA08	H1805	DPM Renewals	0.045	0.000	0.000	0.000	0.000	0.045
HRA08	H1806	Shop Walkways (Roofing)	0.000	0.500	0.000	0.000	0.000	0.500
HRA08	H012A	Roofing Lot 1 West	2.992	0.500	2.460	1.498	0.000	7.450
HRA08	H012B	Roofing Lot 2 East	2.691	1.070	2.460	1.499	0.000	7.720
HRA08	H1272	Renew Porch/Canopy	0.212	0.132	0.166	0.445	0.000	0.955
HRA08	H1261	Refurbish Balconies Approved	0.265	0.173	0.072	0.406	0.000	0.916
HRA08	H187A	Dry Riser Replacements	0.000	0.108	0.054	0.054	0.000	0.216
HRA08	HRA08	(blank)	0.000	0.000	0.000	0.000	12.619	12.619
HRA08 Total			19.684	14.475	13.310	12.348	12.619	72.436
HRA09	H0281	HHSRS - Approved	0.200	0.200	0.200	0.200	0.000	0.800
HRA09	H1128	Electrical Heating Systems	0.452	0.400	0.911	7.670	0.000	9.433
HRA09	H118A	Housing Refurbishment Programme	2.369	3.754	4.337	11.158	0.000	21.618
HRA09	H139A	Water Quality Remedial Works	0.087	0.066	0.050	0.050	0.000	0.253
HRA09	H0550	Disabled Adaptions	1.412	1.300	1.300	1.300	0.000	5.312
HRA09	HRA09	(blank)	0.000	0.000	0.000	0.000	11.704	11.704
HRA09 Total			4.520	5.720	6.798	20.378	11.704	49.120
HRA10	H1115	Door Entry Systems	0.446	0.116	0.162	0.338	0.000	1.062
HRA10	H6266	THP Phase 2 MacArthur/Vanguard	0.106	0.150	0.000	0.000	0.000	0.256
HRA10	H6319	DN: Estate Improvement Programme (EIP)	0.207	0.207	0.207	0.207	0.000	0.828
HRA10	H0340	DN Thornhill	1.200	0.000	0.000	0.000	0.000	1.200
HRA10	H1110	Communal Areas Works	0.321	0.273	0.158	0.192	0.000	0.944
HRA10	H1133	Roads/Paths/Hard Standing	0.140	0.861	0.321	0.321	0.000	1.643
HRA10	H6310	DN: Millbrook Towers Improvements	0.009	0.000	0.000	0.000	0.000	0.009
HRA10	H6314	DN: Millbrook Block Improvements	0.002	0.000	0.000	0.000	0.000	0.002
HRA10	H6315	DN: Shirley	0.058	0.000	0.000	0.000	0.000	0.058
HRA10	H6333	DN: Rozel Court	0.009	0.000	0.000	0.000	0.000	0.009
HRA10	H6334	DN: Cuckmere Lane	1.000	0.574	0.000	0.000	0.000	1.574
HRA10	H1138	Communal Building Services	0.122	0.026	0.314	0.026	0.000	0.488
HRA10	H1720	Communal Heating Systems	0.035	0.070	0.035	0.035	0.000	0.175
HRA10	H1730	Communal Shed / Store Areas	0.260	0.040	0.057	0.353	0.000	0.710
HRA10	H033A	Dn:Futue Decent Neighbourhood Schemes	0.000	1.791	1.639	0.864	0.000	4.294
HRA10	H186A	Renew Communal Kitchen	0.000	0.064	0.008	0.014	0.000	0.086
HRA10	H188A	Central Ventilation Fan Replacements	0.000	0.066	0.033	0.033	0.000	0.132
HRA10	H189A	Water Pump Replacements	0.000	0.080	0.040	0.040	0.000	0.160
HRA10	H481A	Supported Housing Area Programme (SHAP)	0.750	0.859	0.404	0.000	0.000	2.013
HRA10	HRA10	(blank)	0.000	0.000	0.000	0.000	2.116	2.116
HRA10 Total			4.665	5.177	3.378	2.423	2.116	17.759
HRA11	H1134	Insulation Works - City Wide	0.144	0.150	0.000	0.000	0.000	0.294
HRA11	H1135	External Wall Insulation - Kingsland Estate	0.133	0.000	0.000	0.000	0.000	0.133
HRA11	H1302	Renewable Energy Source	0.020	0.000	0.369	0.000	0.000	0.389
HRA11	H1355	ECO: City Energy Scheme	4.380	9.042	0.000	0.000	0.000	13.422
HRA11	H1809	External Wall Insulation	0.000	0.000	5.744	4.201	0.000	9.945
HRA11	H135A	ECO - Staffing Costs	0.368	0.000	0.000	0.000	0.000	0.368
HRA11	H135B	ECO - Capita Costs	0.080	0.000	0.000	0.000	0.000	0.080
HRA11	H135C	ECO - Planning & Legal Costs	0.080	0.000	0.000	0.000	0.000	0.080
HRA11	H135D	ECO - Works / Holding	5.335	0.000	0.000	0.000	0.000	5.335
HRA11	HRA11	(blank)	0.000	0.000	0.000	0.000	3.444	3.444
HRA11 Total			10.540	9.192	6.113	4.201	3.444	33.490
	Total Programme		**44.923**	**53.120**	**41.148**	**43.689**	**34.014**	**216.894**
Sources of Finance								
	Council Resources		14.101	16.348	16.210	10.091	0.000	56.750
	Capital Receipts		1.681	10.763	0.000	0.963	1.659	15.066
	Contributions		0.000	1.680	0.000	0.000	0.000	1.680
	MRA		19.947	13.840	23.476	22.466	21.101	100.830
	Direct Revenue		9.194	10.489	1.462	10.169	11.254	42.568
	Total Programme		**44.923**	**53.120**	**41.148**	**43.689**	**34.014**	**216.894**

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SOUTHAMPTON CITY COUNCIL
CAPITAL STRATEGY
2017/18 TO 2021/22

FEBRUARY 2018

Capital Strategy 2017/18 to 2021/22

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SECTION 1 - THE SOUTHAMPTON CAPITAL STRATEGY

Aims of the Strategy and its links to the Council's budget framework

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

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

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

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

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

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

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

The Capital Strategy

The Council's Capital Strategy is to ensure the Council is able to plan and allocate the available resources for capital projects and programmes that contribute to the delivery of priority outcomes in the Council Strategy. . The principles of the strategy are as follows:

- The Council Capital Board (CCB), chaired by the Cabinet Member for Finance, leads on the strategic direction of capital investment for the Council. The CCB operates on a commissioning basis. This will enable funding to be better aligned with other partners and funding sources and ensure a city wide approach is taken.

  The commissioning approach will be of greater importance with the increased requirement for links to regional and sub-regional strategies and programmes and the need to apply for funds on a regional basis. As a result, the Council must also ensure that its Capital Strategy reflects the vision set out by the LEP, PUSH, and Transport for South Hampshire. These partnerships aim to work together with other stakeholders to secure a more prosperous and sustainable future for the Solent area.

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

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

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

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

- The un-ring fenced and corporate resources will managed by the CCB and it will review all bids for resources, evaluate them and then agree on the prioritisation of resources accordingly. A proposal will be prioritised in accordance with criteria set out in Section Four of this Strategy.

- The CCB will also review the use of any ring fenced resources to ensure alignment with other spending plans and the maximisation of benefits to the Council and achievement of Council outcomes, priorities and Executive commitments.

- The CCB will recommend the use of both un-ring fenced and ring-fenced resources and also the general prioritisation of resources so that Cabinet/Council can make well informed final decisions on the utilisation of resources, as per the timeline set out in Section Five.

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

- There will be an annual review of the individual capital schemes undertaken to:
    a) Ensure that schemes still meet strategic priorities and outcomes;
    b) Review their continued relevance in the context of a dynamic and constantly developing organisation;
    c) Consider the progress of schemes including any reasons for delayed starts or variations to approved budgetary allocations and re-phasing of planned expenditure; and
    d) Identify any unutilised or underutilised resources.
    e) Consider any reallocation of resources.

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

The Wider Region

Solent Local Enterprise Partnership

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

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

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

The vision for the Solent was set out in the updated growth strategy, *Transforming Solent Growth Strategy,* in January 2015:

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

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

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

Targets to 2020 include the following:

- In addition to current forecasts, create an additional 15,500 new jobs in the Solent LEP area;
- Achieve GVA growth of 3%;

- Increase GVA per job by an additional £6,879 per job;
- Improve productivity (GDP per head) closer to the South East average;
- Increase employment rates to 80% from the current 78% and improve economic activity rates from 80% to 81%;
- Enable the delivery of 24,000 new homes;
- Raise the business birth rate from 3.6% to 4.1% (and create 1000 new businesses);
- Improve the business survival rate from 61.4% to 62.5%;
- Raise the proportion of the population with Level 4 and above skills to 36% of the working age population from the current 32%;
- Support the raising of education attainment rates to above the UK average and
- Increase inward investment into Solent attracting at least 5% of FDI projects entering the UK.

Supporting the Strategic Economic Plan is an Investment Plan for the Solent which brings to together:

- Local assets to unlock resources to be re invested in growth, including the Southampton – Portsmouth City Deal - a £953 million investment plan;
- European Union Strategic Investment Funding of £78.9 million including private and public sector match funding;
- Local growth deal –a £124.8 million package of Government funding, together with £360 million of public and private sector leverage;
- A £16.7 million Growing Places capital fund;
- A £24 million across a range of Regional Growth Fund programmes;
- An Enterprise Zone capital grant worth £7 million.

Solent LEP prioritisation for capital programmes uses a scored methodology including the number jobs created, private sector leverage, growth, productivity and deliverability.

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

Economic Development

The City Council is working with key partners including Solent LEP, Solent LAs Business South, Chamber of Commerce, FSB, Higher Education and UK Trade and Investment, training providers and businesses to generate economic growth in the city and to strengthen Southampton's reputation as a place that welcomes and supports business growth.

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

Estate Regeneration

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

Estate regeneration schemes completed to date include an initial pilot at Hinkler Way, and then projects at Laxton Close, Exford Avenue, Meggeson Avenue, Cumbrian Way and Weston. These projects were delivered on the basis of marketing an 'oven ready' site with preparation funded by the HRA (with some of this funding being repaid through grants and land receipts). A mixture of homes for sale and Housing Association funded affordable homes (for rent) were provided.

In February 2012 Cabinet agreed to move forward with a programme of 'city-wide' estate regeneration. Looking sequentially at the Millbrook and Maybush, Northam, Thornhill and Weston Estates.

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

Construction of 56 affordable homes commenced in 2017 on Plot 1 at Townhill Park, with completion planned for March 2019. The homes will be developed and owned by the council and will be available for rent at affordable rents. The council's £10M investment in Plot 1 is supported by a £750,000 grant from the Homes and Communities Agency and money received in Section 106 payments from private housing developers.

Direct procurement has been significantly quicker than procuring a Developer or Development Partner for the whole of Phase 1 and had financial benefits including reduced cost of procuring these units, avoiding double stamp duty and associated transaction costs and developers profit. Whilst construction risk sits with the Council it has been mitigated by using an experienced partner as Development Manager.

The Council's wider plans for Townhill Park will deliver around 665 new homes. Plans for the next plot are being progressed and are expected to include around 213 homes, with a mix of about 45-55% affordable housing and the remainder let for private rental.

In February 2018 the Chancellor confirmed Southampton's successful bid for £3.75M from the Housing Infrastructure Fund towards Townhill Park Regeneration.

The Chancellor's Autumn 2017 Budget contained a provision of £400 million of loan funding for estate regeneration to transform run-down neighbourhoods and provide new homes in high-demand areas.

Previous announcements by the Government, in the Summer 2015 Budget, the Comprehensive Spending Review in November 2015 and Housing and Planning Bill, contained a number of measures affecting current and future social housing provision:

- The announcement that rents in the social rented sector will be reduced by one percent per year until 2020;

- The compulsory introduction of “pay to stay” requiring higher income social housing tenants to pay market rents and for councils to handover to the exchequer the additional rents collected;
- A review of the use of lifetime tenancies in social housing “to limit their use and ensure households are offered tenancies that match their needs and ensure best use is made of social housing”;
- The extension of the Right to Buy to Housing Associations;
- The compulsory sale of “high value voids” in the Local Authority sector to support, in part, the RTB for Housing Associations; and
- The removal of obligatory section 106 requirements for the provision of affordable housing in favour of lower cost home ownership products. Effectively changing the definition of what is considered affordable housing in favour of home ownership particularly ‘Starter Homes’ as opposed to affordable rent.

The Council reviewed its Estate Regeneration Strategy and objectives in September 2016. This recognised that accelerating investment in the redevelopment and or major refurbishment of the Council’s housing stock will require, at least initially, greater capital expenditure than can currently be funded either from within the Housing Revenue Account or through borrowing on the account. Over time as the Council’s older stock is replaced or refurbished, the cost of repairs and maintenance as a proportion of income is expected to fall releasing more funding for regeneration and new housing development.

A range of models for development and funding are therefore being pursued.
These includ :-

- Direct Development within the HRA.
- Use of the Council’s Development and Investment Companies that will allow the Council to develop and invest in housing for sale and offer at market rent in order to reinvest development proceeds in the delivery of affordable homes.
- The sale of sites to Housing Association Partners.
- The sale of sites to institutional funding partners make completed units available to the Council through finance leases with options to purchase.

It is proposed that the Council will develop ongoing relationships with a number of development and funding partners with models replicated across the city.

Key Priority Issues

Housing

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

- The Help to Buy scheme which has been in place since 2013, to ensure that working people who were doing the right thing and saving for a deposit could achieve their aspiration of buying their own home through Government support.

- The Help to Buy ISA was introduced from 1st December 2015 whereby first-time buyers can save up to £200 a month towards their first home and the government will boost their savings by 25%, or £50 for every £200, up to a £3,000 bonus.
- Additional funding streams, such as for low-cost home ownership are intended to be available for councils as well as housing associations and private developers. Councils are encouraged to think creatively about the homes they could deliver.

As part of the Autumn Budget 2017 the government confirmed its commitment to delivering 300,000 homes per year and announced:

- A further £630 million through the National Productivity Investment Fund (NPIF) to accelerate the building of homes on small, stalled sites, by funding on-site infrastructure and land remediation. Further details are expected by mid-2018.
- Support to industry to help ensure that there is a workforce to build additional homes, providing £34 million to scale up innovative training models across the country. The government is working with industry to finalise a Construction Sector Deal that will support innovation and skills in the sector, including £170 million of investment through the Industrial Strategy Challenge Fund. Construction skills will also be a focus for the National Retraining Scheme.
- Plans to consult on planning policy changes to increase housing density in urban areas and ensure efficient use land.

Affordable Housing

The Autumn Budget 2017, confirmed the announcement that an addition £2bn will be added to the Affordable Housing Programme. This in addition to the £7bn announced on 5th January 2017 will increase the total budget to £9.1bn for the period up to 2020/21. The programme aims to meet the diverse housing needs of the country with the intention of delivering an additional 250,000 homes.

It should be noted that the £7bn is compiled of previous announcements:

- £4.7bn Grants announced in April 2016 (2016 – 2021 Shared Ownership and Affordable Homes Programme including affordable rent and rent to buy homes);
- £1.4bn announced in the Autumn Statement 2016 (to build 40,000 affordable homes and give flexibility around the above); and
- £0.9bn allocated under the previous affordable homes programme.

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

Southampton Business Improvement District

In November 2016, City Centre businesses voted in favour of the establishment of a Business Improvement District (BID). Over £1M will be generated for each year from 2017/18 -2021/22, through a levy of 1.5% of business' rateable value in the specified BID area (with some concessions). The funds will be overseen by the businesses via a Board, and allocated for activities to improve the marketing and experience of the City Centre. Delivery must add value to Council services, for which a baseline agreement will be in place. The BID has the potential to match fund and augment existing services, to consider alternative delivery models in the future, and to lever additional resources to the City. This will support the Councils outcomes and priorities, particularly in relation to economic growth.

Public Sector Plc (PSP)

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

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

The aims and aspirations of the Partnership are as follows:

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

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

Flood Defence

Parts of the city are currently at risk from tidal flooding. The city centre is particularly at risk, where major new development is needed. The council is committed to protecting existing and new developments through the development of flood defences along the River Itchen, which will be designed to integrate with the city's infrastructure.

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

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

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

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

Local Authority Trading Company (LATCo)

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

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

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

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

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

Demographic Pressures

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

A key pressure has been identified as a result of the need to expand secondary school places. Following the primary school expansion programme, there is now a requirement to expand the secondary schools to meet the need for additional year 7 places in the future. It is forecast that the current surplus of year 7 places within the City's secondary schools will be insufficient to meet both demand and the DfE requirement for a 5% surplus. The level of capital Basic Needs grant, which is provided to Local Authorities to increase school places, is based on the differential between the forecast number of children and the number of places within the city. Across the secondary sector the total number of places exceeds demand in the city until 2023, which in turn will likely delay the allocation of any further Basic Needs funding to 2020/21. Therefore during this period any required works to increase the Published Admission Numbers (PAN) of Secondary schools, in order to accommodate the increase in year 7 children, will need to be funded from Council resources.

Property Investment Fund

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

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

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

- Set criteria for making investments;
- Identify the types of investment and vehicles that would allow for a balanced investment portfolio. Examples which will be considered include direct investment, i.e. properties that already produce income; indirect investment i.e. investing in property investment vehicles such as investment funds; and corporate investment i.e. investment in or acquisition of property management, trading or investment companies.
- Highlight the main property sectors as retail, office, industrial and leisure/healthcare. The portfolio will aim to spread its investment across the sectors to limit exposure to any volatility in a particular area:
- Maximise rental income and minimise management cost thus maximising returns;
- Pursue opportunities to increase commercial return and improve investment value of commercial assets;

- Choose property in locations driven by financial criteria, so may not be in Southampton although property in Southampton will be considered if it meets the relevant criteria; and
- Set the governance and decision structure
- Define a clear exit strategy.

To date £40M has been invested, £20M in 3 commercial properties (with a return on investment of 5.9%) and £20M invested in the CCLA, to manage risk through diversification.

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

<u>The Digital Agenda</u>

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

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

The 'Digital' programme comprises two elements.

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

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

SERVICE PRIORITIES

<u>Schools</u>

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

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

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

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

The Council does not currently have sufficient special school places to meet the demand and needs of the Special Educational Needs and Disability ('SEND') population. On 16th March 2016 Council approved plans to expand Springwell School and work has begun on 10 classrooms, a hydrotherapy pool which will be available out of school hours to parents of SEND children, a sensory room, hall, catering kitchen and associated supporting facilities for 128 children. This expansion will assist a number of children and young people get a good start in life, which is crucial to enabling them to go on to fulfil their potential and become successful adults who are engaged in their communities. The work is due to be completed in 2018.

Transport

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

Additionally, a programme of Integrated Transport Schemes is determined by the Local Transport Plan (Implementation Plan). These schemes also aim to improve the economic vitality of the City through the delivery of transport based schemes for the benefit of the wider economy. As such schemes are prioritised through a series of criteria to identify what schemes will be delivered as part of the capital programme each year. In 2016/17 the Council committed to utilising the full LTP Integrated Transport grant over a 5 year period with plans to invest in schemes such as Electric Vehicle Technology.

Further, a need has been identified to make improvements to the roundabout infrastructure in Millbrook and Redbridge. The Millbrook project is now moving forward after the successful award of government funding. The Council is working with Highways England to deliver traffic improvements around the M271 motorway and A35 Redbridge Roundabout.

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

E&T – City Services

One of the Council Executive commitments was to provide three state of the art play areas at Southampton Common, Mayfield Park and the Veracity Ground, to contribute towards the priority outcome to help children and young people in Southampton get a good start in life. All three projects have been successfully completed.

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

Leisure

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

Housing

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

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

Leader's Portfolio

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

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

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

HRA

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

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

SECTION 2 - CAPITAL RESOURCES

Current Capital Priorities and Potential Investment levels

The table below identifies the major priorities of the capital programme for 2017/18 to 2021/22.

Outcome	Major Project	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Children and young people getting a good start in life	Primary Review & Expansion	2.18	1.74	0.10	0.00	0.00
	School Capital Maintenance	2.94	4.27	0.00	0.00	0.00
	Secondary Review & Expansion	2.80	8.99	15.71	20.74	29.48
	Early Years Expansion	0.42	1.01	0.00	0.00	0.00
	Springwell Expansion	3.80	5.48	0.00	0.00	0.00
	Play Area Improvements	1.07	0.25	0.00	0.00	0.00
	Other	0.13	0.08	0.00	0.00	0.00
Southampton is a city with strong, sustainable economic growth	Bridges Programme	0.34	1.50	0.00	0.00	0.00
	Property Investment Fund	1.38	7.13	0.00	0.00	0.00
	Affordable Housing	0.93	0.00	0.00	0.00	0.00
	Integrated Transport	4.71	8.76	4.58	2.16	0.00
	Purchase of Vehicles	1.08	0.09	0.10	0.00	0.00
	Other	0.78	0.79	0.07	0.05	0.00
People in Southampton lead safe, healthy independent lives	Disabled Facilities Grant	2.48	1.08	0.00	0.00	0.00
	Health & Adult Social Care	1.33	0.50	0.50	0.50	0.00
	Hampshire Community Bank	1.03	0.00	0.00	0.00	0.00
	Estate Regeneration	5.51	18.56	11.55	4.34	4.13
	Modern Facilities	4.52	5.72	6.80	20.38	11.70
	Safe Wind/Weather Tight	19.68	14.48	13.31	12.35	12.62
	Warm & Energy Efficient	10.54	9.19	6.11	4.20	3.44
	Communal Facilities	4.67	5.18	3.38	2.42	2.12
	Anti-Terrorism Measures	0.75	0.00	0.00	0.00	0.00
	Other	0.71	0.00	0.00	0.00	0.00
A modern attractive city where people are proud to live and work	Roads Programme	10.61	11.39	0.00	0.00	0.00
	Millbrook Roundabout	0.31	7.19	0.00	0.00	0.00
	Arts & Heritage	0.16	1.42	0.00	0.00	0.00
	AWC	0.23	0.00	2.65	0.00	0.00
	QE2 Mile	0.00	0.96	0.00	0.00	0.00
	Watermark West Quay	0.07	0.45	0.00	0.00	0.00
	Studio 144	3.49	0.00	0.00	0.00	0.00
	Minor Park Development Works	0.72	0.00	0.00	0.00	0.00
	Outdoor Sports Centre Improvements	0.03	0.50	0.00	0.00	0.00
	Other	1.45	0.99	0.00	0.00	0.00
Modern sustainable Council	Resources	0.15	2.17	0.27	0.30	0.00
	Digital & IT	2.28	2.03	0.00	0.00	0.00
	Other	0.08	0.00	0.00	0.00	0.00
	TOTAL	**93.36**	**121.90**	**65.13**	**67.44**	**63.49**

The capital programme report details all the projects currently being undertaken.

Methods of funding the Capital Programme

Government Grants

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

a) Non-ring fenced – resources which are delivered through grant that can be utilised on any project (albeit that there may be an expectation of use for a specific purpose). This now encompasses the vast majority of Government funding and the Council will initially allocate these resources to a general pool from which prioritised schemes can be financed.
b) Ring-fenced – resources which are ring fenced to particular areas and therefore have restricted uses, specified by the funder.

Non-Government Contributions

Where there is a requirement to make an application to an external agency to receive external funding, and when appropriate to commit Council resources as matched funding to any bid for external resources, a business case should first be presented for consideration to the CCB. The business case must demonstrate how the project aligns to Council's priorities and how matched funding and any revenue consequences can be managed within the context of the capital and revenue budget.

Local Enterprise Partnership Funding

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

Prudential Borrowing

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

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

The PWLB remains the Council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide. The Council qualified for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2017, through its application via the 2017/18 Capital Estimates Return.

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

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

Capital Receipts

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

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

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

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

- Provide for an MRP holiday to the value of external loan payments generating a revenue budget saving;
- Consider use to meet the costs of equal pay claims as detailed below;
- Consider forgoing the immediate capital receipt for longer term and sustainable income stream through development of sites;
- Consider flexible use to meet the costs of reform projects as detailed below; and
- Capital Board approved that in future, assumed receipts from sale of assets not currently on the market will not be taken into consideration when assessing the total value of receipts available to fund the capital programme.

Flexible use of Capital Receipts

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

- The direction only relates to new receipts received in the period 1st April 2016 to 31st March 2019 that could be applied to meet the revenue costs of reform incurred in the same timeframe;
- The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to the authority's net service expenditure and is expenditure on a project where incurring up-front costs will generate ongoing savings; and
- Individual authorities demonstrate the highest standards of accountability and transparency. The guidance recommends that each authority should prepare a strategy that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council or the equivalent. This strategy can be included as part of the annual budget documentation and approved by full Council or the equivalent at the same time

as the annual budget. The guidance provides detail of the content of the strategy and that this strategy does need full council approval in advance of the intended financial year of application. If the strategy is updated during the financial year MHCLG must be notified.

- Examples of qualifying expenditure include the sharing of back office and administrative services; investment in service reform feasibility work; collaboration between central and local government to free up land for economic use; funding the cost of service reconfiguration or restructuring leading to ongoing efficiencies; sharing Chief Executives; driving a digital approach; aggregating procurement on common goods; improving systems and processes to tackle fraud; setting up commercial or alternative delivery models to deliver services more efficiently or increase revenue income; and integrating public facing services across two or more public sector bodies.

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

<u>HRA Right to Buy Receipts</u>

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

<u>Revenue Contributions</u>

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

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

<u>Use of Leasing</u>

The Council does have the option to lease assets utilising an operating lease arrangement, with the advent of Prudential Borrowing this source of financing is becoming less attractive. The International Accounting Standards Board have reviewed how leased assets are treated and in January 2016 issued a new standard for annual periods starting on or after the 1st January 2019. This will need to be reflect as part of any future business cases.

<u>Tax Increment Financing (TIF)</u>

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

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

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

S106 Agreements

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

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

S106 contribution agreements have covered all types of infrastructure including transport, affordable housing, play areas, open spaces, playing fields, public realm and public art. However, since the Council adopted CIL the planning obligations sought within S106 agreements have been scaled back to deal with only site specific requirements, as required by the CIL Regulations. Pooled contributions previously sought for strategic transport, public realm and public open space related obligations are now dealt with by CIL.

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

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

Community Infrastructure Levy (CIL)

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

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

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

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

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

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

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

Private Finance Initiative (PFI)

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

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

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

Resourcing Strategy

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

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

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

Cabinet/Council will make the final decision on the overarching capital programme and will subsequently delegate the updating of the programme and revisions to projects to the Leader of the Council and Cabinet Member for Finance, in conjunction with the Service Director - Finance and Commercialisation (S151 Officer), in order to minimise delays in the capital programme.

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

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

- The preparation of the statutory Local Transport Plan, and Transport Asset Management Plan (TAMP);
- The preparation of the Asset Management Plan for Schools and Council Buildings to ensure health and safety issues have been dealt with appropriately; and
- The Council's obligation to finance adaptations to the homes of disabled residents. Funding is passported directly to the Better Care Fund along with the Adults Personal Social Services grant. It has been agreed with the CCG that these monies will be retained by the Council, as part of the S75 pooling arrangement detailed in the Revenue Budget Report.

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

SECTION 3 - CAPITAL INVESTMENT AND DISPOSAL APPRAISAL PROCESS

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

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

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

1. Outline Business Case (OBC) which will focus on options appraisal and quantifiable outcomes.
2. Full Business Case (FBC) – the final investment decision. This will focus on the how the priorities set out in the OBC will be delivered, including:
   a) Project description
   b) Consultation

c) Expenditure and funding including whole life costs and revenue implications
d) Outputs
e) Any further option appraisal
f) Value for Money
g) Delivery
h) Timescales
i) Risk Management
j) Sustainability, Forward strategy and evaluation
k) Asset Management
l) Procurement
m) Equality Impact Assessment
n) Environmental Impact Assessment

3. Change Requests where delegated tolerance levels will be exceeded.

For proposals that are identified by officers there will be an initial extra step in the process, a 'Bid on a Page' will be a Concept Outline. This will cover the initial concept idea, potential costs and funding sources, links to the Council Strategy and the City Plan, how outcomes will be improved.

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

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

<u>How projects are appraised</u>

Capital Projects are appraised using the following criteria:

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

Business cases are presented to CCB on the basis that they have had the appropriate clearance by finance, legal, property, and strategy.

SECTION 4 - HOW THE CAPITAL REQUIREMENTS ARE PRIORITISED

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

The criteria examines if the proposal is:

1. Related to mandatory, contractual or legislative service delivery requirements;
2. Required to achieve the delivery of a specific revenue budget saving within the revenue budget setting process;
3. Required to support Outcome Plan priorities and achieve key objectives;
4. Linked into other regional objectives;
5. Supporting the evolving localism agenda;
6. Reducing costs or backlog maintenance of assets management/estate management;

7. Providing a general revenue saving (not directly linked to the budget cycle) or offering the delivery of a more efficient service;
8. Fully funded from external resources (including project management etc.);
9. Bringing in substantial external resources for which Council matched funding is required

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

All projects have to demonstrate that they:

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

SECTION 5 - CAPITAL PROGRAMME DECISION MAKING CYCLE

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

August

- Align existing projects to Council Strategy, linking to outcomes and priorities

Sept

- Identify Priority Schemes and Invest to Save opportunities, through Exec. Commitments and Business Plans.
- Outline Business cases are commissioned for priority areas
- Call put out for Concept Outlines

Oct

- Outline business cases are reviewed and prioritised
- Concept outlines are reviewed and prioritised
- Capital requirements of revenue savings identified

Nov

- Move to full business case for priorities
- Move to Outline business case for officer identified projects
- Capital Monitoring and Programme Update

Dec

- Settlement information received
- Priorities analysed
- Capital Monitoring and Funding Reviewed and Agreed.

Jan

- Outline Business cases reviewed and where appropriate move to full business case
- Analysis of business cases undertaken

Feb

- Capital Budget Report submitted outlining priority projects for the forthcoming year
- Agree Capital Strategy for the following financial year. Linked to settlement information and review of MTFS assumptions
- Budget set for the year and MTFS approved.

Mar

- CCB identifies which projects it would like to monitor on a regular basis
- Monitoring of the projects pre implementation commences

Apr to July

- Commencement of projects and monitoring put in place

SECTION 6 - HOW THE COUNCIL PROCURES ITS CAPITAL PROJECTS

In January 2018, the Cabinet approved the Council's Procurement Strategy and the Southampton First Policy. The implementation Strategy will ensure that the principles and practices associated with procuring works, goods and services consistently achieve value-for-money and actively contribute to the council's priority outcomes as well as to support the achievement of a modern, sustainable Council.

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

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

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

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

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

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

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

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

The Local Capital Board for the Education and HRA programme meet to monitor the implementation and delivery of the individual projects they are responsible for. The CCB decides which projects and programmes it would like to receive a regular progress and performance update on, based around strategic importance and associated risk.

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

SECTION 8 - THE COUNCIL CAPITAL BOARD

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

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

By invite:

- Service Directors
- Project/Programme Managers

The Board meets on a monthly basis to:

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

The full Terms of Reference for the Board are included in the Financial Procedure Rules and will be updated annually to reflect any changes to the Council Capital Board. These are attached as Annex 1.

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

ANNEX 1

COUNCIL CAPITAL BOARD TERMS OF REFERENCE

General

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

On an Annual Basis

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

On a Monthly Basis

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

On an Adhoc Basis

14. Review prioritisation and adequacy of existing scoring mechanism.
15. Review systems of pre-project evaluation including project appraisal and business case justification.

16. Review systems of post project evaluation and application to all completed schemes.

17. To review at appropriate points major projects during the construction stage.

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

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- Chief Executive
- Chief Operating Officer
- Chief Strategy Officer
- Service Director - Finance and Commercialisation (S151)
- Cabinet Members
- Service Lead – Corporate Planning & Commercialisation
- Head of Capital Assets

By invite:

- Service Directors
- Project/Programme Managers

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