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SELECT COMMITTEE REVIEW
BUDGET SCRUTINY

Wednesday 29 March 2017
3.00 pm
Warspite Room, Council House

Members:
Councillor Bowie, Chair
Councillors Mrs Aspinall, Ball, Fletcher, James, Lowry and Storer.

Members are invited to attend the above meeting to consider the items of business overleaf.

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Tracey Lee
Chief Executive

Select Committee Review

Agenda

1. Election of Vice Chair

The Committee will appoint a Vice Chair for this Select Committee Review: Budget Scrutiny.

2. Apologies

To receive apologies for non-attendance submitted by Members.

3. Declarations of Interest

Members will be asked to make any declarations of interest in respect of items on this agenda.

4. Chair's Urgent Business

To receive reports on business, which in the opinion of the Chair, should be brought forward for urgent consideration.

5. Select Committee Review: Budget Scrutiny:

5a. Supporting Information **(Pages 1 - 110)**

5b. Recommendations

SELECT COMMITTEE REVIEW PLAN

Overview and Scrutiny

PLYMOUTH CITY COUNCIL

SELECT COMMITTEE TOPIC
STANDING BUDGET SELECT COMMITTEE

Raised by -	Councillor Bowie / Aspinall
Date -	8 March 2017

Purpose of Review

To provide dedicated, cross-party consideration of the Budget and the Council's finances with a view to establishing and maintaining resources that are fit for purpose and address the needs and aspirations of the people of Plymouth and the Council's priorities.

Rationale

Our Overview and Scrutiny Committees have power between them to review or scrutinise decisions made, or other action taken by the responsibility of the executive. To support this power the Committees can require members of the executive, and officers of the authority, to attend before it to answer questions.

Following Budget Scrutiny sessions in January a standing select committee into budget scrutiny was agreed.

This review plan sets out the terms of reference for the committees and establishes agendas for the early meetings.

The Select Committee will -

1. To contribute to the delivery of the Council's Corporate Plan by making recommendations on:
   a. Service efficiencies.
   b. Value for money.
   c. Financial strategies.
2. To monitor the in-year progress of the Revenue and Capital Budgets.
3. To scrutinise and comment upon annual out-turn reports for the Revenue and Capital Budgets, and identify learning points.
4. To be consulted during the preparation of the annual Revenue and Capital Strategies and Budgets.
5. To scrutinise the draft Revenue and Capital Budgets.
6. To make recommendations to the Cabinet on any of the above matters at any time, and to submit comments to the Council in relation to the Cabinet's proposed Revenue and Capital Budgets at the most appropriate time.
7. To invite expert witnesses in respect of particular items to be considered by the Committee.

Select Committee Membership
Councillors Bowie, Aspinall, Lowry, Ball, James, Fletcher and Storer. (Agreed Membership in 2016/17 municipal year will remain 2017/18 municipal year)

Process	
Methodology/Approach	Sessions to be held in the Council House with witnesses, presentation from officers and relevant paperwork.
Sources of Information/Evidence	Out Turn Report Medium Term Financial Strategy Capital Programme / Strategy Treasury Management Strategy Any other documents the Committee consider pertinent
Consultation Exercises	The committee will consider any consultation exercises sponsored by the Executive.
Witness/Expert Participation	As the Committee agrees.
Site Visits	N/A
Resource Requirements	Met within existing resources.
Prioritisation	4 (Medium)

Post Review	
Reporting Process	The Select Committee will make recommendations to the Cabinet on any of the above matters at any time, and to submit comments to the Council in relation to the Cabinet's proposed Revenue and Capital Budgets at the most appropriate time.
Anticipated Completion Date	N/A Standing Committee
Draft Report Deadline	Subject to recommendations by the Committee.
Meeting Frequency	Initial three sessions, further sessions as determined by the committee.
Dates of Meetings	• **29/03/17** (Paper Deadline 20/03/17) – To consider the impact of the Chancellor of the Exchequers Budget and Statement on Council Finances. • **07/06/17** (Paper Deadline 29/05/17) – To consider the Financial Out-turn • **13/09/17**(Paper Deadline 04/09/17) – To consider Quarter 1 Financial Monitoring Report
Further Information	N/A

BUDGET 2017
Briefing Paper

PLYMOUTH CITY COUNCIL

Key budget announcements for the Spring Budget – Wednesday 8 March 2017

Growth, borrowing and inflation forecasts
- The Chancellor states that the budget provides a strong stable platform for Brexit negotiations.
- The UK has the second fastest growing economy with unemployment at an 11 year low.
- The deficit is down, debt is still too high and productivity remains "stubbornly low", but the economic forecast is broadly unchanged.
- The independent Office for Budget Responsibility (OBR) forecasts level of GDP for 2021 to be the same as set out in the Autumn statement 2016, however the OBR has upgraded its growth forecast expecting the UK economy to grow by 2 per cent rather than 1.4 per cent. In 2018 growth is forecast to slow to 1.6 per cent, before picking up to 1.7 per cent, then 1.9 per cent, and back to 2 per cent in 2021.
- Real wages continue to rise in every area of the forecast.
- The OBR has substantially revised down its short-term forecast of Public Sector Net Borrowing attributing it to "one-off factors". Annual borrowing is 16.4bn lower than forecasted in 2016/17. However, by 2020 borrowing is predicted to be £100bn higher than originally forecast in March 2016.
- Chancellor stated no "unfunded spending" i.e. cuts/savings will have to pay for any extra spending.
- OBR forecast inflation to hit 2.4 per cent this year, according to the Office for Budget Responsibility. It will then fall to 2.3 per cent in 2018 and 2 per cent in 2019. That will keep it at or above the Bank of England's 2 per cent inflation target for three years.

Impact: A growing economy and high levels of employment will support the city's growth agenda and support the local economy assuming this national forecast is reflected locally.

2017 Business Rates Revaluation
The business rates revaluation takes effect in England from April 2017. There will be a consultation before the next revaluation.
- Any business leaving Small Business Rate Relief will benefit from an additional cap. No bill increase next year of more than £50 a month (from a £110m fund), and subsequent increases capped.
- £1000 discount for business rates for all Pubs with rateable value of less than £100,000 this year (from a fund of £25m).
- Local Authorities to receive £300m hardship fund to provide discretionary relief in their local areas. Allocated via a formula from the Communities Secretary. Allocations are:
  - 2017-18 - £175m
  - 2018-19 - £85m
  - 2019-20 - £35m
  - 2020-21 - £5m
- In addition to the £3.6 billion transitional relief which was announced in November 2016, the government will provide £435 million of support for businesses facing significant increases in bills from the English business rates system.
- Local government will be fully compensated for the loss of income as a result of these measures. At Budget 2016 the government announced an aim to deliver more frequent revaluations of properties – at least every 3 years. The government will set out its preferred approach for delivering this aim at Autumn Budget 2017 and will consult ahead of the next revaluation in 2022.

- Rent-a-room relief- The government will consult on proposals to redesign rent-a-room relief, to ensure it is better targeted to support longer-term lettings. This will align the relief more closely with its intended purpose, to increase supply of affordable long-term lodgings.

Impact: The £50 cap will reduce the burden on small firms. There will be a wide discretion for how Local Authorities can use this money – genuine discretionary relief to be determined at a local level. PCC will have to review its existing policies regarding reliefs and may need to review how such scheme will be administered.

Corporation Tax

Corporation Tax to fall to 19 per cent from April 2017, and 17 per cent in April 2018. This will benefit all business, but the overall benefit may be tempered by the increased bureaucratic burden of quarterly reporting under the new Digital Tax System. Businesses with turnover below the VAT threshold will receive a one-year reprieve from the compulsion to switch to quarterly tax reporting.

Impact: This will clearly have an administrative burden on the majority of Plymouth businesses which are overwhelmingly micro-businesses.

Personal Tax Allowance / Minimum Wage

- NI increase for self -employed from April 18 (increase by 1 per cent to 10 per cent then up to 11 per cent in April 19).
- No other changes to income tax.
- Personal threshold increase to £11,500 in 2017.

Impact: Overall, it is likely that a 1 per cent increase in NI is going to have a minimal impact when coupled with the reductions in corporation tax, however we have 15,600 people registered as self-employed in the city who will have a reduced wage as a result of this announcement.

Taxes and levies

- Introduction of a new minimum excise duty on cigarettes based on a pack price of £7.35 - no changes to previously planned upratings of duties on alcohol and tobacco.
- Sugar tax on soft drinks - raising less than forecast because producers are taking more sugar out of their drinks. However DfE will still receive the £1bn originally earmarked from the levy.

Skills & Education

T-levels 16-19 Technical education: The government will increase the number of programme hours of training for 16-19 year olds on technical routes by more than 50 per cent, to over 900 hours a year on average, including the completion of a high quality industry work placement during the programme.

To ensure the routes are well-designed and colleges properly prepared, they will be introduced from 2019-20, increasing funding in line with this roll out, with over £500 million of additional funding invested per year once routes are fully implemented.

Impact: There is an assumption that this will come through Institutes of Technology and it will depend what the routes are and how quickly they can be introduced into the curriculum reform**.** Work is underway in Plymouth to match skills gaps to provision particularly around STEM so this is welcome news.

Lifelong Learning pilots: £40m pot by 2018-19 to test different approaches to help people to retrain and upskill throughout their working lives.

Return to work support: £5m to returnships to the public and private sector, helping people back into employment after a career break.

Further Education maintenance loans: From 2019-20, the government will provide maintenance loans to students on technical education courses at levels 4 to 6 in National Colleges and Institutes of Technology. This will also support adults to retrain at these institutions.

Schools investment: The government will extend the free schools programme with investment of £320 million in this Parliament to help fund up to 140 schools, including independent-led, faith, selective, university-led and specialist maths schools.

Impact: Plymouth can start to plan the secondary places which will be needed from 2020.

School maintenance: To improve the condition of the school estate, the Budget provides a further £216 million investment in school maintenance, taking total investment in school condition to well over £10 billion over this Parliament.

School transport: The government is expanding the current 'extended rights' entitlement for children aged 11 to 16, who receive free school meals or whose parents claim Maximum Working Tax Credit. They will now get free transport to attend the nearest selective school in their area, bringing it in line with free transport provision for those travelling to their nearest school on faith or belief grounds.

Impact: There is little impact from this announcement as it is likely that there will be a minimal number of families with children at city selective schools in receipt of either free school meals or maximum working tax credits.

Universal Credit

The earnings taper has been reduced from 65 per cent to 63 per cent therefore customers claiming Universal Credit will have slightly more money in their pockets:

The taper rate sets the amount of benefits a claimant loses for each pound they earn. A reduction in the taper rate to 63 per cent was included in the chancellor's Autumn Statement. This means for every £1 a claimant earns over their work allowance (if you are eligible for one) the Universal Credit award will be reduced by 63 pence instead of 65 pence as it currently stands.

Impact: As at December 2016 there were approximately 1,800 customers claiming Universal Credit in Plymouth and Devonport Job Centres (NB. this number will include some customers who do not reside in the Plymouth area).

Childcare

Working parents with three-and-four-year-olds will get their free childcare entitlement doubled to 30 hours a week.

Transport

Allocating £690 million (from the £23bn National Productivity Investment Fund) to local authorities to get local transport networks moving with £490 million made available by early autumn 2017. The city should be eligible to bid for this funding but details have yet to be announced by the SofS for Transport.

Impact: A successful bid could be used to help to reduce congestion, this fund offers a significant opportunity to address this issue to minimise and reduce potential negative impacts, unlock future housing sites and developments and address funding gaps in current and future strategic and local transport schemes.

Homes and Housing

No direct statement, however announcements made about skills (matching supply with demand) and also transport could help to unlock the delivery of housing in the city.

Impact The increased emphasis on training and technical skills which could help to address the skills gap shortages in the construction industry is welcomed.

Health & Adult Social Care

The Chancellor announced new funding for social care with the promise of wider reform from a green paper later in the year.

- £2bn of additional funding over the next three years with £1bn available in 17/18. The balance being allocated as follows:
    - 2018-19 : £0.674 billion
    - 2019-20 : £0.337 billion

  (Authorities should expect to have further guidance on allocation amounts by tomorrow).
- The focus of this funding is likely to be supporting increased discharge from hospital and reduce pressure on NHS ensuring that councils can take immediate action to fund care packages for more people, support social care providers, and relieve pressure on the NHS locally. This will require us to work with NHS on how this is spent. No specific information on how this will be distributed locally or specific conditions attached. Welcome additional investment to ASC however unlikely to meet the well-publicised funding gap nationally or locally.
- National Living Wage referenced as going up to £7.50 on April 1st. Locally PCC's budget has taken this into account and forms part of the existing pressures.
- Integration reiterated as important direction.
- Long term sustainable funding option for Adult Social Care will be presented in Green Paper later this year.
- Recognising the particular pressures in A&E, the government will provide an additional £100 million to the NHS in England in 2017-18 for capital investment in A&E departments. This will enable Trusts to invest in measures to help manage demand on A&E services and ensure that patients are able to access the most appropriate care as quickly as possible.
- The government also proposes to develop a GP triage in A&E by next winter to relieve pressure on hospitals.

Impact: Additional funding is welcome but awaiting details as to individual allocations for local authorities. Nationally it is expected this will allow local authorities to "stand still" but will not meet increased demands due to demographic growth and ever increasing and complex needs.

Sustainability and Transformation Plans

The government will invest £325 million over the next three years to support the local proposals for capital investment where there is the strongest case to deliver improvements for patients and to ensure a sustainable financial position for the health service. There is an opportunity for an initial investment in STP's 'ready to go' before Autumn.

Impact: This could be an opportunity for Plymouth and potential for link up with One Public Estate. Investment decisions will also consider whether the local NHS area is playing its part in raising proceeds from unused land, to reinvest in the health service

Research and innovation

The funding designed to help the UK compete in science and innovation includes:

- £300m for research talent, including 1,000 PhD places for STEM subjects
- £270m for robots, driverless cars and biotech
- £16m for a 5G mobile technology hub
- £200m for fibre broadband.

Impact: This announcement demonstrates how the Industrial Strategy Challenge Fund will deliver the science that businesses need and signifies a commitment to longer term funding for research and innovation. Plymouth's response will be developed as part of the HotSW Productivity Plan green paper consultation and the Industrial Strategy green paper.

Devolution

The government has agreed a Memorandum of Understanding on further devolution to London. The agreement with the Greater London Authority (GLA) and London Councils includes joint working to explore opportunities around locally-delivered criminal justice services; action to tackle congestion; and a taskforce to explore piloting a new approach to funding infrastructure.

The agreement also commits to explore options for devolving greater powers and flexibilities over the administration of business rates and greater local influence over careers services and employment support services, as well as working with the GLA and London Councils to ensure that employers can take advantage of the opportunities offered by the apprenticeship levy.

The government and London partners will agree a second Memorandum of Understanding on Health and Social Care.

Other

- The chancellor is to use his budget to outline plans to help the North Sea oil and gas industry, the Treasury has confirmed.
- £5m fund to mark the centenary of female suffrage next year.
- Measures to protect people who inadvertently end up subscribing for services when signing up for free trials.

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PLYMOUTH CITY COUNCIL

Subject: Revenue and Capital Budget 2017/18

Committee: City Council

Date: 27 February 2017

Cabinet Member: Councillor Darcy

CMT Member Andrew Hardingham (Interim Strategic Director for Transformation and Change)

Author: Paul Looby, Head of Financial Planning and Reporting

Contact details Tel: 01752 307271

email: paul.looby@plymouth.gov.uk

Ref:

Key Decision: No

Part: I

Purpose of the report:

Under the Council's Constitution the Council is required to set a Revenue and Capital Budget and set the Council Tax for each financial year.

The Corporate Plan 2016/19:

The 2017/18 Budget sets out the revenue and capital resources available to deliver the Corporate Plan.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land:

The resource implications are set out in the body of the report.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

The proposed 2017/18 Budget provides the maximum resources achievable to address key policy areas.

Equality and Diversity:

A full equalities impact assessment is attached to agenda papers.

Recommendations and Reasons for recommended action:

The City Council is recommended:

1. To approve the proposed net revenue budget requirement for 2017/18 of **£183.683m;**
2. To approve the total capital budget of £895.4m to 2021/22 (Appendix 4);
3. To consider an Adult Social Care council tax precept and council tax levels for 2017/18;
4. To note that the Office of the Devon and Cornwall and Isles of Scilly Police Commissioner has issued precepts to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each category of dwellings in the Council's area, reflecting a one point nine nine per cent (1.99%) increase for 2017/18;
5. To note that the Devon and Somerset Fire and Rescue Authority precepts have been confirmed reflecting a one point nine nine per cent (1.99%) increase for 2017/18;
6. To approve the 2017/18 Flexible Use of Capital Receipts Strategy;
7. To note the Section 151 Officer's statement on the Budget Robustness Statement (Appendix 5);
8. To approve the annual Treasury Management Strategy and Annual Investment Strategy 2017/18 (incorporating the authorised limits, operational boundaries and prudential indicators) as submitted (Appendix 7);
9. To note the Revenue and Capital Monitoring Report Quarter Three 2016/17 (Appendix 8);
10. To note the response to the recommendations made by the Wellbeing Overview and Scrutiny Committee and Place and Corporate Overview and Scrutiny Committee (Appendix 9);
11. To delegate responsibility for any technical accounting changes which may arise after the budget to the Section 151 Officer in consultation with the Leader and Portfolio Holder for Finance and IT.

Alternative options considered and rejected:

There are no alternative options.

Published work / information:

Background papers:

Title	Part I	Part II	Exemption Paragraph Number						
			1	2	3	4	5	6	7
Medium Financial Strategy 2017/18 to 2019/20	X								
Corporate Fees and Charges Policy	X								
Annual Report	X								
Treasury Management Strategy	X								
Council Tax Base	X								

Sign off:

Fin	djn1617.76	Leg	LT/27410/ 1602/v5	Mon Off	DVS/LT/2 7410/v5	H R		Ass ets		IT		Strat Proc	
Originating CMT Member Andrew Hardingham													
Has the Cabinet Member(s) agreed the content of the report? yes													

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1. Background

1.1 This report sets out the decisions of Cabinet of 7 February 2017 to recommend a balanced Revenue Budget for 2017/18 and Capital Budget for the five years to 2021/22. In addition, Council is recommended to approve the Treasury Management Strategy Statement and Annual Investment Strategy 2017/18, including changes to the prudential indicators. Council is also asked to note the latest Revenue and Capital Monitoring Reports for 2016/17.

1.2 Council is required to set the Council Tax amounts for 2017/18. The precept notification from the office of the Police and Crime Commissioner for Devon, Cornwall and the Isles of Scilly, and the precept for the Devon and Somerset Fire and Rescue Service have been received and are included as part of the Council Tax Resolution for 2017/18.

1.3 The Local Government Association (LGA) has advised all local authorities the parliamentary debate on the Final 2017/18 Local Government Finance Settlement will take place shortly after Parliament returns from recess on Monday 20 February 2017. The DCLG will not announce the Final Settlement until this debate has been concluded. Such a late announcement is unprecedented and there may be implications for the Council in approving its budget and council tax levels. The Local Government Association (LGA) have advised all councils they should use the Provisional Settlement figures for the purposes of setting budgets and council tax.

1.4 The following appendices are included with this report:

- Appendix 1 Budget Build by Directorate and Department;
- Appendix 2 Funding Forecast;
- Appendix 3 Council Tax (to follow)
- Appendix 4 Capital Budget.
- Appendix 5 Section 151 Officer Robustness of Budget Statement.
- Appendix 6 Revenue and Capital Budget 2017/18 report**.**
- Appendix 7 Treasury Management Strategy Statement and Annual Investment Strategy 2017/18**.**
- Appendix 8 Capital and Revenue Monitoring Report 2016/17 Quarter 3.
- Appendix 9 Cabinet's response to the scrutiny recommendations and the scrutiny report.

2. Resources

2.1 The budget report presented to Cabinet on 7 February 2017 set out the national context for large reductions in local government funding and the impact of the Local Government Finance Settlement. At the time of writing this report the Final Settlement has not been announced. The figures used in the Provisional Settlement have been used within this report.

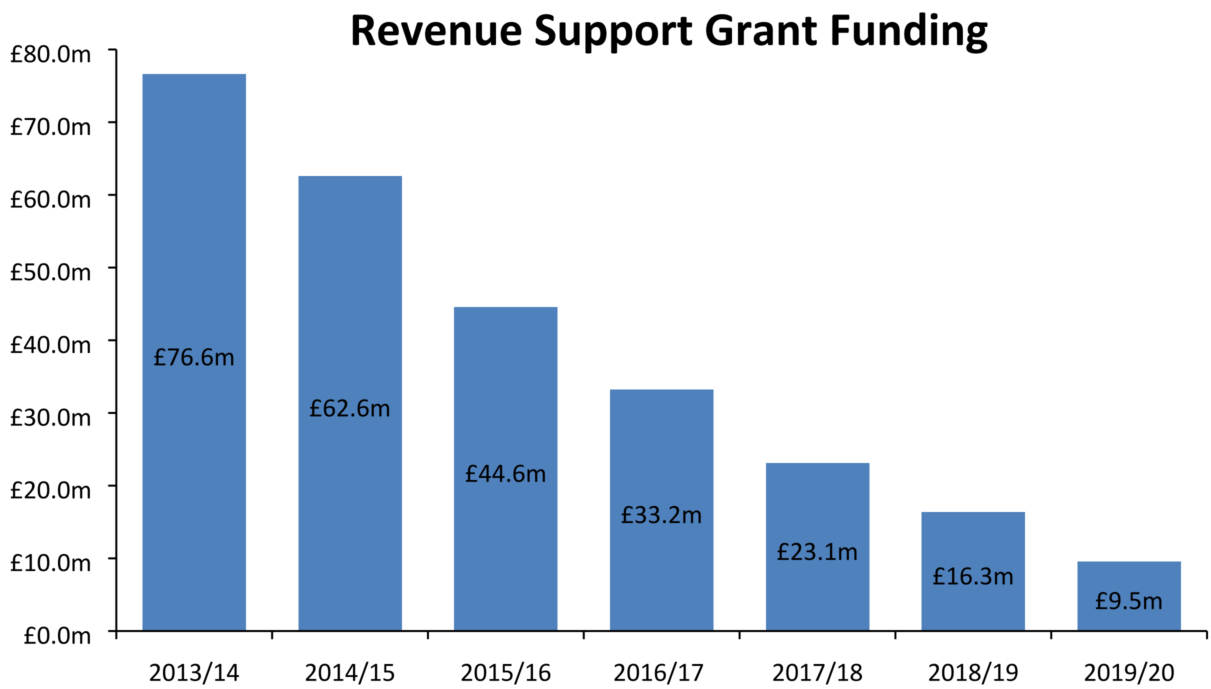
2.2. The headline positon for Plymouth is the Government has reduced Plymouth's Core spending power by **£2.2m to £184.1m.**

2.3 As part of the Settlement the Government assumes that Plymouth will generate an additional £5.1m in council tax, which includes an assumed 2% Adult Social Care Precept and will generate an additional £1.09m of locally retained business rates.

2.4 The result of these Government calculations is a sharply declining Revenue Support Grant for Plymouth as shown below.

2.5. There are also a number of specific grants that are already included in service budgets. Grant reductions have to be borne by those services. These include:

- A £1.3m reduction in the education services grant.
- A reduction of £0.398m in the Public Health grant.
- A reduction of £0.128m in the subsidy for the cost of administering housing benefit.



2.6 Table 1 below sets out a summary of Plymouth's resource assumptions through to 2019/20 based on the Local Government Finance Settlement. The detailed calculation is shown in appendix 2.

Table 1 – Revenue Resource Assumptions

	2017/18 Settlement £m	2018/19 Forecast £m	2019/20 Forecast £m
Revenue Support Grant (RSG)	23.058	16.323	9.533
Council Tax (Including 2% ASC Precept 2017/18)	97.239	100.555	103.708
Business Rates	60.821	62.668	64.570
Total Revenue	**181.118**	**179.546**	**177.811**

(see Appendix 2 for details).

2.7 The overall resources and budget position for the council as at 27 February 2017 and the budget gap is set out in table 2 below.

2.8 In terms of maximising resources, the council will continue to be proactive in securing greater value from our assets and driving projects that deliver growth which brings long term economic and financial benefits for the city such as through securing New Homes Bonus, new Council tax and business rate revenues and additional Community Infrastructure Levy.

These measures include:

- The Plan for Homes which provides a comprehensive delivery framework to respond to need to increase the supply and quality of new housing in the city. The updated Plan for Homes agreed by Cabinet in February 2016 extends the existing plan to 2021, with an £80m commitment to housing investment to deliver over 1,500 new homes in support of the overall delivery of 5,000 homes over the next five years.
- Reviewing the Community Infrastructure Levy to focus the funding secured from development on supporting the infrastructure needed for growth (a new charging schedule is due to be in place by April 2017).
- Focusing the delivery of major projects that will have the greatest impact on revenue such as Drake Circus Leisure, Civic Centre, Seaton Neighbourhood, Railway Station, Colin Campbell Court, Bath Street, Quality Inn Hotel and Millbay.
- Continuing the programme of Direct Development to drive rental income and NNDR across the Land Property portfolio.
- Continuing to drive housing developments on Council land.

3. Cost Pressures

3.1 The City Council has to plan for a number of unavoidable costs pressures which form part of the base budget. The Medium Term Financial Strategy (MTFS) set out these costs and set out the principle that wherever possible services have to absorb the increased cost of service demand and inflation. Table 2 below sets out the increased costs that have been included in the budget for 2017/18 through to 2019/20.

3.2 Nationally it is recognised that Adult Social Care is a service area under considerable stress due to demand arising from demographic changes and ever increasing costs due to more complex needs. Allowance has been made within the budget for these costs and there is recognition for increased pressures within Children's Services.

Table 2 – Increased Costs

Directorate	Increased costs	2017/18	Total by Directorate
		£m	£m
Executive Office	Neighbourhood Initiatives	0.100	**0.100**
People	Adult social care volume pressures	2.756	**6.226**
People	Children's social care volume pressures	1.800	
People	National Living Wage in adult social care contracts	1.670	
Place	Plymouth Plan (one-off)	0.210	**0.760**
Place	Major investments	0.550	
Transformation & Change	Housing Benefit Subsidy	0.500	**0.800**
Transformation & Change	ICT re-provisioning	0.300	
Corporate Items	Salary and pension inflation	0.900	**2.650**
Corporate Items	Pension actuarial review	1.200	
Corporate Items	Apprenticeship Levy	0.250	
Corporate Items	Revenue costs arising from capital investment decisions	0.250	
Corporate Items	National insurance and Insurance Tax Increase	0.050	
	Total	**10.536**	**10.536**

Dedicated Schools Grant (DSG)

3.3 The Dedicated Schools Grant (DSG) is a specific grant received by the Council and predominantly funds schools to undertake their work, currently circa £140m and due to increase to circa £147m in 2019/20. In addition some of the DSG part-funds LA services like School Admissions and SEND. The Government have been consulting on the National Funding Formula for schools, and we are beginning to understand the implications of the proposals. The National Funding Formula is still out to consultation and elements like the consultation on the High Needs Block (SEND typically) does not close until the end of March. Plymouth schools are currently funded below levels received elsewhere. From benchmarking data available it appears that schools in Plymouth are currently funded between £7m and £7.5m lower than nationally. This is historical.

3.4 Plymouth's schools will benefit from the proposed second stage of the National Funding Formula (NFF) in 2018/19 and 2019/20. By 2020 our schools will be funded at a level similar to some Local Authorities today. Whilst it is acknowledged that we do receive an uplift of 5.2%, Plymouth remains one of the lowest funded authorities currently.

3.5 In relation to the High Needs Block, again part of the DSG this is currently at £28.5m; funding individual children. Plymouth will get an increase of £0.058m in 2018/19. However, this is a budget under pressure showing an overspend in 2016/17 due to a significant increase in the need for special school places, children requiring a higher level of support and an increase in the cost of independent school places.

Education Services Grant (ESG)

3.6 The Education Services Grant (General Fund) has historically been paid to Local Authorities to carry out statutory responsibilities for maintained schools. Central Government have announced that this grant will cease in 2017/18 with transitional protection being paid to Local Authorities from April 2017 to August 2017. This cut in ESG (net of transitional protection) will mean a loss of funding of £0.586m for Plymouth in

2017/18. Plymouth has already lost £0.784m in ESG general fund in 2017/18 due to schools converting to academies and £0.400m of funding previously taken from central resources to cover historical pension liabilities resulting in an overall funding reduction of £1.7m. This will leave approximately £0.249m ESG general fund in 2017/18 compared to £1.619m received in previous years (£1.370m total loss in grant funding in 2017/18).

3.7 There will be no ESG general fund from 2018/19 onwards. This is very challenging and requires more work between the department and schools to develop plans to deal with this and will require a completely different approach to how we deliver our education services functions.

3.8 The table below sets out the budget gap after taking into account the revised resource level and the cost pressures included in the base budget.

Table 3 – Budget Gap

	2017/18 £m	2018/19 £m	2019/20 £m
	FORECAST		
REVENUE RESOURCES AVAILABLE	**181.118**	**179.546**	**177.811**
Baseline spend requirement	186.702	181.118	179.546
One off savings brought forward	4.876		
Plus identified additional costs	10.536	6.607	6.453
Overall spend requirement	**202.114**	**187.725**	**185.999**
In-year shortfall to be found	**20.996**	**8.179**	**8.188**
Cumulative shortfall	**44.867**	**53.046**	**61.234**
Transformation savings	**18.431**	**5.949**	**8.270**
REVISED SPENDING FOR YEAR	**183.683**	**181.776**	**177.729**
Budget Gap 7 February 2017	**2.565**	**2.230**	**-0.082**

The budget by Directorate is shown in appendix I and compares the 2016/17 budget to the proposed 2017/18 budget with increased costs and transformation savings for each service.

4. Closing the Budget Gap 2017/18

4.1 As identified in table 3 above, after taking into account the resources available to the Council and unavoidable costs pressures there is a budget gap of £20.996m in 2017/18. This gap has been reduced to £2.565m through a combination of measures including receipt of additional grant, use of reserves and transformational savings amounting to £18.431m. These are summarised below in table 4.

Table 4 – Summary of Budget Savings

	2017/18 £m
Additional Grant income	
- Adult Social Care Support Grant (one off)	1.300
- Better Care Fund Gain	0.764
Reduction In Reserves	0.350
Reduction in Working Balances	0.184
Flexible Use of Capital Receipts	3.500
Government Grant Changes - Reduction in New Homes Bonus	-0.513
One-off grant maximisation in People 16/17	-2.219
Transformation savings	15.065
Total	**18.431**

5. Transformation Savings

5.1 To enable the Council to deliver a sustainable financial plan over the next three years transformational savings have been identified to bridge the budget gap. These reflect the impact of the reduction of Council's reducing over the next three years in an environment of increasing demand and costs.

5.2. The transformation savings of £15.065mhave been summarised below via Directorate with a commentary on the main proposals.

People

5.2.1 People Directorate's budget savings are summarised below in Table 5:

Table 5 – People Transformation Savings

People	£m
Integrated Delivery	0.775
Integrated Commissioning	2.225
Children, Young People, Youth and Families	1.500
People Directorate Review	1.500
People Directorate Efficiencies	1.117
Total People Savings	**7.117**

5.2.2 Integrating Health and Wellbeing - Transformation of the People Directorate

A significant proportion of our revenue budget is spent on care services and the costs of providing health and wellbeing services are rising as demand increases. The transformation programme has already delivered pioneering changes to our adult social care services by combining them with health services as well as redesigning children's services to increase our focus on early help and prevention to reduce costs and improve the health and wellbeing of Plymouth residents.

As the programme moves into the next phase it will draw together the programmes of activity across the wider STP with a focus on development and delivery for seven priority areas alongside the continued focus of transformational change across the People Directorate which will be delivered through the programmes of work detailed below:

Integrated Delivery Project

The Integrated Delivery Project seeks to drive out efficiencies by the Integrated Provider reviewing packages of care, de-escalating need and managing demand at the front door.

Integrated Commissioning

Integrated Commissioning will be joining up planning and sharing resources and implementing the Integrated Commissioning strategies which include: working with Primary Care, Community Pharmacies, the voluntary sector and other partners to develop Health & Wellbeing hubs across the city; building on our integrated Health & Social Care offer to allow easier and earlier access to services promoting wellbeing or providing help in a crisis; working with NEW Devon CCG and Health partners to redesign Urgent and Planned Care across the city; redesigning commissioned advice and information services, and developing an implementation plan for a comprehensive 'One Help Plymouth' offer.

Children, Young People and Families Services

The Children, Young People and Families services will work with partners to develop a system wide Early Help offer including; extending the Gateway offer to widen the support for Children, Young People and Families; redesign targeted support to ensure children and young people get the right help at the right time. Continue to focus on service improvements across Children's Social Care including extending the children's social work service and the Permanency team to improve assessment planning. This will ensure that children are supported to remain at home, and prevented from coming into care, and reduce the reliance on high cost residential care and IFA placements; improving outcomes at the same time as reducing costs.

Community Connections

At the end of January 2017 we launched a new Community Connections offer to join together housing, community youth and community safety services to work with partners to improve community engagement in Plymouth and to drive out efficiencies. This forms part of the ongoing people Directorate Review.

Education, Participation Skills

As part of the People Directorate review Education Services will be remodelled to move from a model based on delivery to one where we commission support alongside partners (including schools). This work has become more urgent given the December announcement of the phasing out of the Education Services Grant in 2017/18 ahead of being withdrawn for 2018/19. The department will remodel the SEND (Special Education Needs and Disability) services across the system to deliver a joined up approach making use of mobile working technology.

People Directorate Efficiencies

The Directorate will also continue to seek to maximise all available grant funding and additional income opportunities.

Place

5.2.3 The Place department budget for 2017/18 comprises of a series of cost reductions, income generation action and service efficiency actions. All services are undertaking comprehensive systems reviews in addition to restructures that have taken place in the past 2-3 years. These will result in significant savings across all three service areas of a total of £0.741m.

5.2.4 A range of income generating activity will be delivered to offset reductions in budgets. These include significant additional commitment to the Asset Investment Fund with projected additional revenue income post all costs being paid of £0.850m; increased income linked to car park modernisation and a number of smaller income cost reduction initiatives such as the dividend from the Solar Farm. The introduction of the Waste action programme including alternative weekly collections will deliver a £0.250m saving next year and a further £0.500m in future years. The Place Directorate's transformational savings are summarised in table 6

Table 6 - Place Transformation Savings

Place	£m
City Deal reprofiling	0.100
Real time passenger information	0.024
ED Systems Review - cost neutrality	0.200
Dividend from Ernesettle Solar Farm	0.043
Additional Capitalisation Low Carbon Team Posts	0.025
Additional Efficiencies	0.213
GAME 2 - Asset Investment Fund	0.850
GAME 2 - Highways reprocurement	0.250
GAME 2 - Street Service operations	0.275
GAME 2 - Strategic Planning Systems Review	0.266
GAME 2 - Further Service Reviews	0.500
GAME 2 - Waste Modernisation	0.250
Fees & Charges in accordance with Policy	0.053
Total Place	**3.049**

5.2.5 The savings within Place include:

Transformation of the Place Directorate (Growth, Assets and Municipal Growth Programme - GAME 2) - This programme is investing in accelerating Plymouth's economic growth, which will raise income through business rates and Council tax. It includes a wide range of initiatives to create more jobs and deliver more homes in Plymouth, guided by the Plymouth Plan and the Plan for Homes.

We are also maximising the opportunities to increase income by making best use of our assets and taking a more commercial approach to the way we commission and run services.

Street Service operations - The continued modernisation of the Street Cleansing and Grounds service will deliver further savings. A reduced reliance on overtime and agency workers plus changes in working patterns are at the centre of this proposal.

Waste - The Council has a clear policy statement within the Plymouth Plan as to how it intends to manage its waste. With the anticipated housing growth in the City, estimated to be another 12,000 more properties by 2031, it is essential that there is a sustained focus on best practice, sustainable and efficient waste collection operations and increasing recycling levels before the anticipated need for investment in the service to cope with the housing growth.

Highways re-procurement - Our HM17 project has a clear objective of the Council re-establishing its management of roads and pavements. The in-sourcing of personnel from the current provider will see a review of the resource required to manage our infrastructure. It will involve the establishment of a client function that also draws in Highways, Parking and Marine and the Strategic Transport Planning teams; the latter area's inclusion provides an opportunity for further benefits realisation.

Asset Investment Fund - In 2015/16 we established an Asset Investment Fund to deliver our objective to use the Council's resources wisely by creating a long term additional commercial property income stream while helping create jobs by providing high quality business accommodation.
We have a significant commercial property investment portfolio with a capital value of around £88m and a net income of circa £5m (5.7% net return). The portfolio supports around 2,400 jobs in property assets that local businesses occupy that contribute towards growth in the local economy.

We are in a unique position to benefit from access to long term fixed rate prudential borrowing at low interest rates and to create an Asset Investment Fund to start an investment programme to directly build and acquire additional economic development and job supporting investment properties. This includes re-purchasing long leases on assets where we hold the freehold title, such as the city centre shops. We re-purchased an industrial estate long lease earlier this year which is providing a 10 per cent return.

The adoption of the Asset Investment Framework will provide a sound basis and evaluation criteria on which future property investment acquisitions can be assessed and the performance of the existing commercial estate monitored. This will ensure that the Council's commercial estate will provide a secure long term income stream to help front line service delivery and support the economic development of the city.

One Public Estate – Working with public sector partners to deliver savings by better and more efficient and joined up use of public sector land and property. This includes modernising the railway station and surrounding area, creating a Health and Wellbeing hub at Douglass House and master planning the Mount Gould Hospital site. We secured £0.420m central Government funding for One Public Estate Phase 3.

Office of the Director of Public Health

5.2.6 The transformation savings for Public Health are shown in table 7 and relate to general reduction in costs and increased income from Fees and Charges

Table 7 – Public Health Transformation Savings

Public Health	£m
Efficiency savings	0.040
Fees & Charges in accordance with Policy	0.108
Total Public Health Savings	**0.148**

Transformation and Change

5.2.7 The Transformation and Change Directorate has put in place a programme to deliver an organisation service centre to provide universal services and transactions which are consistent and to deliver digital service improvements and efficiencies and to implement its Customer Service Strategy - summarised in table 8. The detailed programme is supporting a range of outcomes which include:

- Supporting cost effective, easy to use and highly accessible services
- Enabling informed decision making by joining up systems within PCC to create integrated views of Citizens, Costs, Services and outcomes and Performance;
- Automating manual/paper tasks to reduce costs and improve quality;
- Enabling smart/mobile working to allow services to be delivered where they are needed and reducing accommodation costs;
- Delivering modern, high productivity technical tools to staff meeting the needs of a professional workforce and helping to attract and retain talent to the authority.

Table 8 – Transformation and Change Transformation Savings

Transformation & Change	£m
Legal Department Transformation	0.200
Transformation Review	0.835
Fees & Charges Policy	0.339
Smart working	0.305
Systems and IT infrastructure	0.338
Corporate Training	0.055
Administration & Facilities Management	0.125
Systems Review - Community Facilities	0.470
Further Efficiency Savings	0.317
Transformation & Change Total	**2.984**

5.2.8 A summary of projects that will support the delivery of savings include:

Legal Department Transformation - a programme of transformation will focus on a combination of delivering greater efficiencies through process review and increased income generation.

Service Centre – Will support all Council departments who manage customer (including internal customer) requests and enquiries. Customer interactions will be simplified and standardised and will provide clear and transparent performance metrics.

Digital Services - This project is an enabler for channel shift and automation; assisting with a reduction in call demand, enabling customers to self-serve and reducing paper-based transactions and the manual transfer of information.

SMART working – Introducing flexible ways of working, using modern IT to enable staff to work more efficiently, while saving money by making the most efficient use of our buildings and assets.

Asset Management - We will be rationalising the estate by consolidating our office space need into the most efficient size/number of buildings and either releasing unused buildings for sale or leasing freed up space to generate income.

Systems Reviews - a key element of our transformation is breaking down service silos and joining up the way we work both internally and with partners to deliver better and more efficient services.

Table 9 - Corporate Items

Corporate Items	£m
Treasury Management/MRP/LOBO interest savings	0.500
Increase in Investment Diversification and other opportunities	0.712
Procurement	0.300
Total Corporate Savings	**1.512**

5.2.9 The Corporate savings are made up of gains from Treasury Management investments and one off savings. In 17/18 the Council are making us of the flexible use of capital receipts policy to fund resource costs to deliver efficiency savings.

Table 10 - Executive Office

Executive Office	£m
Efficiency Savings	0.255
Total Executive Office Savings	**0.255**

5.3.0 The efficiency savings in the Executive Office relate to general reduction in costs.

6. Recommendation and Options to Close the Budget Gap

6.1 As set out in paragraph 4.1 Plymouth has a budget gap of £2.565m. The options to close the gap include:

- Use of additional provisions or reserves. This option is not recommended by the Section 151 Officer. A planned reduction in the working balance has already been assumed in the transformation savings and the use of balances in any year is a one-off saving.

- Further efficiencies could be sought. Due to the high value of efficiencies already identified and the existing service pressures this is not a recommended approach at this stage of the financial year.

- Set the maximum Adult Social Care Precept of 3%. The Local Government Finance Settlement and the Council's MTFS already assume a 2% Adult Social Care Precept increase. The Government will allow the planned 6% increase between 2017-18 and 2019-20 for Adult Social Care to be brought forward. Therefore a further 1% increase up to 3% in 2017-18 and 2018-19 are permissible.

- The referendum limit for a council tax increase is 1.99%. Each additional 1% of Council Tax (including the Adult Social Care precept) will generate £0.953m. The Adult Social Care Precept is ring-fenced and the Council will devote any precept to this purpose

6.2 Taking into account the budget pressures faced by the Council, Members will need to consider what measures should be taken to reduce the budget gap

6.3 An additional 1% increase in council tax will generate £0.953m. Since the budget papers were presented to Cabinet latest forecast indicate that a small balance (circa £150k) can be withdrawn from the Collection Fund to bridge the budget gap.

7. Flexible Use of Capital Receipts Policy

7.1 The policy set out below is the statutory requirement to put this savings into operation.

7.2 There were no projects approved for 2016/17. The projects for 2017/18 are set out in the table below with the anticipated savings.

		2017/18 £m	2017/18 £m	2018/19 £m	2019/20 £m
		Cost of project	**Will assist in achievement of savings:**		
1	Transformation team (part of £2.600m total revenue cost)	1.750	6.425	3.408	0.623
	The project cost is part of the 2017/18 revenue budget for the Transformation Team. These savings will assist in achieving the MTFS planned transformation savings across the Council as a whole.				
Impact on prudential indicators					
	Financing costs of capital programme		0.000	0.000	0.000
	Affordability		0.000	0.000	0.000
	Planned capital expenditure		1.750	0.000	0.000
	Planned use of receipts		-1.750	0.000	0.000
	Borrowing requirement		0.000	0.000	0.000

2	Integrated Commissioning Team (part)	1.750	7.117	4.039	3.656
	The project cost is part of the 2017/18 revenue budget for the Integrated Commissioning Team. The savings the project will assist in achieving are the MTFS planned One System One Aim savings				
Impact on prudential indicators					
	Financing costs of capital programme		0.000	0.000	0.000
	Affordability		0.000	0.000	0.000
	Planned capital expenditure		1.750	0.000	0.000
	Planned use of receipts		-1.750	0.000	0.000
	Borrowing requirement		0.000	0.000	0.000

8. Capital Programme

8.1 The Plymouth Plan represents the most ambitious set of proposals this City has ever seen. Primarily through its planning vehicle, the Plymouth and South West Devon Joint Local Plan, there are proposals to build 18,200 new homes across the city, create 18,000 new jobs, and to undertake a major investment programme in infrastructure including transport, schools and green space.

8.2 This investment will enable Plymouth to become the key economic driver for the far South West; will prepare the Council to show the world how to celebrate for Mayflower 2020;

and will ensure that communities and businesses have the facilities they need to continue to thrive and prosper.

8.3 In addition, the Council has a programme of transformation to enable it to improve its service delivery, as well as plans to invest in land and property that will provide the Council with a significant future income stream.

8.4 To prepare the way for this major investment programme, a thorough review of the capital programme and its governance and management has been undertaken. Further improvements are planned including improved coordination of the Council's investment programmes with other agencies operating in the City. Nevertheless the Council is now making investment decisions in a much more streamlined way whilst at the same time continuing to ensure that it always achieves value for money.

8.5 The current approved capital programme totals £205m from 2016/17 to 2020/21. It includes:

	£m
The flagship History Centre, due for completion in 2020	£27m
Improvements to the transport networks in the northern (£20m) and eastern (£8m) corridors	£28m
New and expanded schools	£4m
The creation of the Oceansgate marine industries campus at South Yard Devonport	£19m
The acquisition of key sites across the city to enable regeneration, and to provide the Council with an income stream	£53m
Major refurbishment of the City Market	£3m
The creation of a high tech play market at Devonport Market Hall	£3m
Highway and footway maintenance and flood defences	£23m
Investment in IT to enable the Council to continue to transform service delivery	£4m

8.6 To enable the Council to target its future investments on the things the City really needs, the programme has been restructured to take a much more strategic approach. It has been reorganised around four key outcomes:

- Delivering the Plymouth Plan
- Generating income
- Maintaining Council assets
- Transforming service delivery

8.7 Further Council investment is now proposed in these four outcomes. In the next five years the Council contribution would increase by £266m, enabling the delivery of projects with a total value of over £417m.

8.8 To fund this level of Council investment it is proposed to use prudential borrowing. Some of the schemes will be self-financing and for some the revenue costs have already been provided for in the MTFS.

8.9 Investments could potentially be funded from a variety of alternatives enabling the borrowing requirement to be reduced including

- Grants
- Additional capital receipts.

These options will be continually evaluated for each scheme.

8.10 The proposed investments are set out in the table below. Every effort will be made to improve the proportion of external funding achieved on each project.

<table>
<tr><th></th><th></th><th></th><th>£m
Total cost</th><th>£m
Plymouth Contribution</th></tr>
<tr><td rowspan="13">To deliver the Plymouth Plan by investing in the infrastructure necessary to enable the city to grow (based on the comprehensive assessment of infrastructure needs contained within the Infrastructure Needs Assessment)</td><td rowspan="6">Transport and other infrastructure that eases traffic flow and improves facilities for public and active transport, enabling housing growth and reducing the impact of development on local communities</td><td>Woolwell to The George widening</td><td>£15.7m</td><td>£15.7m</td></tr>
<tr><td>Northern corridor transport schemes</td><td>£43.6m</td><td>£24.6m</td></tr>
<tr><td>Forder Valley Link Road (only project development costs in the current programme). This is additional scheme cost.</td><td>£3.9m</td><td>£3.9m</td></tr>
<tr><td>Schools</td><td>£26.0m</td><td>£5.0m</td></tr>
<tr><td>Derriford Park</td><td>£12.0m</td><td>£6.0m</td></tr>
<tr><td>Total</td><td>£101.2m</td><td>£55.2m</td></tr>
<tr><td rowspan="7">Transport, public realm and business infrastructure that eases the flow of traffic, provides essential business premises and creates a more attractive environment, improving business productivity, and enabling economic growth</td><td>Public realm improvements at Armada Way and other schemes which will encourage further private investment in the city centre</td><td>£49.0m</td><td>£27.0m</td></tr>
<tr><td>A cruise terminal which will support the viability of local hospitality and retail businesses by increasing visitor numbers</td><td>£8.0m</td><td>£5.0m</td></tr>
<tr><td>The Mayflower 2020 celebration, which will increase visitor numbers and provide a lasting economic legacy. A detailed report on this project is on the 7 February 2017 Cabinet agenda</td><td>£10.0m</td><td>£5.0m</td></tr>
<tr><td>Plymouth Central Station</td><td>£40.0m</td><td>£5.0m</td></tr>
<tr><td>Oceansgate</td><td>£4.0m</td><td>£4.0m</td></tr>
<tr><td>Millbay Boulevard</td><td>£10.0m</td><td>£3.0m</td></tr>
<tr><td>Total</td><td>£121.0m</td><td>£49.0m</td></tr>
<tr><td colspan="3">To generate an increased level of sustainable rental income for the Council by investing in new land and property assets. £100m investment is planned. The further £100m programme is self-financing and will generate income in excess of the cost of borrowing of £0.300m in 2019-20, £0.300m in 2019/20 and £0.400m 2020/21</td><td>£100.0m</td><td>£100.0m</td></tr>
</table>

		£m Total cost	£m Plymouth Contribution
To maintain and improve the Council's assets	Maintaining the highway network	£50.0m	£20.0m
	Maintenance of other city assets	£15.0m	£15.0m
	Undertaking a series of improvements to Central Park, delivering the masterplan	£9.0m	£6.0m
	Total	**£74.0m**	**£41.0m**
To transform service delivery by building and procuring infrastructure and assets that enables the Council to change the way it delivers services	Extra care facilities which provide a supported housing environment for elderly people. The capital financing cost would need to be covered in the project business case	£4.0m	£4.0m
	IT infrastructure that enables more efficient ways of delivering services giving residents an improved customer experience. This investment would need to have a self-financing business case.	£11.0m	£11.0m
	An improved bereavement service model, that future proofs the delivery of bereavement services including new and replacement cemetery and crematorium facilities. This will have a self-financing business case.	£6.0m	£6.0m
	Total	**£21.0m**	**£21.0m**
Total Proposed Investments		**£417.2m**	**£266.2m**

8.11 This budget and projects already approved result in an additional £266m of borrowing over the period 2017/18 to 2021/22. This represents an increase in the Council's total borrowing to £517m. By 2021/22 this increases the Councils borrowing prudential indicator from 5.4% of the annual revenue budget to 7.5%.

8.12 The external funding environment is rapidly changing and new opportunities are constantly arising. By taking a more organised and proactive approach to identifying, bidding for and then securing, external grants, it is considered there is potential to fund a further 15% of the programme externally. This has not been assumed in the budget figures.

8.13 By taking a more aggressive approach to the generation of capital receipts, both through a proactive approach to identifying surplus assets, and over the longer term by purchasing new assets that have the potential for capital growth, there is potential to improve current capital receipts forecasts.

8.14 The table below shows the revenue cost of the proposed investment during the MTFS period. The forecast cost depends on the profiling of schemes. The timing of schemes may be varied to achieve affordability of the programme.

Cost of Borrowing – Capital Programme		2017/18	2018/19	2019/20	2020/21	2021/22
		£m	£m	£m	£m	£m
Capital Financing Costs	Woolwell to the George widening	0.006	0.011	0.011	0.061	0.336
	Other N. Corridor transport schemes	0.159	0.162	0.120	0.165	1.116
	Forder Valley Link Road	0.033	0.066	0.209		
	Schools		0.070	0.140	0.140	
	Derriford Park		0.028	0.055	0.055	0.268
	Armada Way public realm		0.041	0.094	0.050	0.288
	Other City Centre Public Realm			0.138	0.538	0.338
	Cruise terminal			0.055	0.283	
	Mayflower			0.083	0.255	
	Plymouth Central Station			0.060	0.190	
	Oceansgate future phases					0.060
	Millbay Boulevard			0.045	0.165	
	Central Park		0.028	0.028	0.215	0.135
	Highway maintenance		0.135	0.270	0.270	0.338
	Other corporate assets		0.300	0.300	0.300	0.300
	Total Cost of Borrowing	**0.198**	**0.840**	**1.606**	**2.685**	**3.177**
	Offset MTFS corporate borrowing	**-0.250**	**-0.250**	**-0.250**		
	Asset Investment Fund Income	**0.000**	**0.000**	**-0.300**	**-0.300**	**-0.400**
	Net Cost of Borrowing	**-0.052**	**0.590**	**1.056**	**2.385**	**2.777**

8.15 Options to meet the capital programme funding gap include:

- Additional capital receipts to fund the projects in place of borrowing
- Generating additional revenue savings from Council wide budgets
- Increasing the Council Tax
- Review the scope of the Capital Programme

8.16 The revenue implications of the programme in 2018-19 will need to be addressed in developing the 2018/19 to 2020/21 Medium Term Financial Strategy.

8.17 The projects may assist in generating additional business rates and new homes bonus. The impact cannot be quantified at this stage.

8.18 All projects will be subject to an evaluation of their business at the City Council Investment Board.

8.19 The financial progress of the projects will be regularly reviewed by the City Council Investment Board. The cost of borrowing (currently assumed to be 2.75%) and income assumptions will be regularly revisited. Close monitoring of the revenue cost of projects will enable the programme to be modified if appropriate.

8.20 The amount of Community Infrastructure Levy is increasing but currently the Council is prevented by Government from using the levy to repay loans. The Council will continue to lobby Government to seek a change to these Regulations.

APPENDICES

Appendix I

Budget Build by Directorate and Department

Directorate	Department	Budget 16/17	Increased Costs	Transformation Savings	Other Changes	Budget 2017/18
Executive Office	Business Support	0.629	0.000	(0.115)	0.000	0.514
	Chief Executives Office	3.382	0.100	(0.140)	0.000	3.341
	Total Executive Office	4.010	0.100	(0.255)	0.000	3.855
People Directorate	Children, Young People & Families	34.033	1.800	(1.500)	0.000	34.333
	Community Connections	3.120	0.000	(0.500)	0.000	2.620
	Joint Commissioning & Adult Social Care	75.758	4.426	(3.000)	0.155	77.339
	Education Participation Skills	10.035	0.000	(0.700)	0.000	9.335
	Management and Support People	(0.456)	0.000	(1.417)	0.000	(1.873)
	Total People	122.489	6.226	(7.117)	0.155	121.753
Place Directorate	Economic Development	1.050	0.550	(1.153)	0.000	0.447
	Management and Support Place	(4.788)	0.000	(0.213)	0.513	(4.488)
	Strategic Planning	9.945	0.210	(0.358)	0.000	9.797
	Street Services	18.009	0.000	(1.325)	0.000	16.684
	Total Place	24.216	0.760	(3.049)	0.513	22.440
Public Health	Bereavement Services	(1.612)	0.000	(0.091)	0.000	(1.703)
	Civil Protection Unit	0.190	0.000	(0.010)	0.000	0.180
	Environ Health (Food & Safety)	0.387	0.000	(0.001)	0.000	0.386
	Environmental Protection	0.433	0.000	(0.005)	0.000	0.428
	Licensing	(0.108)	0.000	(0.001)	0.000	(0.109)
	Operational and Development	0.221	0.000	(0.040)	0.000	0.181
	Public Health	0.430	0.000	0.000	0.000	0.430
	Trading Standards	0.423	0.000	0.000	0.000	0.423
	Total Public Health	0.363	0.000	(0.148)	0.000	0.215
Transformation & Change	Customer Services	2.750	0.500	(0.802)	0.000	2.448
	Departmental Management	0.058	0.000	(0.317)	0.000	(0.259)
	Finance	15.211	0.000	(0.437)	0.000	14.774
	Human Resources & Organisational Development	3.218	0.000	(0.055)	0.000	3.163
	ICT	6.582	0.300	(0.338)	0.000	6.544
	Legal	2.944	0.000	(0.200)	0.000	2.744
	Transformation	3.943	0.000	(0.835)	0.000	3.108
	Total Transformation & Change	34.706	0.800	(2.984)	0.000	32.522
Corporate Items	Capital Financing	4.407	4.176	(1.012)	0.000	7.571
	Other Corporate Items	(3.489)	3.350	(0.500)	(4.034)	(4.673)
	Total Corporate Finance	0.918	7.526	(1.512)	(4.034)	2.898
	Total General Fund	**186.702**	**15.412**	**(15.065)**	**(3.366)**	**183.683**

NB: Other Changes are a combination of changes to specific grants, income generation efficiency savings and contributions from capital receipts and balances. The allocation of budgets in the above table is subject to change as a result of Virements and structure changes.

Appendix 2

Funding Forecast 2017/18

Core Funding Forecast	**2017/18 £m**
Council Tax (Including 2% ASC Precept Increase)	97.239
RSG	23.058
NNDR (Including Devon Rates Pool	60.821
Total Resources	**181.118**

Core Funding Forecast	**2017/18 £m**
Tax base after estimated local council tax support reductions	70,974
Multiplied by: Collection Rate	98.50%
Plus: Tax base adjustment (contributions in lieu Ministry of Defence)	866
Equals: Tax base after estimated collection rate adjustment	70,775
Initial Band D Rates - Prior Year Base	1,346.99
Initial Council Tax Yield	95,333,217
Council Tax increase (up to 1.99%) – subject to change	0.00%
Addition Council Tax Yield - due to referendum increase	0
Subtotal Council Tax Base inc Referendum Increase	95,333,217
Council Tax increase (ASC precept 2%)	2.00%
Addition Council Tax Yield - due to ASC precept	1,906,664
Total Council Tax Yield	97,239,881
Indicative Band D Rate £	1,373.93
Council Tax income	**97.239**

RSG	2017/18 Settlement
Revenue Support Grant	23.058
RSG	**23.058**

NNDR1	NNDR1 Forecast
Business Rates Income	46.112
Multiplied by: Base growth Change %	1.84%
Increase in base due to assumed growth £	0.848
Increase in RPI % (OBR Forecasts)	1.50%
Increase in base due to RPI £	0.704
Subtotal NNDR Base	47.665
Plus Top up / (Tariff)	9.420
Increase in top up due to RPI	0.000
Subtotal NNDR Top up	9.420
Plus Forecast Actual S31 Payments (as per NNDR1)	2.122
Cost of Collection	0.315
Plus Pooling Gains / Losses	0.650
Plus Renewable Energy income	0.649
NNDR	**60.821**

Appendix 3

Council Tax

To Follow

Appendix 4

Funding Source	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Total
	£m	£m	£m	£m	£m	£m	£m
Un-ringfenced Grants	10.037	6.540	5.315	3.815	3.815	3.000	**32.522**
Ringfenced Grants	31.982	77.339	96.553	64.093	32.992	5.500	**308.459**
Developer Contributions	18.144	10.044	7.114	6.339	6.199	6.000	**53.841**
External Contributions	2.205	0.500	0.500	0.550	0.292	0.500	**4.548**
Capital Receipts	7.779	2.376	1.314	2.113	0.800	0.000	**14.382**
Loans Repaid	0.693	0.222	0.326	0.906	0.380	0.000	**2.527**
Plan for Homes	14.900	47.300	16.800	0.000	0.000	0.000	**79.000**
Asset Investment Fund (borrowing)	46.490	36.144	30.870	40.000	0.000	0.000	**153.504**
Borrowing	32.202	39.907	51.575	52.131	47.108	18.300	**241.223**
Revenue/Funds	1.898	1.392	1.868	0.100	0.100	0.000	**5.358**
Total	**166.330**	**221.765**	**212.235**	**170.047**	**91.686**	**33.300**	**895.363**

Details of the Capital Programme to 2021/22

Approved Capital Programme	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Total
	£000	£000	£000	£000	£000	£000	£000
Celebrating Mayflower							
Mayflower 400 - Public Realm Improvements	62	768	160	281	-	-	1,271
Total Celebrating Mayflower	**62**	**768**	**160**	**281**	**-**	**-**	**1,271**
Connecting the City							
Mayflower Coach Station	3,297	-	-	-	-	-	3,297
Creation of Non-Scheduled Coach Drop Off Points	256	-	-	-	-	-	256
LSTF2 Access to stations	82	-	-	-	-	-	82
Provision of Wi-Fi for the Hoe	106	-	-	-	-	-	106
Total Connecting the City	**3,741**	**0**	**0**	**0**	**0**	**0**	**3,741**
Delivering More/Better Housing							
Self Build Housing Sites	72	115	-	-	-	-	187
Former Whitleigh Community Centre	415	-	-	-	-	-	415
Empty Homes / Enabling	63	-	-	-	-	-	63
Compulsory Purchase Order 7 Widey Lane	- 4	-	-	-	-	-	-4
North Prospect Phase 5	-	-	500	450	-	-	950
Prince Maurice Road	1,040	360	-	-	-	-	1,400
Bath Street	3,332	2,218	1,353	-	-	-	6,903
Plan for Homes	100	200	200	200	300	-	1,000
Homes for Veterans (Nelson Project)	225	225	-	-	-	-	450
Extra Care Housing Support Millbay	450	450	-	-	-	-	900
Gypsy and Traveller Site - Broadley Park	24	734	-	-	-	-	758
Bournemouth Churches Housing Association	200	-	-	-	-	-	200
Southway Telecom Mast	167	-	-	-	-	-	167
Total Delivering More/Better Housing	**6,084**	**4,302**	**2,053**	**650**	**300**	**0**	**13,389**

Approved Capital Programme	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Total
	£000	£000	£000	£000	£000	£000	£000
Delivering Oceansgate							
South Yard Remediation/separation works	3,000	8,200	-	-	-	-	11,200
South Yard Area 1 East Direct Development	1,500	6,050	-	-	-	-	7,550
Total Delivering Oceansgate	**4,500**	**14,250**	**-**	**-**	**-**	**-**	**18,750**
Delivering The History Centre							
The History Centre	3,470	8,150	10,120	5,268	-	-	27,008
Total Delivering The History Centre	**3,470**	**8,150**	**10,120**	**5,268**	**-**	**-**	**27,008**
Ensuring Essential City Infrastructure							
Clean Vehicle Technology Improvements	467	-	-	-	-	-	467
Electric Car Charge Points	5	-	-	-	-	-	5
Bus Punctuality improvement plan (BPIP)	53	-	-	-	-	-	53
Access Road to Housing Site in Estover	-	112	-	-	-	-	112
East End Community Transport Scheme	608	-	-	-	-	-	608
S106 Transport Projects	98	246	-	-	-	-	344
Millbay School Creative Arts highway work	560	-	-	-	-	-	560
Billacombe Footbridge	40	653	-	-	-	-	693
Real Time Passenger Information	140	-	-	-	-	-	140
Derriford Community Park	148	85	-	-	-	-	233
European Marine Sites - Recreational Behaviour Changing Measures	-	28	28	55	-	-	111
Green Deal	1,353	-	-	-	-	-	1,353
Home Energy	84	-	-	-	-	-	84
Ernesettle Community Solar Farm Loan Facility	2,870	-	-	-	-	-	2,870
Capitalised Maintenance Schemes	7,795	6,374	3,871	1,100	2,000	-	21,140
Flood defence Works	162	-	-	-	-	-	162
Container Provision	493	493	-	-	-	-	986
West Hoe Pier	5	101	-	-	-	-	106
Mount Edgcumbe Sea Wall Repairs	300	-	-	-	-	-	300
Mount Edgcumbe Commercialisation	6	214	84	-	-	-	304
Mount Edgcumbe Higher Level Stewardship	286	-	-	-	-	-	286
Total Ensuring Essential City Infrastructure	**15,473**	**8,306**	**3,983**	**1,155**	**2,000**	**-**	**30,917**
Ensuring Good Quality School Places							
Stoke Damerel Primary - Basic Need	325	-	-	-	-	-	325
Pennycross Basic Need	1,382	1,310	-	-	-	-	2,692
Pomphlett Basic Need	400	785	-	-	-	-	1,185
Holy Cross Primary School - Basic Need	6	-	-	-	-	-	6
Derriford New school (St Matthew's) - Basic Need	3	-	-	-	-	-	3
Knowle Primary - Rebuild	2	-	-	-	-	-	2
Woodford Primary School - Basic Need	1	-	-	-	-	-	1
Total Ensuring Good Quality School Places	**2,119**	**2,095**	**0**	**0**	**0**	**0**	**4,214**
Growing the Economy							
Social Enterprise Fund	906	378	14	-	-	-	1,298
Langage Development Phase 2	118	2,300	870	-	-	-	3,288
STEM Provision at City College	3,520	480	-	-	-	-	4,000
39 Tavistock Place	202	-	15	-	33	33	250
Total Growing the Economy	**4,746**	**3,158**	**899**	**0**	**33**	**33**	**8,836**

Approved Capital Programme	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Total
	£000	£000	£000	£000	£000	£000	£000
Improving neighbourhoods and delivering community infrastructure / facilities							
Marsh Mills - BMX track	-15	-	-	-	-	-	-15
MVV Devonports Biodiversity Improvements	80	158	-	-	-	-	238
Active Neighbourhoods	76	51	-	-	-	-	127
The Big Greenspace Challenge	4	-	-	-	-	-	4
Kinterbury Creek Improvements	20	-	-	-	-	-	20
Land Share - Grow Crops	9	-	-	-	-	-	9
City Centre Wild Flower Meadows	6	-	-	-	-	-	6
Bond Street Playing fields (Southway Community Football Facility)	50	460	24	-	-	-	534
Staddiscombe Sports Improvements	115	57	-	-	-	-	172
Blockhouse Park Playground Refurbishment	26	-	-	-	-	-	26
Hartley Park recreational infrastructure improvements	18	-	-	-	-	-	18
Miller Way Open space & play area improvements	29	-	-	-	-	-	29
Wasdale Gardens playground improvements	19	-	-	-	-	-	19
Central Park Wooded Valley	52	-	-	-	-	-	52
Plymouth Life Centre - Build - Constructions	68	-	-	-	-	-	68
Southway Skate Park - Pendeen Crescent	52	-	-	-	-	-	52
Manadon Play Pitches	197	474	-	-	-	-	671
Whitleigh Play Hub	134	-	-	-	-	-	134
St Budeaux Tennis Courts	32	-	-	-	-	-	32
2 Year Old Nursery Places	320	-	-	-	-	-	320
Total Improving neighbourhoods and delivering community infrastructure / facilities	**1,292**	**1,200**	**24**	**0**	**0**	**0**	**2,516**
Securing Growth in Derriford and Northern Corridor							
Forder Valley Link Road- Development Costs	873	229	-	-	-	-	1,102
Derriford Transport scheme - Derriford Roundabout / William Prance Road	4,653	6,297	50	-	-	-	11,000
Derriford Hospital interchange scheme	1,400	-	-	-	-	-	1,400
N Corridor Junction Imps - P1 Outland Rd	1,703	608	500	500	-	-	3,311
Purchase of 444 Tavistock Road	157	-	-	-	-	-	157
Northern Corridor Strategic Cycle Network	25	1,066	1,200	840	-	-	3,131
Marjons Link Road	63	-	-	-	-	-	63
Total Securing Growth in Derriford and Northern Corridor	**8,874**	**8,200**	**1,750**	**1,340**	**-**	**-**	**20,164**
Securing Growth in the City Centre and Waterfront							
Devonport Market High Tech 'Play Market'	693	657	1,374	-	-	-	2,724
Sutton Harbour Public Realm Improvements	32	-	-	-	-	-	32
Visitor signage	141	-	-	-	-	-	141
City Centre Lease Acquisition	354	3,546	-	-	-	-	3,900
Acquisition of Quality Inn Hotel	1,148	100	-	-	-	-	1,248
Colin Campbell Court	4,050	750	-	-	-	-	4,800
Plymouth City Market Major Refurbishment	2,008	1,287	-	-	-	-	3,295
City Centre Shop Fronts Grant Scheme	130	270	-	-	-	-	400
Improved waterfront cycle routes	12	-	-	-	-	-	12
Redevelopment of Tinside East	50	-	-	-	-	-	50
Total Securing Growth in the City Centre and Waterfront	**8,618**	**6,610**	**1,374**	**0**	**0**	**0**	**16,602**

Approved Capital Programme	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Total
	£000	£000	£000	£000	£000	£000	£000
Securing Growth in the Eastern Corridor							
Plymouth Connect - Laira Rail Bridge	35	-	-	-	-	-	35
Eastern Corridor Junction Improvements	200	1,500	1,500	140	-	-	3,340
Eastern Corridor Strategic Cycle Network	1,160	2,270	650	380	380	-	4,840
Total Securing Growth in the Eastern Corridor	**1,395**	**3,770**	**2,150**	**520**	**380**	**-**	**8,215**
Transforming Services							
Purchase of Land - Lucas Lane	18	-	-	-	-	-	18
Street lighting bulb replacement	1,060	150	-	-	-	-	1,210
Highways Information Management System	570	160	-	-	-	-	730
Fleet Replacement Programme	-	2,355	-	-	-	-	2,355
Langage employment units	5	-	-	-	-	-	5
Bell Park Industrial Estate	4,390	297	-	-	-	-	4,687
36-34 New George Street Lease Acquisition	1,841	-	-	-	-	-	1,841
Friary Retail Park	24,788	-	-	-	-	-	24,788
Whitleigh HQ Four Greens Community Trust	802	-	-	-	-	-	802
CareFirst	33	-	-	-	-	-	33
Disabled Facilities (incl Care & Repair works)	1,760	200	-	-	-	-	1,960
Schools Condition Works	1,508	-	-	-	-	-	1,508
Schools Devolved Projects	1,539	885	464	-	-	-	2,888
New Central Library	22	-	-	-	-	-	22
ICT	2,384	1,208	-	-	-	-	3,592
Corporate Asset Lifecycle Maintenance	333	250	-	-	-	-	583
Corporate Heritage Maintenance	351	-	-	-	-	-	351
Other Corporate Property	1,072	-	-	-	-	-	1,072
Public Conveniences	18	-	-	-	-	-	18
Transformation Accommodation	125	-	-	-	-	-	125
Boiler Replacement Programme for Council Properties	-	145	-	-	-	-	145
Drug and Alcohol Rehabilitation Grants	224	-	-	-	-	-	224
Total Transforming Services	**42,843**	**5,650**	**464**	**0**	**0**	**0**	**48,957**
TOTAL CAPITAL PROGRAMME	**103,217**	**66,459**	**22,977**	**9,214**	**2,713**	**0**	**204,580**
Forecast future income streams	**63,113**	**86,206**	**68,359**	**29,032**	**26,873**	**0**	**273,583**
Additional future income streams	**0**	**69,100**	**120,899**	**131,801**	**62,100**	**33,300**	**417,200**
GRAND TOTAL	**166,330**	**221,765**	**212,235**	**170,047**	**91,686**	**33,300**	**895,363**

Appendix 5

Interim Strategic Director for Transformation and Change (S151 Officer) Budget Robustness Statement

Section 25 of the Local Government Act 2003 requires the Section 151 Officer (Interim Strategic Director for Transformation and Change) to formally report to Council as part of the tax setting report their view on the minimum level of reserves available to the general fund and on the robustness of estimates used on the budget setting process. The Council is required to take these views into account when setting the Council Tax at its meeting on 27 February 2017.

In considering the robustness of any estimates, the following criteria need to be considered:-

- The reasonableness of the underlying budget assumptions such as the:
    - Reasonableness of provisions to meet liabilities.
    - Extent to which known trends and pressures have been provided for.
    - Achievability of changes built into the budget.
    - Realism of income targets.
    - Alignment of resources with the Council service and organisational priorities.
- A review of the major risks associated with the budget.
- The availability of un-earmarked reserves to meet unforeseen cost pressures.
- The strength of the financial management and reporting arrangements.

In coming to a view as to the robustness of the 2017/18 budget, the Section 151 Officer has taken account of the following issues:-

- Preparation has been subject to rigorous review throughout the budget process both in terms of reasonableness and adequacy. This process takes account of previous and current spending patterns in terms of base spending plans and the reasonableness and achievability of additional spending to meet increasing or new service pressures. This is a thorough process involving both financial and non-financial senior managers throughout the Council.

- Significant financial pressures experienced in 2016/17 including the application of one off use of reserves have, where appropriate, been recognised in preparing the 2017/18 budget, or are subject to further actions to enable them to be delivered.

- Since the Initial Budget Proposals were approved in December 2016 work has been undertaken to reduce some of the risks in the budget and to place less reliance on the use of general reserves.

- I have taken a risk-based assessment of the areas which could have a major impact on the Council's finances. This approach has taken into account the type of risk, the potential magnitude of the financial risk and a judgement as to how likely the issue is to arise.

- In addition to specific directorate risks, the collection of Council Tax and generation of Business rates yields are two key risks which need to be closely monitored.

- The Section 151 Officer is satisfied that the risks set out in the MTFS adequately reflect the fiscal challenges facing the Council.

The Council's financial controls are set out in the Council's Financial Regulations. These provide a significant degree of assurance as to the strength of financial management and control arrangements throughout the Council. The Council has a well-established framework for financial reporting at directorate, corporate and cabinet levels. Given the scale of the budget challenges and the number of actions that need to be implemented to ensure the budget is on track, Cabinet will continue to monitor budget performance

In the context of the above, the Section 151 Officer considers the proposed budget which has been developed following input and reviews with Directors and other officers and Members, including Cabinet, for 2017/18 as robust and that the level of reserves are adequate given a clear understanding of the following:-

- Both the revenue budget and capital programme have been formulated having regard to a number of factors including funding availability; risks and uncertainties; inflation; priorities; demography and service pressures. The savings plans have been formulated having regard to Council priorities and assessed against an agreed set of impact criteria and equality assessments;

- Budget monitoring and scrutiny arrangements are in place which include arrangements for the identification of remedial action;, reporting and any remedial action required is supported by a clear action plan and regularly monitored;

- The budget contains a number of challenging targets and other actions which will be subject to specific monitoring by the Council's Corporate Leadership Team, and as such, are at this time considered reasonable and achievable.

- Monthly budget reporting to Cabinet members will continue.

- There is a clear understanding of the duties of the Council's statutory Financial Officer and that the service implications of them being exercised are fully understood by members and senior management alike.

The Section 151 Officer is aware that the ongoing reduction to government grant for local government will continue to have an impact upon Plymouth's finances.

At the time of publication we are still awaiting the final Settlement for 2017/18 but DCLG are aware of the risk and have advised Local Authorities to set their budgets and Council Tax based on these figures.

The implications of the late notification of both the Dedicated Schools Grant and Education Services Grant funding for 2017/18 have been taken into account when assessing the risks to this budget. Council officers will work closely with Schools Forum to fully understand the funding shortfalls and work up solutions. At this stage some of the funding is still under consultation until the end of March. Once final allocations are known, the MTFS will be updated to reflect the financial and risk implications for the Council.

The MTFS will be continually reviewed and updated on a quarterly basis to identify and address future funding service and operational pressures. The delivery of future transformational savings by Directorates (as set out in the MTFS) is essential to ensure future year's budgets can be declared as robust.

Appendix 6

Revenue and Capital Budget 2017/18

PLYMOUTH CITY COUNCIL

Subject:	Budget 2017-18
Committee:	Cabinet
Date:	7 February 2017
Cabinet Member:	Cllr Darcy
CMT Member:	**Andrew Hardingham**
Author:	Paul Looby (Head of Financial Planning and Reporting)
Contact details:	Tel 01752 3307271 paul.looby@plymouth.gov.uk
Ref:	
Key Decision:	Yes
Part:	1

Purpose of the report: Under the Council's Constitution, Cabinet is required to recommend the 2017/18 Budget to Council.

The Corporate Plan 2016/19:

The 2017/18 Budget sets out the resources available to deliver the Corporate Plan.

Implications for Medium Term Financial Plan and Resource Implications:

Including finance, human, IT and land:

The resource implications are set out in the body of the report.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

The 2017/18 Draft Budget provides the maximum resources achievable to address key policy areas.

Equality and Diversity:

A full equalities impact assessment is available at (link to be added)

RECOMMENDATIONS AND REASONS FOR RECOMMENDED ACTION:

1. That Cabinet recommends the 2017/18 Budget to Council.
2. That Cabinet recommends the 2017/18 Flexible Use of Capital Receipts Strategy to Council.
3. That Cabinet recommends the increased Capital Budget of £861m to Council.
4. The MTFS to be updated to reflect the new Capital Budget.

Alternative options considered and rejected:

There are no alternative options.

Published work / information:

Background papers:

Title	Part I	Part II	Exemption Paragraph Number						
			1	2	3	4	5	6	7

Sign off:

Fin	pc1617.63	Leg	DVS27410	Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member Andrew Hardingham													
Has the Cabinet Member(s) agreed the content of the report?													

1.0 National Context

1.1 Since the 2010 Spending Review continuing Government austerity measures have resulted in large reductions in local government funding.

1.2 2013 saw major changes to how councils receive their funding. Local government became able to retain 50% of business rates. The main funding sources for Plymouth are revenue support grant, business rates and council tax.

1.3 Since 2013 the Government has not significantly changed the formula to calculate Plymouth's spending need.

1.4 The Government has recently consulted on long term changes to calculating individual authority spending need (fair funding). In its response Plymouth has stressed the unfairness of calculating spending need on past expenditure. Plymouth has argued that spending need should be identified by direct measures for services. Plymouth has also argued that the long term funding of adult social care must be addressed. If implemented these approaches would radically improve Plymouth's funding position.

1.5 In 2017-18 Government plans to reduce Plymouth's Core spending power by £2.2m to £184.1m. These are government planning assumptions.

CORE SPENDING POWER					
Plymouth					
Illustrative Core Spending Power of Local Government;					
	2015-16 £ millions	2016-17 £ millions	2017-18 £ millions	2018-19 £ millions	2019-20 £ millions
Settlement Funding Assessment*	98.9	86.6	77.5	72.6	67.8
Council Tax of which;	90.4	94.1	99.2	104.7	110.4
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	90.4	92.2	95.4	98.7	102.1
additional revenue from referendum principle for social care	0.0	1.8	3.8	6.0	8.3
Potential additional Council Tax from £5 referendum principle for all Districts	0.0	0.0	0.0	0.0	0.0
Improved Better Care Fund	0.0	0.0	0.8	5.3	9.5
New Homes Bonus	4.4	5.6	5.3	3.9	3.8
Rural Services Delivery Grant	0.0	0.0	0.0	0.0	0.0
Transition Grant	0.0	0.0	0.0	0.0	0.0
The 2017-18 Adult Social Care Support Grant	0.0	0.0	1.3	0.0	0.0
Core Spending Power	**193.7**	**186.3**	**184.1**	**186.5**	**191.4**
Change over the Spending Review period (£ millions)					-2.3
Change over the Spending Review period (% change)					-1.2%

Please see the Core Spending Power Explanatory note for details of the assumptions underpinning the elements of Core Funding

*2019-20 Settlement Funding Assessment has been modified to include a provisional tariff or top-up adjustment

1.6 Core Spending Power includes an assumed Settlement Funding Assessment as set out in the table below.

Key Information for Local Authorities				
Plymouth				
	2016-17	**2017-18**	**2018-19**	**2019-20**
Settlement Funding Assessment	86.60	77.54	72.55	67.76
Made up of:				
Revenue Support Grant	33.21	23.06	16.32	9.53
Baseline Funding Level (Business Rates)	53.39	54.48	56.23	58.23
Tariff/Top-Up (Business Rates)	9.24	13.77	14.21	14.71
Tariff/Top-Up adjustment	-	-	-	-
Safety Net Threshold (Business Rates)	49.38	50.39	52.01	53.86
Levy Rate (p in £)	-	-	-	-

1.7 To calculate Plymouth's 2017-18 Revenue Support Grant the Government has already assumed that Plymouth will generate an additional £5.1m in council tax. The £5.1m includes an assumed 2% Adult Social Care Precept.

1.8 Government calculations also assume the Plymouth will generate an additional £1.09m of locally retained business rates. This is the change in the Baseline Funding Level. The increased top-up adjustment is intended to neutralise the impact of the 2017 revaluation.

1.9 The result of these Government calculations is a sharply declining Revenue Support Grant for Plymouth. The chart below shows how Plymouth's Revenue Support grant has fallen since 2013-14.

1.10 2017-18 is the second year of the 4-year local government finance settlement that began in 2016-17. The 4-year settlement offers more certainty for the MTFS period, albeit guaranteeing reduced support.

1.11 The Local Government Finance Bill 2017 was published 13 January 2017. It provides the mechanism for 100% business rate retention. It also gives new powers to levy additional business rates to Mayoral Combined Authorities. Full details of how the changes will be applied by Government have yet to be announced.

1.12 There are also a number of specific grants that are already included in Directorate budgets. Grant reductions have to be borne by those directorates. These reductions are over and above the loss of spending power. Examples are given in 1.13 and 1.14 below.

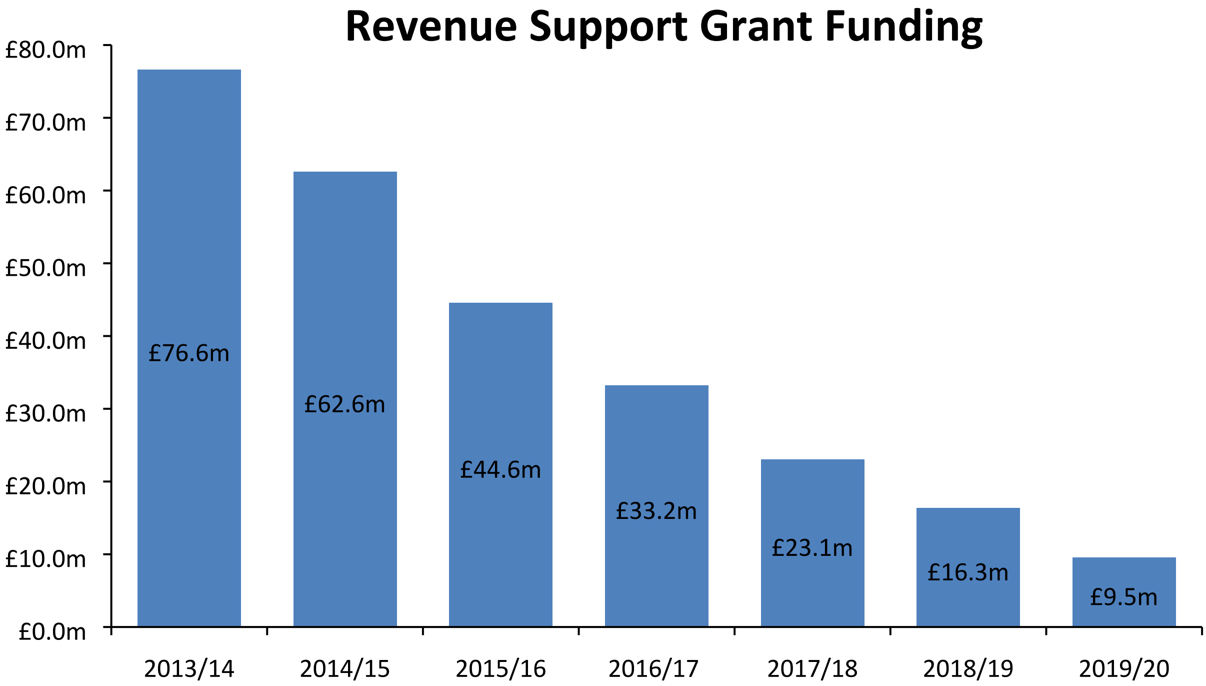
1.13 In 2017-18 the government subsidy for the cost of administering housing benefit has fallen by £0.128m to £1.126m.

1.14 The Council's education services grant allocation has fallen by over £1.7m, largely due to academisation. Plans are already in place to save £1.2m of the change, and work is proceeding on the residual £586k.

1.15 Similarly the Public Health grant has fallen by £0.398m to £15.735m.

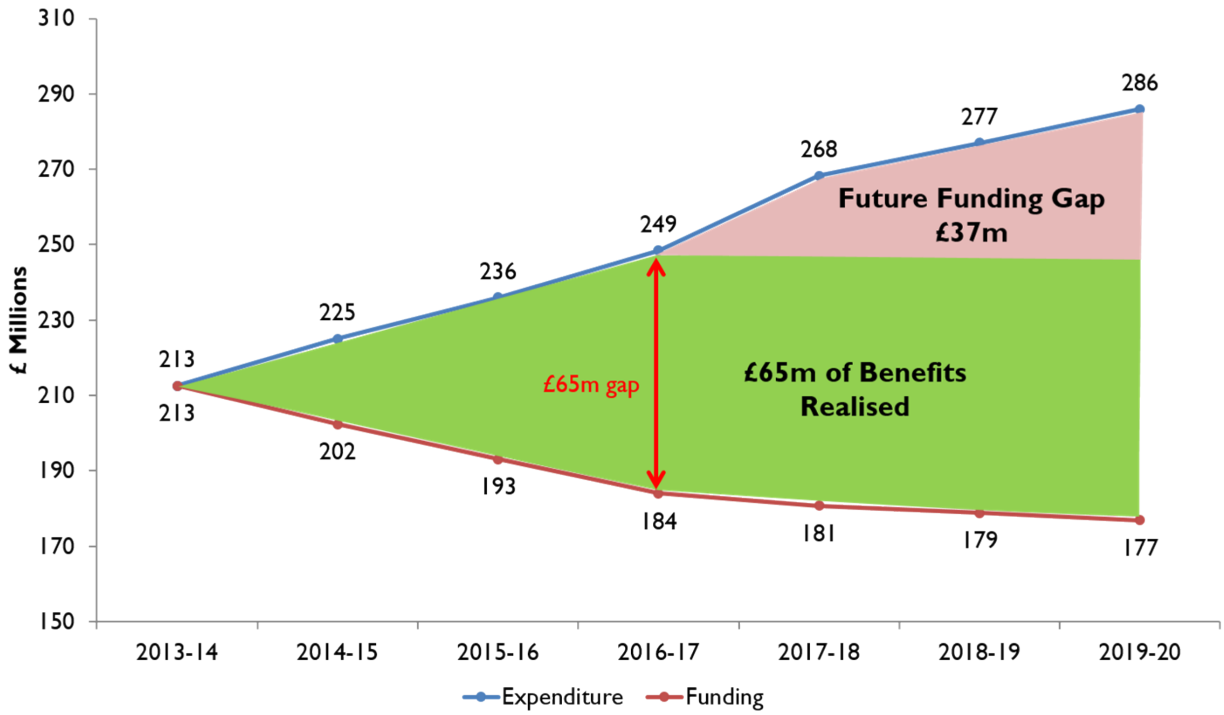
1.16 The context for 2017-18 budget decisions is therefore:

- Falling Revenue Support grant.
- Loss of specific grants.
- It is already assumed councils will generate much higher income local through council tax, precepts and business rates.



2.0 Budget Decisions

2.1 The Medium Term Financial Strategy was recommended by 8 November 2016 Cabinet and subsequently approved by 21 November 2016 Council. The Strategy addressed the funding gap for the following three financial years. It builds on the significant benefits achieved over recent financial years. This is the budget gap before the efficiency savings in this report.



2.2 The overall budget position at 7 February 2017 is set out in the table below. Details of the transformation savings are provided in Section 2.8.

	2017/18 £m	2018/19 £m	2019/20 £m
	FORECAST		
REVENUE RESOURCES AVAILABLE	**181.118**	**179.546**	**177.811**
Baseline spend requirement	186.702	181.118	179.546
One off savings brought forward	4.876		
Plus identified additional costs	10.536	6.607	6.453
Overall spend requirement	**202.114**	**187.725**	**185.999**
In-year shortfall to be found	**20.996**	**8.179**	**8.188**
Cumulative shortfall	**44.867**	**53.046**	**61.234**
Transformation savings	**18.431**	**5.949**	**8.270**
REVISED SPENDING FOR YEAR	**183.683**	**181.776**	**177.729**
Budget Gap 7 February 2017	**2.565**	**2.230**	**-0.082**

The budget by Directorate is shown in appendix I.

2.3 The table below sets out the increased costs that have been allowed in the budget for 2017-18 and the next two years.

Increased costs	**2017/18**	**2018/19**	**2019/20**
	£m	**£m**	**£m**
Salary and pension inflation	0.900	0.900	0.900
Pension actuarial review	1.200	0.150	0.150
Adult social care volume pressures	2.756	1.854	1.374
Children's social care volume pressures	1.800		
Major investments	0.550	-0.400	
National Living Wage in adult social care contracts	1.670	3.263	3.479
Plymouth Plan (one-off)	0.210	-0.210	
ICT re-provisioning	0.300	0.300	0.300
Apprenticeship Levy	0.250		

Revenue costs arising from capital investment decisions	0.250	0.250	0.250
Staff costs of Enhanced Voluntary Redundancy Scheme and redundancy		0.500	
National insurance and Insurance Tax Increase	0.050		
Housing Benefit Subsidy	0.500		
Neighbourhood Initiatives	0.100		
Total	**10.536**	**6.607**	**6.453**

2.4 Nationally it is recognised that Adult Social Care is a service area under considerable stress and is now at a tipping point as a number of high profile national reports have indicated. Charging residents extra council tax to pay for social care has failed to raise enough money to cover the cost of the new National Living Wage (NLW), let alone address the huge shortfall in funding in the face of increasing demand.

2.5 Like the rest of the Council, services in the People Directorate are facing significant external challenges from Welfare Reform, the Care Act, the Cheshire West Supreme Court judgement in respect of Deprivation of Liberty Safeguards, the general state of the economy and the changing structure of the population.

2.6 With a continually ageing population with more complex needs these demographic changes are placing unsustainable demands on our statutory adult social care services.

2.7 The 2017-18 2% ASC Precept already assumed in the MTFS will generate £1.9m additional funding for 2017-18. This represents 43% of the predicted increased cost of demographic pressures £2.756m and the further impact of the increase in the National Living Wage on our adult care packages of £1.670m totaling £4.426m.

2.8 The table below lists the savings that have now been identified for the next three financial years. These reflect the difficult service decisions that have had to be made given the Council's reducing available funding. The £18.431m to be delivered represents 10% of the Council's net budget.

Transformation Savings (£m)	2017/18	2018/19	2019/20
New Homes Bonus	-0.513	-0.431	-0.593
Better Care Fund Gain	0.764	2.522	4.377
Adult Social Care Support Grant (one off)	1.300	-1.300	
Public Health Directorate			
Efficiency savings	0.040	0.003	0.002
Fees & Charges in accordance with Policy	0.108	0.072	0.072
Chief Executive Office			

Transformation Savings (£m)	2017/18	2018/19	2019/20
Efficiency savings	0.255	0.035	0.022
Place Directorate including GAME 2			
City Deal reprofiling	0.100	-0.500	
Real time passenger information	0.024		
ED Systems Review - cost neutrality	0.200		
Commercial Events		0.150	0.050
Dividend from Ernesettle Solar Farm	0.043		
Additional Capitalisation Low Carbon Team Posts	0.025		
Additional Efficiencies	0.213	0.198	0.126
GAME 2 - Asset Investment Fund	0.850	0.350	
GAME 2 - Highways reprocurement	0.250		
GAME 2 - Street Service operations	0.275		
GAME 2 - Strategic Planning Systems Review	0.266		
GAME 2 - Further Service Reviews	0.500		
GAME 2 - Waste Modernisation	0.250	0.500	
Fees & Charges in accordance with Policy	0.053	0.003	0.003
People - One System One Aim			
Integrated delivery	0.775	0.400	0.650
Integrated commissioning	2.225	0.850	1.000
Children, young people, youth and families	1.500	0.750	0.750
Learning + Communities		0.250	0.250
People directorate review	0.500	0.250	0.250
Efficiencies People Directorate	2.117	1.539	0.756
One-off grant maximisation in People 16/17	-2.219		
Transformation of the Corporate Centre			
Legal Department Transformation	0.200		
Transformation Review	0.835	0.500	
Smart working	0.305	0.543	0.234
Systems and IT infrastructure	0.338		
Corporate Training	0.055		
Administration & Facilities Management	0.125		
Systems Review - Community Facilities	0.470	0.033	
Further Efficiency Savings	0.317	0.294	0.187

Transformation Savings (£m)	2017/18	2018/19	2019/20
Service Centre		0.500	
Fees & Charges Policy	0.026	0.002	0.002
Corporate Items			
Treasury Management/MRP/LOBO	0.500	0.500	1.000
Treasury Management Savings	0.512	-0.114	-0.118
Procurement	0.300	0.300	
Reduction in Reserve	0.150		
Collection Fund Surplus	0.200	-0.200	
Fees & Charges Policy	0.313		
Increase in Investment Diversification	0.200	0.400	0.200
Reduction in Working balances	0.184	0.050	0.050
Flexible use of capital receipts	3.500	-2.500	-1.000
Total Savings	**18.431**	**5.949**	**8.270**

3.0 Options to close the Budget Gap

3.1 There are a number of options to close the £2.565m budget gap in 2017-18.

3.2 The use of additional provisions or reserves is not recommended. A planned reduction in the working balance has already been assumed in the transformation savings, whilst maintaining 5% of net expenditure. Use of balances in any year is a one-off saving and increases the savings tariff in the next financial year.

3.3 Further efficiencies could be sought. A high value (£18.431m) of efficiencies has already been identified. Directorates are expected to spend on budget in 2016-17, but are having to accommodate service pressures to do so. It is considered that the focus for any further efficiencies should be 2018-19 given timescales for consultation and implementation.

3.4 The referendum limit for a council tax increase is 1.99%. Each additional 1% of Council Tax will generate £0.953m.

3.5 The 2017-18 Local Government Finance Settlement, and the Council's MTFS assume a 2% Adult Social Care Precept increase. The settlement also allows the planned 6% increase between 2017-18 and 2019-20 to be brought forward. Increases of up to 3% in 2017-18 and 2018-19 are permissible. The increase over the three years must still not exceed 6%. Increasing the Adult Social Care precept by an additional 1% in 2017-18 would generate and additional one-off gains of £0.953m in 2017-18 and 2018-19.

3.6 The Adult Social Care Precept is ring-fenced and the Council will devote any precept to this purpose.

4.0 Flexible use of capital receipts policy

4.1 The policy set out below is the statutory requirement to put this savings into operation.

4.2 There were no projects approved for 2016-17. The projects for 2017-18 are set out in the table below with the anticipated savings

		2017/18 £m	2017/18 £m	2018/19 £m	2019/20 £m
		Cost of project	Will assist in achievement of savings:		
1	Transformation team (part of £2.600m total revenue cost)	1.750	6.425	3.408	0.623
	The project cost is part of the 2017/18 revenue budget for the Transformation Team. These savings will assist in achieving the MTFS planned transformation savings across the Council as a whole.				
Impact on prudential indicators					
	Financing costs of capital programme		0.000	0.000	0.000

	Affordability		0.000	0.000	0.000
	Planned capital expenditure		1.750	0.000	0.000
	Planned use of receipts		-1.750	0.000	0.000
	Borrowing requirement		0.000	0.000	0.000

2	Integrated Commissioning Team (part)	1.750	7.117	4.039	3.656
	The project cost is part of the 2017/18 revenue budget for the Integrated Commissioning Team. The savings the project will assist in achieving are the MTFS planned One System One Aim savings				
Impact on prudential indicators					
	Financing costs of capital programme		0.000	0.000	0.000
	Affordability		0.000	0.000	0.000
	Planned capital expenditure		1.750	0.000	0.000
	Planned use of receipts		-1.750	0.000	0.000
	Borrowing requirement		0.000	0.000	0.000

5.0 Capital

5.1 The Plymouth Plan represents the most ambitious set of proposals this City has ever seen. Primarily through its planning vehicle, the Plymouth and South West Devon Joint Local Plan, there are proposals to build 18,200 new homes across the city, create 18,000 new jobs, and to undertake a major investment programme in infrastructure including transport, schools and green space.

5.2 This investment will enable Plymouth to become the key economic driver for the far South West; will prepare the Council to show the world how to celebrate for Mayflower 2020; and will ensure that communities and businesses have the facilities they need to continue to thrive and prosper.

5.3 In addition, the Council has a programme of transformation to enable it to improve its service delivery, as well as plans to invest in land and property that will provide the Council with a significant future income stream.

5.4 To prepare the way for this major investment programme, a thorough review of the capital programme and its governance and management has been undertaken. Further improvements are planned including improved coordination of the Council's investment programmes with other agencies operating in the City. Nevertheless the Council is now making investment decisions in a much more streamlined way whilst at the same time continuing to ensure that it always achieves value for money.

5.5 The current approved capital programme totals £205m from 2016-17 to 2020-21. It includes:

	£m
The flagship History Centre, due for completion in 2020	£27m
Improvements to the transport networks in the northern (£20m) and eastern (£8m) corridors	£28m
New and expanded schools	£4m
The creation of the Oceansgate marine industries campus at South Yard Devonport	£19m
The acquisition of key sites across the city to enable regeneration, and to provide the Council with an income stream	£53m
Major refurbishment of the City Market	£3m
The creation of a high tech play market at Devonport Market Hall	£3m
Highway and footway maintenance and flood defences	£23m
Investment in IT to enable the Council to continue to transform service delivery	£4m

5.6 To enable the Council to target its future investments on the things the City really needs, the programme has been restructured to take a much more strategic approach. It has been reorganised around four key outcomes:

- Delivering the Plymouth Plan
- Generating income
- Maintaining Council assets
- Transforming service delivery

5.7 Further Council investment is now proposed in these four outcomes. In the next five years the Council contribution would increase by £266m, enabling the delivery of projects with a total value of over £417m.

5.8 To fund this level of Council investment it is proposed to use prudential borrowing. Some of the schemes will be self-financing and for some the revenue costs have already been provided for in the MTFS.

5.9 Investments could potentially be funded from a variety of alternatives enabling the borrowing requirement to be reduced including

- Grants
- Additional capital receipts.

These options will be continually evaluated for each scheme.

5.10 The proposed investments are set out in the table below. Every effort will be made to improve the proportion of external funding achieved on each project.

			£m Total cost	£m Plymouth Contribution
To deliver the Plymouth Plan by investing in the infrastructure necessary to enable the city to grow (based on the comprehensive assessment of infrastructure needs contained within the Infrastructure Needs Assessment)	Transport and other infrastructure that eases traffic flow and improves facilities for public and active transport, enabling housing growth and reducing the impact of development on local communities	Woolwell to The George widening	£15.7m	£15.7m
		Northern corridor transport schemes	£43.6m	£24.6m
		Forder Valley Link Road (only project development costs in the current programme). This is additional scheme cost.	£3.9m	£3.9m
		Schools	£26.0m	£5.0m
		Derriford Park	£12.0m	£6.0m
		Total	**£101.2m**	**£55.2m**
	Transport, public realm and business infrastructure that eases the flow of traffic, provides essential business premises and creates a more attractive environment, improving business	Public realm improvements at Armada Way and other schemes which will encourage further private investment in the city centre	£49.0m	£27.0m
		A cruise terminal which will support the viability of local hospitality and retail businesses by increasing visitor numbers	£8.0m	£5.0m
		The Mayflower 2020	£10.0m	£5.0m

			£m Total cost	£m Plymouth Contribution
	productivity, and enabling economic growth	celebration, which will increase visitor numbers and provide a lasting economic legacy. A detailed report on this project is on the 7 February 2017 Cabinet agenda		
		Plymouth Central Station	£40.0m	£5.0m
		Oceansgate	£4.0m	£4.0m
		Millbay Boulevard	£10.0m	£3.0m
		Total	**£121.0m**	**£49.0m**
To generate an increased level of sustainable rental income for the Council by investing in new land and property assets. £100m investment is planned. The further £100m programme is self-financing and will generate income in excess of the cost of borrowing of £0.300m in 2019-20, £0.300m in 2019-20 and £0.400m 2020-21			**£100.0m**	**£100.0m**

		£m Total cost	£m Plymouth Contribution
To maintain and improve the Council's assets	Maintaining the highway network	£50.0m	£20.0m
	Maintenance of other city assets	£15.0m	£15.0m
	Undertaking a series of improvements to Central Park, delivering the masterplan	£9.0m	£6.0m
	Total	**£74.0m**	**£41.0m**
To transform service delivery by building and procuring infrastructure and assets that enables the Council to change the way it delivers services	Extra care facilities which provide a supported housing environment for elderly people. The capital financing cost would need to be covered in the project business case	£4.0m	£4.0m
	IT infrastructure that enables	£11.0m	£11.0m

		£m Total cost	£m Plymouth Contribution
To maintain and improve the	Maintaining the highway network	£50.0m	£20.0m
	more efficient ways of delivering services giving residents an improved customer experience. This investment would need to have a self-financing business case.		
	An improved bereavement service model, that future proofs the delivery of bereavement services including new and replacement cemetery and crematorium facilities. This will have a self-financing business case.	£6.0m	£6.0m
	Total	**£21.0m**	**£21.0m**
Total Proposed Investments		**£417.2m**	**£266.2m**

5.11 This budget and projects already approved result in an additional £266m of borrowing over the period 2017-18 to 2021-22. This represents an increase in the Council's total borrowing to £517m. By 2021-22 this increases the Councils borrowing prudential indicator from 5.4% of the annual revenue budget to 7.5%.

5.12 The external funding environment is rapidly changing and new opportunities are constantly arising. By taking a more organised and proactive approach to identifying, bidding for and then securing, external grants, it is considered there is potential to fund a further 15% of the programme externally. This has not been assumed in the budget figures.

5.13 By taking a more aggressive approach to the generation of capital receipts, both through a proactive approach to identifying surplus assets, and over the longer term by purchasing new assets that have the potential for capital growth, there is potential to improve current capital receipts forecasts.

5.14 The table below shows the revenue cost of the proposed investment during the MTFS period. The forecast cost depends on the profiling of schemes. The timing of schemes may be varied to achieve affordability of the programme

Cost of Borrowing – Capital Programme	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m

Capital Financing Costs	Woolwell to the George widening	0.006	0.011	0.011	0.061	0.336
	Other N. Corridor transport schemes	0.159	0.162	0.120	0.165	1.116
	Forder Valley Link Road	0.033	0.066	0.209		
	Schools		0.070	0.140	0.140	
	Derriford Park		0.028	0.055	0.055	0.268
	Armada Way public realm		0.041	0.094	0.050	0.288
	Other City Centre Public Realm			0.138	0.538	0.338
	Cruise terminal			0.055	0.283	
	Mayflower			0.083	0.255	
	Plymouth Central Station			0.060	0.190	
	Oceansgate future phases					0.060
	Millbay Boulevard			0.045	0.165	
	Central Park		0.028	0.028	0.215	0.135
	Highway maintenance		0.135	0.270	0.270	0.338
	Other corporate assets		0.300	0.300	0.300	0.300
	Total Cost of Borrowing	**0.198**	**0.840**	**1.606**	**2.685**	**3.177**
	Offset MTFS corporate borrowing	**-0.250**	**-0.250**	**-0.250**		
	Asset Investment Fund Income	**0.000**	**0.000**	**-0.300**	**-0.300**	**-0.400**
	Net Cost of Borrowing	**-0.052**	**0.590**	**1.056**	**2.385**	**2.777**

5.15 Options to meet the funding gap include

- Additional capital receipts to fund the projects in place of borrowing
- Generating additional revenue savings from Council wide budgets
- Increasing the Council Tax
- Review the scope of the Capital Programme

5.16 The revenue implications of the programme in 2018-19 will need to be addressed in developing the 2018/19 to 2020/21 Medium Term Financial Strategy.

5.17 The projects may assist in generating additional business rates and new homes bonus. The impact cannot be quantified at this stage.

5.18 All projects will be subject to an evaluation of their business at the City Council Investment Board.

5.19 The financial progress of the projects will be regularly reviewed by the City Council Investment Board. The cost of borrowing (currently assumed to be 2.75%) and income assumptions will be regularly revisited. Close monitoring of the revenue cost of projects will enable the programme to be modified if appropriate.

5.20 The amount of Community Infrastructure Levy is increasing but currently the Council is prevented by Government from using the levy to repay loans. The Council will continue to lobby Government to seek a change to these Regulations.

Appendix 7

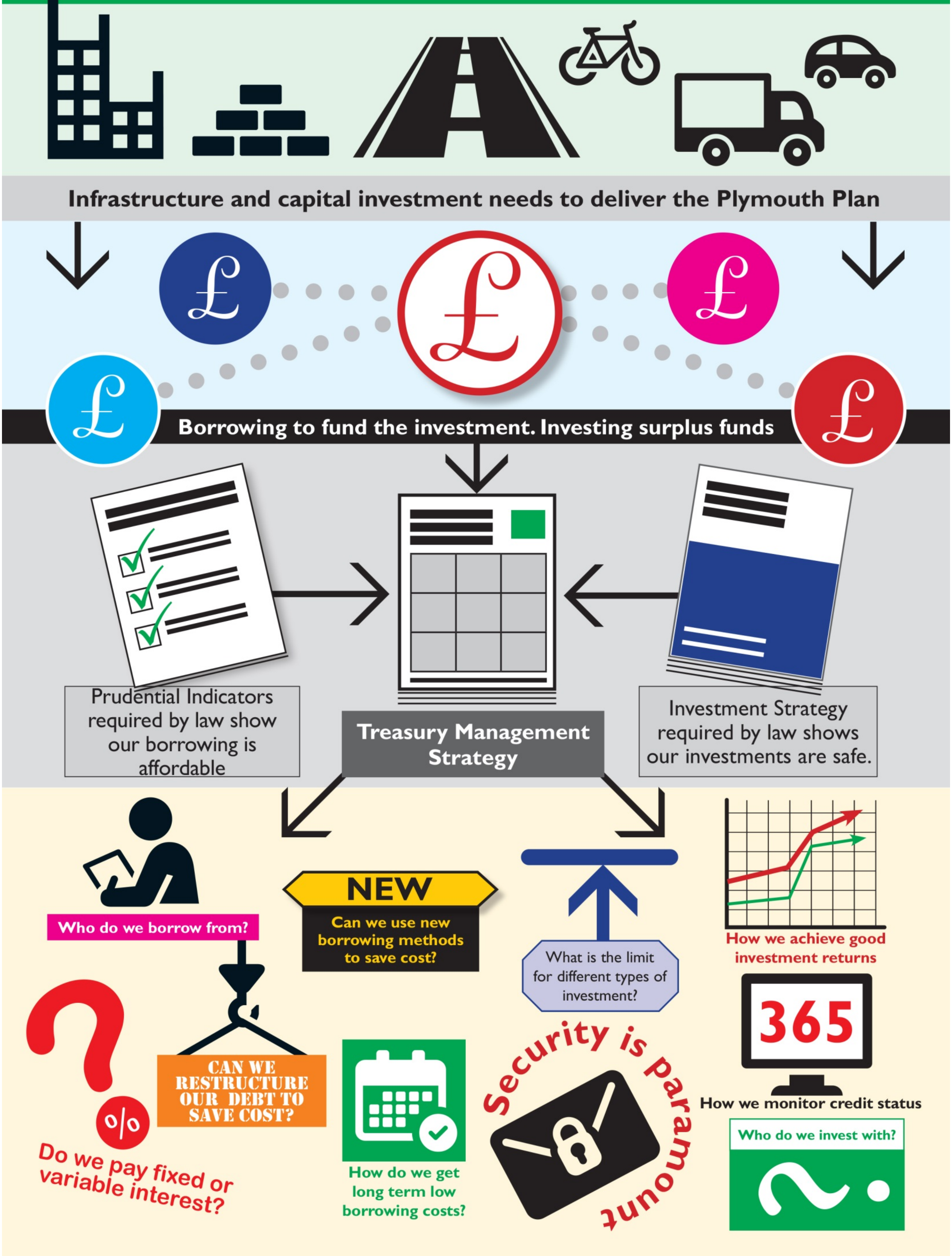
TREASURY MANAGEMENT STRATEGY

2017/18

PLYMOUTH
CITY COUNCIL

Contents

How the Treasury Management System works



This section explains how we invest and borrow

Introduction

The Treasury Management Strategy sets out how Plymouth will invest to grow and meet future Infrastructure needs. It is a companion document to the Medium Term Financial Strategy which sets out Plymouth's ambitions and priorities from the Plymouth Plan.

INVESTMENTS – FACTS AT A GLANCE	
Principles and Objectives of the Treasury Management Strategy To achieve the best secure investment returns To minimise the cost of borrowing To achieve a balanced spread of maturities and commitments To achieve the right mix of borrowing vehicles	
Market Intelligence 2016 Autumn Statement Market Outlook by the Council's advisers Arlingclose	
Statutory and Performance Framework *Rules that guide us*	**Specified Investments** Sterling only Repayable in 12 months Can use UK Government, Local Authority or a body of high credit quality
	Counterparties and Limits (see table on page 23)
	Non-specified investments **£40m** max long-term **£10m** max below
	Investment Limits – subject to credit ratings table on page 22 **No limit** UK Government **£12m** any single organisation **£40m** any group of organisations **£25m** per pooled fund **£40m** negotiable instruments per broker **£12m** per foreign country **£12m** per registered provider **£10m** unsecured with Building Societies **£5m** unrated corporates **£55m** money market funds
	Key Council Budget Assumption for 2017/18 Investments will make an average rate of 1.41%
Approach *Choices made within the framework*	**Objective** Security first, yield second **Strategy** To maximise returns, reduce risk and diversify investments **Risk Assessment and credit ratio** Our advisors monitor credit ratings daily so no new investment will be made if they do not meet our ratings **Other information on security of Investments** Market intelligence from our advisors may give warnings before a credit warning changes

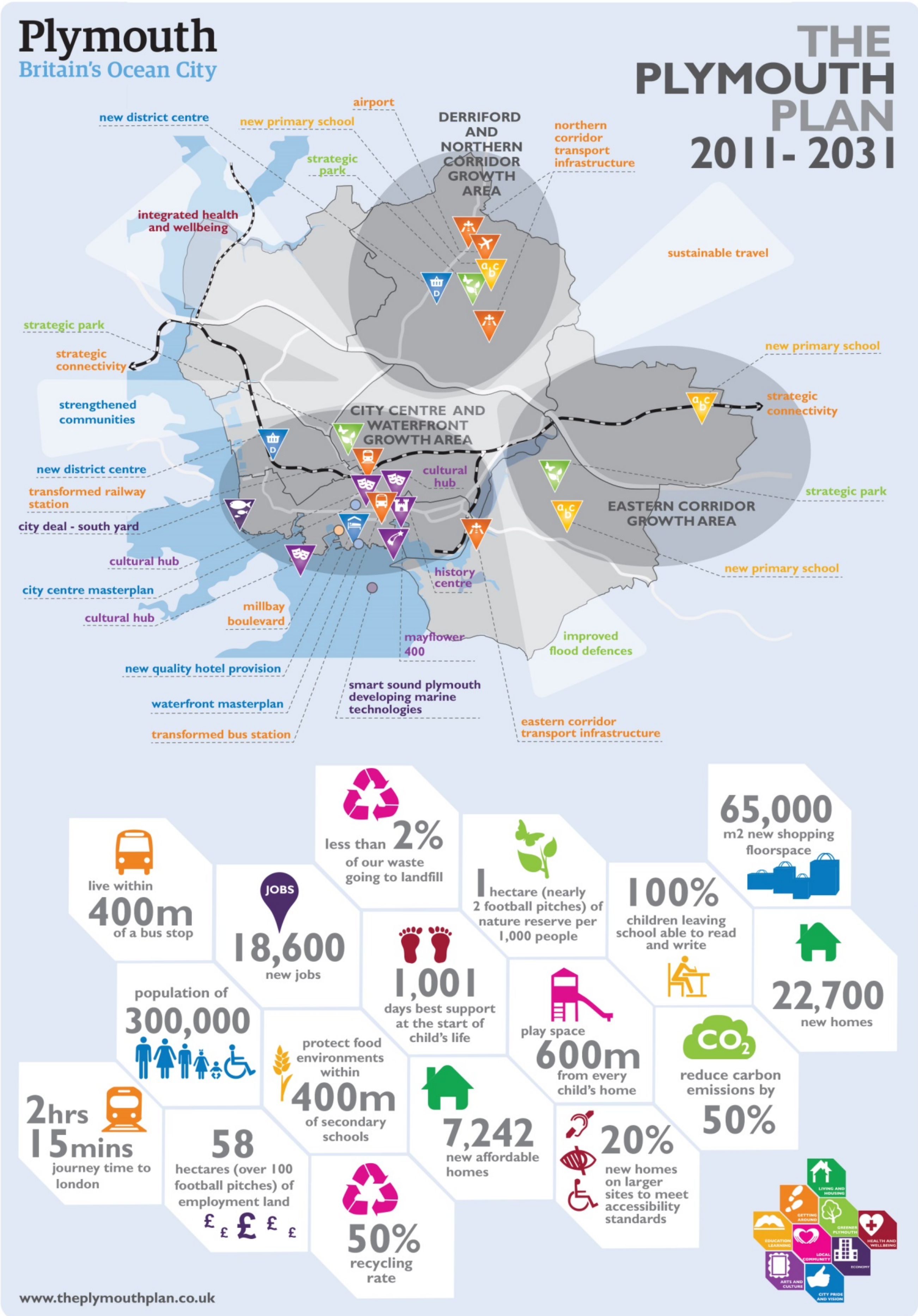
BORROWING – FACTS AT A GLANCE

Principles and Objectives of the Treasury Management Strategy
To achieve the best secure investment returns
To minimise the cost of borrowing
To achieve a balanced spread of maturities and commitments
To achieve the right mix of borrowing vehicles

Market Intelligence
2016 Autumn Statement
Market Outlook by the Council's advisers Arlingclose

Statutory and Performance Framework *Rules that guide us*	**Borrowing** **£155.2m** Total Capital Expenditure **£516m** Capital Finance Requirement (need to borrow) **£510m** Total Debt (loans and private finance initiatives) **£540m** Operational Boundary (practical ceiling on borrowing) **£610m** The Authorised limit (absolute maximum debt approved)
	Prudential Indicators **5.81%** Ratio of finance costs to net revenue stream (borrowing costs as a proportion of total budget) **£6.79** Hypothetical increase in Council Tax affordability. This is a CIPFA prescribed technical measure; the Council has made no future years tax decisions
	Treasury Management Indicators **100%** Limit on Fixed Interest Exposure **25%** Limit on Variable Interest Rate **0% to 75%** Maturity Structure of Borrowing, exposure in any duration **2.93%** average interest rate on new long term loans
	Minimum Revenue Provision Policy Annuity Method 50 year repayment for capitalisation directions PFI/Leases determined by the specific agreement No MRP on capital loans or investments MRP first charged in the year the project is completed
	Key Council Budget Assumption for 2017/18 Long-term loans will cost an average rate of 2.93%
Approach *Choices made within the framework*	**Objective -** Balance low interest rates with long term certainty **Strategy** – to borrow short term now and lock in long term when appropriate **Sources Approved by Arlingclose -** Banks or Building Society, Public Works Loan Board, Pension Funds, Capital Market Bonds, Municipal Bonds Agency, anyone with whom we would invest. Also, Leasing, PFI, Sale & Lease back **LOBOs** Council will repay if no additional cost **Municipal Bonds Agency** Council will use where appropriate **Debt Restructuring** A present value calculation based on current rates for the same period of loan may result in a discount or premium. Council will re-schedule if it reduces cost or risk

Delivering the Plymouth plans explains why we are borrowing and investing



Plymouth
Britain's Ocean City

THE PLYMOUTH PLAN 2011 - 2031

One of Europe's most vibrant waterfront cities where an outstanding quality of life is enjoyed by everyone

WHAT WE WANT TO ACHIEVE...

LEADING CITY	HEALTHY CITY	GROWING CITY	INTERNATIONAL CITY
A city fulfilling its strategic role as a major economic driver and provider of services in the region	People live in happy, healthy, safe and aspiring communities	A city which has used its strengths to deliver a prosperous city with a strong economy and quality places	Plymouth is internationally renowned as Britain's Ocean City and is the UK's premier marine city, famous for its waterfront

HOW WILL WE KNOW WE'RE SUCCESSFUL?

Plymouth is recognised as a **key regional economic** driver	People get the **best start to life,** enjoy a better quality of life and increased life expectancy	Plymouth's population has grown to more than **300,000**	Plymouth offers a diverse **cultural experience** with a major events programme
Plymouth has **high quality strategic** services and facilities	More people are taking care of themselves or **finding care** within their community	Plymouth continues to be recognised as a **leading Green City**	Plymouth is internationally renowned as a leading UK **tourist destination**
The quality and resilience of Plymouth's **transport and digital connectivity** has improved	More residents are contributing to and **involved in their community**	Plymouth has more vibrant, productive and **innovative businesses**	Plymouth is recognised internationally for **marine science** and high technology manufacturing
Plymouth's strategic **defence role** has been safeguarded and strengthened	There is **good quality health** and social care for people who need it	People have the skills to be **school ready and work ready** to meet the needs of the city	Plymouth has a reputation for **world class universities** and research institutions
Plymouth's stunning setting and **natural assets** have been enhanced	Plymouth has good quality neighbourhoods where people feel **safe and happy**	Plymouth has the right environment for **growth and investment**	Plymouth has a reputation as a **welcoming and multicultural city** with diverse communities

WHAT PRINCIPLES WILL GUIDE US?

Our Corporate Plan includes themes of infrastructure and investment

Corporate Plan

The Corporate Plan 2016 to 2019 sets out our vision to be 'one team serving our city' and retains our ambition to be a Pioneering, Growing, Caring and Confident City.

OUR PLAN
ONE CITY COUNCIL

PLYMOUTH
CITY COUNCIL

CITY VISION
Britain's Ocean City

One of Europe's most vibrant waterfront cities where an outstanding quality of life is enjoyed by everyone.

OUR VALUES

WE ARE DEMOCRATIC
Plymouth is a place where people can have a say about what is important to them and where they can change what happens in their area.

WE ARE RESPONSIBLE
We take responsibility for our actions, care about their impact on others and expect others will do the same.

WE ARE FAIR
We will be honest and open in how we act, treat everyone with respect, champion fairness and create opportunities.

WE ARE PARTNERS
We will provide strong community leadership and work together to deliver our common ambition.

OUR VISION One team serving our city

PIONEERING PLYMOUTH
We will be innovative by design, and deliver services that are more accountable, flexible and efficient.

GROWING PLYMOUTH
We will make our city a great place to live by creating opportunities for better learning and greater investment, with more jobs and homes.

CARING PLYMOUTH
We will work with our residents to have happy, healthy and connected communities where people lead safe and fulfilled lives.

CONFIDENT PLYMOUTH
We will work towards creating a more confident city, being proud of what we can offer and growing our reputation nationally and internationally.

OUR THEMES

- Quality services focused on customers' needs
- Balancing the books
- New ways of working
- Best use of Council assets
- Working constructively with everyone

- Quality jobs and valuable skills
- Broad range of homes
- Increased levels of investment
- Meeting future infrastructure needs
- Green and pleasant city

- Focus on prevention and early intervention
- Keeping children and adults protected
- Inclusive communities
- Respecting people's wishes
- Reduce health inequalities

- Council decisions driven by citizen need
- Plymouth as a destination
- Improved street scene environment
- Motivated, skilled and engaged workforce
- Setting the direction for the South West

Plymouth
Britain's Ocean City

www.plymouth.gov.uk/ourplan

The Autumn Statement was delivered by the Chancellor on 23 November 2016. It is important market intelligence for borrowing and investment decisions.

National Context

Autumn Statement Summary

Growth forecasts have been reduced by Office for Budget Responsibility. The Chancellor is borrowing to fund infrastructure. There are marginal taxation changes with the objective of securing a level playing field between different categories of employment.

Public borrowing/deficit/spending

- Borrowing is forecast to be £122bn higher in the period until 2021 than forecast in March's Budget
- Debt will rise from 84.2% of GDP last year to 87.3% this year, peaking at 90.2% in 2017-18
- Office for Budget Responsibility (OBR) forecasts borrowing of £68.2bn this year, then £59bn in 2017-18, £46.5bn in 2018-19, £21.9bn in 2019-20 and £20.7bn in 2020-21
- Public spending this year to be 40% of GDP - down from 45% in 2010
- Departmental spending plans set out in 2015 Spending Review to remain in place
- Government will meet commitments to protect budgets for key public services, defence, overseas aid and the pension "triple lock" until the end of this Parliament

The state of the economy

- OBR growth forecast upgraded to 2.1% in 2016 - from 2.0% - then downgraded to 1.4% in 2017, from 2.2%
- Forecast growth of 1.7% in 2018, 2.1% in 2019 and 2020 and 2% in 2021.
- Government no longer seeking a budget surplus in 2019-20 - committed to returning public finances to balance "as soon as practicable"

Taxation and Pay

- Income tax threshold to be raised to £11,500 in April, from £11,000 now
- Higher rate income tax threshold to rise to £50,000 by the end of the Parliament
- Tax savings on salary sacrifice and benefits in kind to be stopped, with exceptions for ultra-low emission cars, pensions, childcare and cycling
- National Living Wage to rise from £7.20 an hour to £7.50 from April next year
- Employee and employer National Insurance thresholds to be equalised at £157 per week from April 2017
- Insurance premium tax to rise from 10% to 12% next June
- Universal Credit taper rate to be cut from 65% to 63% from April at a cost of £700m
- No plans for further welfare savings in this Parliament

Housing

- Ban on upfront fees charged by letting agents in England "as soon as possible"
- £2.3bn housing infrastructure fund to help provide 100,000 new homes in high-demand areas
- £1.4bn to deliver 40,000 extra affordable homes

Fuel

- Fuel duty rise cancelled for seventh year in succession - at a cost of £850m, saving average car driver £130 and van driver £350 a year
- For the oil and gas sector, the Carbon Price Support capped until 2020 and business rates reductions worth £6.7bn

Transport/infrastructure/regions

- £1.1bn extra investment in English local transport networks
- £220m to reduce traffic pinch points
- £23bn to be spent on innovation and infrastructure over five years
- £2bn per year by 2020 for research and development funding
- £110m for East West Rail and commitment to deliver Oxford to Cambridge Expressway
- More than £1bn for digital infrastructure and 100% business rates relief on new fibre infrastructure
- £1.8bn from Local Growth Fund to English regions
- Rural Rate Relief to be increased to 100%, "giving small businesses a tax break worth up to £2,900"
- £7.6m for repairs to Wentworth Woodhouse, near Rotherham, said to be inspiration for Pemberley in Jane Austen's Pride and Prejudice

Business

- Doubling UK export funding capacity
- £400m into venture capital funds through the British Business Bank to unlock £1bn in finance for growing firms

Other

- Funding for 2,500 more prison officers
- Reforms to compensation for whiplash to cut the cost of motor insurance
- Promise to abolish Autumn Statement, with Budgets happening in the autumn from next year, along with "Spring Statement" from 2018

Specialist advisers Arlingclose support the Council with borrowing and investment advice. This is Arlingclose's expert assessment of the economy in the coming months and years.

Economic update from Treasury Management advisors Arlingclose

The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union.

Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years.

Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher.

The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017. This will be the first time this has happened since late 2013. The Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth.

The prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment. Unless counteracted by higher public spending or retail sales, a delay in new business investment will weaken economic growth in 2017/18.

Looking overseas, the US economy and its labour market are showing steady improvement. The market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016.

The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year.

Challenges have the potential for upsets. These include:

- Immigration
- The rise of populist, anti-establishment parties
- Negative interest rates which have resulted in savers being paid nothing or little for their frugal efforts
- The outcomes of Italy's referendum on its constitution (December 2016)
- The French presidential and general elections (April – June 2017)
- The German federal elections (August – October 2017)

PWLB - The government has confirmed plans to abolish the 223-year-old Public Works Loan Board and transfer its functions for lending to local authorities to the Treasury.

This is Arlingclose's view of the risks of bank failures in the period ahead.

Credit Outlook

Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.
Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

This is Arlingclose's expert view on future interest rates.

Interest Rate Forecast

The central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods.

Given this view and the current inflation outlook, further falls in the Bank Rate look less likely.

The Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt.

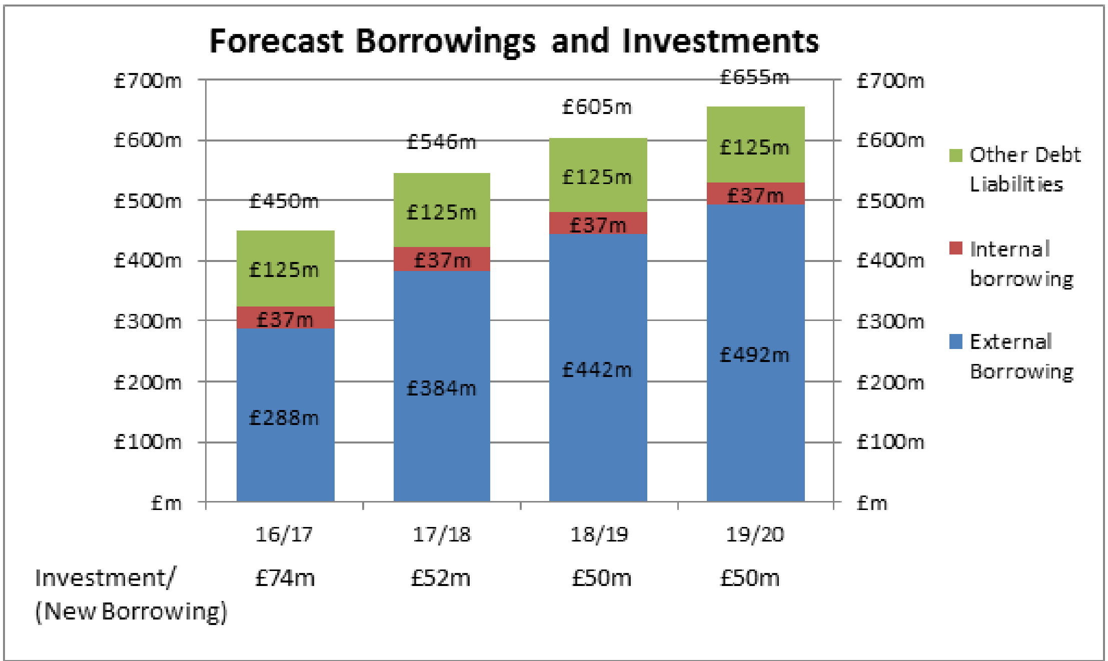
The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at ***Appendix A***.

Part 2 – Detailed Analysis

Borrowing

This is how much we debt we expect to have next year and in the years ahead.



These are borrowing limits we are required to set by law. They are affordable levels and needed to fund our capital programme.

Maximum Total Debt

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement. Usable reserves and working capital are the underlying resources available for investment. The current strategy is not to borrow to the full underlying need. Some internal resources are used instead of external borrowing.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* sets a maximum for total debt. This is the maximum the CFR is expected to reach at any time during the next three years. The Authority expects to comply with this recommendation during 2017/18.

The Council held £251 million of loans in September 2016. This was an increase of £11 million on the previous year. The increase in loans is because of funding previous years' capital programmes. The Authority expects to hold borrowing up to £384m in 2017/18.

The Council can bring forward planned external borrowing into an earlier financial year. This might be done to take advantage of favourable long term interest rates. The total borrowing must not exceed the authorised limit set by the Council of £450 million.

We seek low interest rates, but it is good to be as sure as possible what our interest costs will be in future years.

Prudential Indicators 2017/18

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

The Authority's planned capital expenditure and financing may be summarised as follows.

This is how we will fund the investment needed to deliver the Plymouth Plan

Capital Expenditure and Financing	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund	104.910	155.230	98.190	98.190
Total Expenditure	**104.910**	**155.230**	**98.190**	**98.190**
Capital Receipts	8.510	8.510	8.510	8.510
Grants and Contributions	48.080	37.350	34.150	34.150
Reserves	-	-	-	-
Revenue	2.590	0.930	0.530	0.530
Borrowing	45.730	108.440	55.000	55.000
Leasing and PFI	-	-	-	-
Total Financing	**104.910**	**155.230**	**98.190**	**98.190**

Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

This is the total past and planned capital expenditure we need to finance.

Capital Financing Requirement	31 Mar 17 Revised £m	31 Mar 18 Estimate £m	31 Mar 19 Estimate £m	31 Mar 20 Estimate £m

General Fund	410.930	516.160	614.350	712.540
Total CFR	**410.930**	**516.160**	**614.350**	**712.540**

The CFR is forecast to rise by £302m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next
two financial years. This is a key indicator of prudence.

This is how much we expect to borrow over the three years

Debt	31 Mar 17 Estimate £m	31 Mar 18 Estimate £m	31 Mar 19 Estimate £m	31 Mar 20 Estimate £m
Borrowing	288.020	383.750	442.190	492.190
PFI liabilities & Finance Leases	125.000	125.000	125.000	125.000
Total Debt	**413.020**	**508.750**	**567.190**	**617.190**

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt

The operational boundary is based on the Authority's estimate of most likely,
(i.e. prudent, but not worst case) scenario for external debt.

This is the flexibility we need to cope with our changing borrowing position from day to day

Operational Boundary	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	350.000	400.000	450.000
Other long-term liabilities	140.000	140.000	140.000
Total Debt	**490.000**	**540.000**	**590.000**

Authorised Limit for External Debt

The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003 it is the maximum amount of debt that the Authority can legally owe. The

Authorised Limit provides headroom over and above the operational boundary for unusual cash movements.

This is the absolute maximum of debt approved by the City Council

Authorised Limit	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	400.000	450.000	500.000
Other long-term liabilities	160.000	160.000	160.000
Total Debt	**560.000**	**610.000**	**660.000**

Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

This measure demonstrates that our proposed borrowing is affordable.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
General Fund	1.97%	5.81%	6.15%	6.50%

Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

This is a technical measure prescribed by CIPFA to demonstrate affordability. The Council has not made any decisions on council tax levels in future years.

Incremental Impact of Capital Investment Decisions	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
General Fund - increase in annual band D Council Tax	5.80	6.79	8.89

Adoption of the CIPFA Treasury Management Code

The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* in April 2002.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

This is how we measure our performance.

Security

The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit rating	A

This is a technical measure to limit how much we can be affected by changing interest rates.

Liquidity

The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount
of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target
Total cash available within 3 months	£150m

This is a technical measure to limit how much we can be affected by changing interest rates.

Interest Rate Exposures

This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2017/18	2018/19	2019/20
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	25%	25%	25%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Our loans fall due for repayment at various dates. We expect to have mainly fixed rate debt for longer loans. This avoids the risk of extra interest costs.

Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	60%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 years and above	75%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2017/18	2018/19	2019/20
Limit on principal invested beyond one year	£20m	£20m	£20m

Objectives of Borrowing Decisions

- To strike an appropriately low risk balance between securing low interest and certainty of costs.
- Flexibility to renegotiate loans should the Authority's long-term plans change.

It is much cheaper to borrow for a short period now. Before long term rates rise we intend to lock into fixed rate loans.

Strategy

Short term interest rates are currently much lower than long-term rates. It is likely to be more cost effective in the short term to use internal resources, or to borrow short-term. This will reduce net borrowing costs and overall treasury risk. Long term borrowing rates are forecast to rise modestly. The benefits of deferring long term borrowing will be monitored regularly.

Alternatively, the Authority may arrange forward starting loans. In a forward starting loan the interest rate is fixed in advance but is drawn later. Such loans give certainty of cost without suffering a cost of carry.

We are always looking at options to replace existing loans with cheaper alternatives.

In addition, the Authority may borrow short-term loans to cover unexpected cash flow shortages.

The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

The Authority will reschedule or repay loans where this is expected to lead to an overall cost saving or a reduction in risk.

The Authority will only borrow from approved sources.

These are the lenders we are able to use.

Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Devon Local Government Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Any other counterparty that are approved by the authority's TM advisors.
- A Plymouth City Council bond

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Operating and finance leases
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

The Authority has previously raised some of its long-term borrowing from the PWLB and through LOBOs but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

These agreements were entered into under different market conditions. Where possible we will replace them with lower cost loans.

Lender's Option Borrower's Option (LOBOs)

During 2016/17 Barclays Bank decided to transfer the authority's Barclays Bank LOBOs (Lender's Option Borrower's Option) to fixed term borrowing and therefore this has reduced the authorities total LOBOs by £18m. The Authority holds £82m of LOBO loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £57m of these LOBOS have options during 2017/18, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £82m.

This allows the flexibility to borrow from the Municipal Bonds Agency

Municipal Bond Agency

UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Treasury Management Board.

Short-term and Variable Rate loans

These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

If we can, we will replace existing loans with cheaper new loans.

Debt Rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Annual Minimum Revenue Provision Statement 2017/18

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

Minimum Revenue Position Policy

MRP will be determined by charging the expenditure over the expected useful life of the asset on an annuity method, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years.

The MRP payment is funded from revenue with an option that part or all of the payment could be funded from capital receipts.

Borrowing

For new borrowing under the prudential system for which no Government support is being given and is therefore self-financed, MRP will be made using the annuity method over the life of the asset.

Capitalisation Directions

For capitalisation directions on expenditure incurred since 1 April 2008 MRP will be made using the annuity method over 50 years.

PFI/Leases

MRP in respect of PFI and leases brought on the Balance Sheet under the 2009 SORP and IFRS will match the annual principal repayment for the associated deferred liability.

Any loan or investment to an organisation defined as capital expenditure will not attract MRP. The original capital expenditure will be met from the capital receipt on the maturity of the loan/investment.

MRP will commence in the financial year following the one in which the expenditure is incurred, except for expenditure funded by borrowing where the project is not complete at 31st March 2017 (classified as under construction). MRP will be deferred until the construction is complete and operational with the charge to be made in the year following completion.

Investments

These are the ways Government allows us to invest surplus funds.

Specified Investments

The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations and securities as those having a credit rating of [A-] or higher that are domiciled in the UK or a foreign country with a sovereign rating of [AA+] or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of [A-] or higher.

These are the limits we use for making individual investments. They are based on advice from Arlingclose.

Approved investment counterparties and limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£6m 5 years	£12m 20 years	£20m 50 years	£6m 20 years	£6m 20 years
AA+	£6m 5 years	£12m 10 years	£12m 25 years	£6m 10 years	£6m 10 years
AA	£6m 4 years	£12m 5 years	£12m 15 years	£6m 5 years	£6m 10 years
AA-	£5m 3 years	£12m 4 years	£12m 10 years	£6m 4 years	£6m 10 years
A+	£5m 2 years	£12m 3 years	£6m 5 years	£6m 3 years	£6m 5 years
A	£4m 13 months	£12m 2 years	£6m 5 years	£6m 2 years	£6m 5 years
A-	£4m 6 months	£12m 13 months	£6m 5 years	£6m 13 months	£6m 5 years
BBB+	£3m 100 days	£5m 6 months	£2m 2 years	£2m 6 months	£2m 2 years
Pooled funds	£20m per fund				

Non-specified Investments
Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£40m
Total investments without credit ratings or rated below A-	£10m
Total investments with institutions domiciled in foreign countries rated below AA+	£0m
Total non-specified investments	£50m

Investment Limits

The Authority's revenue reserves available to cover investment losses are forecast to be £45 million on March 31 2017. No more than 45% of available reserves will be put at risk in the case of a single organisation (other than the UK Government). When considering investment limits in the chart below you must also refer to the credit ratings of the individual organisations (as shown in the chart on page 22) to make the final assessment.

Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£12m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£40m per group
Any group of pooled funds under the same management	£25m per manager
Negotiable instruments held in a broker's nominee account	£40m per broker
Foreign countries	£12m per country
Registered Providers	£12m in total
Unsecured investments with Building Societies	£10m in total
Loans to unrated corporates	£5m in total
Money Market Funds	£55m in total

Liquidity Management
The Authority uses a cash flow forecasting spreadsheet to determine the maximum period for which
funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of
the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on
long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

This is the rate we expect to pay on new borrowing, and how much we expect to earn on investments.

Council Budget Assumptions for 2017/18
- Investments will make an average rate of 1.41%
- Long-term loans will cost an average rate of 2.93%

This sets out how we invest any surplus funds.
Security of the funds is paramount

Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £60 and £80 million, and is expected to remain about the same in the forthcoming year.

Objectives

Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative Interest Rates

If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy

Given the increased risk and falling low returns from short-term unsecured bank investments, the Authority continues to hold its investments in more secure, lower yielding asset classes. The authority holds £20m as a longer-term investment in the CCLA Property Fund and this gives a higher return than the short term investments. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit, Local Authorities and money market funds. The Authority will continue to look for investment opportunities that give a good return whilst being a secure investment.

Approved Counterparties

The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Credit Rating

Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's
or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all relevant factors including external advice will be taken into account.

Banks Unsecured

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks Secured

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers

Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

Pooled Funds

Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made
- Any existing investments that can be recalled or sold at no cost will be, and
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Other Items

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on use of Financial Derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Investment Training

The needs of the Authority's treasury management staff for training in investment management are assessed every twelve months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staffs regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staffs are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers

The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled by quarterly review meetings and periodically tendering for the provision of Treasury Management Consultancy

Investment of Money Borrowed in Advance of Need

The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £400 million. The maximum period between borrowing and expenditure is expected to be one year, although the Authority is not required to link particular loans with particular items of expenditure.

Other options considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic and Interest Rate Forecast November 2016

Underlying assumptions

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.
- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Avg
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.12
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.40
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.18
Arlingclose Central Case	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.29
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.34
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.23
Arlingclose Central Case	0.60	0.50	0.50	0.50	0.50	0.50	0.50	0.60	0.70	0.85	0.90	0.90	0.90	0.65
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.24
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	0.30	0.30	0.30	0.30	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.39
Downside risk	0.40	0.45	0.45	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.54
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.80	0.80	0.80	0.80	0.85	0.90	0.90	0.95	0.95	0.83
Downside risk	0.40	0.45	0.45	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.54
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.30	1.35	1.35	1.40	1.40	1.29
Downside risk	0.50	0.55	0.55	0.55	0.60	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.64
50-yr gilt														

yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.30	1.35	1.35	1.40	1.40	1.29
Downside risk	0.50	0.55	0.55	0.55	0.60	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.64

Appendix B - Existing Investment and Debt Portfolio Position

	31 Sept 2016 Actual Portfolio £m	31 Sept 2016 Average Rate %
External Borrowing:		
PWLB – Fixed Rate	44.25	5.76
Local Authorities	107.00	0.39
LOBO Loans	82.00	3.65
Long Term Borrowing	18.00	4.37
Total External Borrowing	**251.25**	**2.68**
Other Long Term Liabilities:		
PFI	123.17	n/a
Finance Leases	1.73	n/a
Total Gross External Debt	**376.15**	
Investments:		
Managed in-house		
Short-term investments	30.20	0.76
Long-term investments	23.90	variable
Managed externally		
Pooled Funds	20.00	variable
Total Investments	**74.10**	
Net Debt	**302.05**	

Treasury Management Strategy

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Appendix 8

Capital and Revenue Budget Monitoring Report Quarter 3

PLYMOUTH CITY COUNCIL

Subject:	Capital & Revenue Monitoring Report 2016/17 – Quarter3
Committee:	Cabinet
Date:	7 February 2017
Cabinet Member:	Councillor Darcy
CMT Member:	CMT
Author:	Andrew Hardingham – Interim Joint Strategic Director for Transformation and Change (Finance)
Contact details	Tel: 01752 312560 email: andrew.hardingham@plymouth.gov.uk
Ref:	
Key Decision:	No
Part:	I

Purpose of the report:

This report outlines the finance monitoring position of the Council as at the end of December 2016.

The primary purpose of this report is to detail how the Council is delivering against its financial measures using its capital and revenue resources, to approve relevant budget variations and virements, and report new schemes approved in the capital programme.

As shown in Table 1 below, the estimated revenue overspend is £1.272m, reflecting an improved financial position of £1.550m since the previous quarter. The overall forecast net spend equates to £187.974m against a budget of £186.702m, which is a variance of 0.68%. This needs to be read within the context of needing to deliver £24m of savings in 2016/17 on the back of balancing the 2015/16 revenue budget where £21m of net revenue reductions were successfully delivered.

Additional management solutions and escalated action to deliver further savings from the council's transformation programme will be brought to the table over the coming months in order to address the in year forecasted overspend.

Table 1: End of year revenue forecast

	Budget £m	Forecast Outturn £m	Variance £m
Total General Fund Budget	186.702	187.974	1.272

The latest approved Capital Budget covering 2016/17 to 2020/2021 stands at £478m which was agreed at Council on 21 November 2016. The report sets out in Table 6 proposed increases to the Capital Budget of £3m, which results in a proposed budget of £478m, now for the period 2016 – 2021.

The Corporate Plan 2016 - 19

This quarterly report is fundamentally linked to delivering the priorities within the Council's Corporate Plan. Allocating limited resources to key priorities will maximise the benefits to the residents of Plymouth.

Implications for Medium Term Financial Plan and Resource Implications:

Including finance, human, IT and land

Robust and accurate financial monitoring underpins the Council's Medium Term Financial Plan. The Council's Mediurm Term Financial Forecast is updated regulary based on on-going monitoring information, both on a local and national context.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

The reducing revenue and capital resources across the public sector has been identified as a key risk within our Strategic Risk register. The ability to deliver spending plans is paramount to ensuring the Council can achieve its objectives to be a Pioneering, Growing, Caring and Confident City.

Equality and Diversity

Has an Equality Impact Assessment been undertaken? No

RECOMMENDATIONS AND REASONS FOR RECOMMENDED ACTION:

That Cabinet:-

1. Note the current revenue monitoring position and action plans in place to reduce/mitigate shortfalls;
2. Approve the non-delegated revenue budget virements (shown in Table 5);
3. Increase the Capital Budget 2016-21 is increased to £478m (shown in Table 6);

Alternative options considered and rejected:

None – our Financial Regulations require us to produce regular monitoring of our finance resources.

Published work / information:

2015/16 Budget Reports Delivering the Co-operative Vision within a 4 year budget

Background papers:

Title	Part I	Part II	Exemption Paragraph Number						
			1	2	3	4	5	6	7

Sign off:

Fin	dn1617.36	Leg	DVS2 6692	Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member: Andrew Hardingham, AD for Finance													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

DECEMBER 2016 FINANCE MONITORING

Table1: Revenue Monitoring Position

Directorate	Gross Expenditure	Gross Income	2016/17 Latest Approved Budget	Forecast Outturn	Forecast Year End Variation	Movement from previous quarter
	£m	£m	£m	£m	£m	£m
Executive Office	4.419	(0.409)	4.010	4.023	0.013	(0.012)
Corporate Items	11.012	(10.094)	0.918	0.918	0.000	0.000
Transformation and Change	150.335	(115.629)	34.706	34.436	(0.270)	(1.293)
People Directorate	275.807	(153.318)	122.489	123.462	0.973	(0.087)
Public Health	20.007	(19.644)	0.363	0.363	0.000	0.000
Place Directorate	70.035	(45.819)	24.216	24.772	0.556	(0.158)
TOTAL	**531.615**	**(344.913)**	**186.702**	**187.974**	**1.272**	**(1.550)**

Table 2: Plymouth Integrated Fund

Plymouth Integrated Fund	Section 75 indicative position	2016/17 Latest Budget	Forecast Outturn	Forecast Year End Overspend / (Underspend)
	£m	**£m**	**£m**	**£m**
New Devon CCG – Plymouth locality	331.000	355.698	357.223	1.525
Plymouth City Council	*131.000	137.505	138.178	0.673
TOTAL	**462.000**	**493.203**	**495.401**	**2.198**

The financial position above for the Plymouth Integrated Fund is at December 2016. The full report is shown in Appendix 1.

*This represents the net People Directorate budget plus the gross Public Health Commissioning budget (which is financed by a ring fenced Department of Health Grant).

Table 3: Key Issues and Corrective Actions

Issue	Variation £M	Management Corrective Action
EXECUTIVE OFFICE Democracy and Governance support cost pressures. £0.224m relates to a stretch target for efficiencies in this area.	0.013	The £0.224m Democracy & Governance Legacy received in October 2015 and the addition of the reallocation of the MTFS is continuing to be actively managed. Further savings plans are being developed but are difficult to quantify at present including the upcoming service review. Despite this, there is confidence this variation will continue to be reduced.
CORPORATE ITEMS	(0.000)	There is currently a nil variance to report.
TRANSFORMATION and CHANGE – Finance Anticipated that these pressures will be addressed and the service area will come in on budget despite the significant savings target set for 2016/17.	0.100	Finance Fit is delivering savings, with over £0.850m banked towards the £1.500m target. Plans are in place to deliver the sustainable project benefits. Any shortfall will be met from one-off in-year savings.

TRANSFORMATION and CHANGE – Legal	(0.028)	Service pressures within Elections and Legal are currently being offset by underspend on Court Fees, Legal Agents and Legal expenses resulting in a small underspend for the Department.
TRANSFORMATION and CHANGE – Customer Services	0.219	Housing Benefit Subsidy is showing a significant pressure of £0.741m. This is a £306k improvement on Q2 due to increased overpayments income. The pressure is currently being offset in part by salary savings elsewhere within the service.
TRANSFORMATION and CHANGE – Human Resources & OD	(0.465)	£0.310m efficiency target delivered in full. Underspend reflects staff salary savings and the reduction in training budget as agreed.
TRANSFORMATION and CHANGE – Departmental	0.189	Reallocation of Commercialisation and CST programme targets.
TRANSFORMATION and CHANGE – Transformation and Portfolio	(0.285)	£0.500m efficiency target delivered in full and a further £0.285m underspend identified.
TRANSFORMATION and CHANGE – ICT Commissioned Service	0.000	Processes and Service Levels monitored through the ICT Review

There is currently a nil variance to report.		Group.
PEOPLE – Children Young People and Families The Children Young People and Families (CYP&F) Service are continuing to report a budget pressure of £0.560m a reduction of £0.093m in the month. The Service continues to face unprecedented pressures, care applications are up, and the service are struggling to purchase cost effective placements to adequately meet demand. In the last 11 months, Plymouth has observed an increase in the number of children in care of 5.4%. The continued increase in numbers of children in care is in line with national and regional trends. There are risks that continue to require close monitoring and management: • Increased number of young people in care since budget setting autumn 2015. • Lack of availability of the right in-house foster care placements creating overuse of IFA's. • Use of Residential Placements due to lack of foster care placement sufficiency across the Peninsula. The lack of availability of foster care is leading to a small number of children being placed in residential care as an alternative to fostering.	0.560	The reduction is as a result of the quarter three 'Star Chamber' exercise. A piece of work has been undertaken to ensure a systematic review of all young people in supported living and new arrangements for plans for them are in place. This will ensure appropriate plans are in place for young people improving timeliness and reducing cost pressure. As part of the transformation project for 2016/17, CYP&F are expected to make savings of over £2.100m (in order to contribute to the £9.214m Directorate target). Circa £1.000m has been saved to date through EVRS and the Transformation of Services together with an anticipated £0.800m through review and commissioning of placements and a further £0.300m from an extensive piece of work across the peninsular to provide children's secure places. In addition, Children's Improvement Board will be considering a project to address in year pressures including accelerating the In House Fostering Action Plan.

• Court ordered spend continues on Parent & Child Assessment placements. • There are still a small number of individual packages of care at considerably higher cost due to the needs of the young person. • There are currently 27 Residential Placements with budget for only 20. • There are currently 102 Independent Foster Care (IFA's) placements with budget for only 70. We are aiming to achieve savings from the transformation of our In House Foster Care Service. • A region wide lack of placements due to an increase in demand for placements.		
PEOPLE – Strategic Co-operative Commissioning The Strategic Co-operative Commissioning (SCC) service is reporting a budget pressure of £0.510m at month 9 – a decrease of (£0.195m) from last month. The main reasons for the reduction in the forecast were: (£0.120m) - Management actions to postpone the cost increases on residential and nursing clients and,	0.510	As part of the transformation project for 2016/17, the SCC budget is making savings of over £5m (in order to contribute to the £9.214m Directorate target) with the activities and actions that will drive delivery forming part of the transformation programme. These have been achieved via savings around reduced client numbers, reviews of high cost packages and contracts.

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(£0.040m) - Reduction to the numbers of short stay clients. However there are still overspends forecast on the care packages as reported in previous months. The savings target for grant maximisation of £2.219m will be offset using set aside balance sheet provision.		
PEOPLE – Education Participation and Skills Education Participation and Skills is still reporting a breakeven position at the end of month 9. Star Chamber exercises have taken place within the Service and these will continue to drive out savings during the year, to mitigate emerging pressures.	0.000	During 2016/17 the Education Participation and Skills budget will need to make savings of £1.269m (in order to contribute to the £9.214m Directorate target) with activities and actions that will drive delivery forming part of the transformation programme. Circa £1.159m has been saved to date through EVRS and the transformation of services.
PEOPLE – Community Connections Community Connections is continuing to deliver (£0.097m) savings.	(0.097)	The demand for emergency accommodation has increased by £0.048m to £0.153m, this has been contained mainly through additional one-off income repaid renovation grants and previously unreported letting income Community Centres. The emergency B & B placements average between April and December is 33 per week, which exceeds the profiled budget of 28 placements per week. The forecast for the remainder of the year is for 40 per week average placements which reflects the current trend, notably December average 41. Action is ongoing to limit the overall cost pressure through lower placements and prevention work.

PEOPLE – Management & Support Projecting a balanced budget for 2016/17 .Further consideration required for disaggregated corporate income maximising delivery plan £0.667m.	0.000	
PUBLIC HEALTH Although the 16/17 Public Health ring-fenced grant was cut by £1.293m for Plymouth City Council, the Directorate is on track to achieve a balanced budget. As part of this balanced budget, Public Health is making contributions towards schemes in other Council departments, and will continue to prepare plans to achieve the anticipated further reduction to the ring fenced grant in 2017/18.	0.000	This will be achieved through management of vacancies, contract activity and values, and a focus on increased commercialisation and income generation.
PLACE - Strategic Planning and Infrastructure Salary savings arising from vacancy management and increased income from commercialisation of viability services and transport projects are currently more than mitigating pressures arising from a shortfall on Planning Application fees and other cost pressures resulting in a further improvement in the projected under spend for the department.	(0.324)	We continue to monitor the impact of Brexit in relation intelligence being gathered around property and housing investment decisions which are being widely reviewed by investors. There is precedent in the department to respond to market failure through market recovery measures and appropriate responses will be kept under close review, including through the consideration of the Plymouth and South West Devon Joint Local Plan.

PLACE - Economic Development Previously reported pressures within Economic Development will be mitigated via management actions and the use of reserves.	0.000	Internal pressures within Economic Development are being managed through one off actions to remove the pressure whilst additional steps are being taken to remove the one-off pressures for next year focusing on an ability to generate income in future years.
PLACE - Management Support (Director's budget) £127k Redistribution of formerly centrally held targets for 2016/17.	0.013	Review all areas to identify savings and removal of non-essential spend to meet £127k target.
PLACE - Street Services **Waste:** There is a projected overspend within the waste service of £749k. The main pressures that account for this projected overspend are on-going vehicle cost pressures, increase in tonnages, staffing costs and loss of income at the RTS which is now close to being resolved with a new occupant but the financial effect will not materialise until next year. The decision not to charge for non-domestic waste at HWRCs has also added to the overspend.	0.867	A plan to modernise waste and street scene services has been agreed through Cabinet. It is a series of measures to ensure the service is fit for purpose and modernised through changes in working practices and implementation of revised waste policies to deliver savings and generate income. This will address both the waste demand pressure, and the fleet size –

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Staffing levels across the service have also been revised which will provide some mitigation against the pressure. The capitalisation of bin purchases will also help in terms of mitigation **Cost & Volume indicators** Budget 81,500 tonnes Forecast of Tonnage 83,100 tonnes Increase in tonnes = 1,600 tonnes which equates to potential increase in cost of £146k **Fleet and Garage:** The fleet and garage has delivered savings and income of £1.335M over two years. There is still an additional target of £445K, however the handing back of certain parts of the fleet are linked to changes to operational arrangements that are still be to be completed. This pressure has been mitigated by (£177k) through delays in purchasing and therefore a reduction in borrowing costs. They are also looking to find (£50k) of additional savings within the service. Fleet are therefore forecasting an overspend of £217k. **Street Cleansing and Grounds:** Street Cleansing and Grounds are reporting to budget. **Highways and Car Parking:**		which is tied together intrinsically. This will not mitigate pressures until 2017/18. An Immediate Action plan has been put in place to reduce any unnecessary spend across the whole of street services to mitigate the budget pressures. The re-profiling of fleet vehicle purchases has reduced borrowing costs by £170k.

Highways, Parking & Marine will find savings of £100k within the service to contribute to Street Services overall gap by a range of one-off efficiency savings, service reductions and increased income.		
TOTAL	**1.272**	

Overall Comments Finance AD

Overall there is a significant improvement from Quarter 2. The progress made within housing benefit overpayment billing and recovery is the biggest contributor to this.

Discussions are ongoing with the Council's Highways Contractor, Amey, for recovery of significant amounts outstanding for third party claims due under the December 2014 Settlement Agreement. Failure to recover these amounts would result in a significant deficit in the Insurance Provision. The position is being carefully monitored.

It is expected with continued tight control of expenditure that any overspend can be eliminated by the year-end, particularly given the increased controls over agency expenditure.

Recommendation

It is recommended that Cabinet note the current monitoring position and action plans in place to reduce/mitigate shortfalls.

VIREMENTS

Table 5 below includes a number of virements between specific directorate budgets. All virements in excess of £0.1m are required to be approved by Cabinet and are shown below.

Table 5: Virements detail

Directorate	Life Centre Dowry Contribution to Reserves	Agreed transfer of Community Youth Service	Totals
	£m	£m	£m
Executive Office			
Corporate Items	(0.150)		(0.150)
Transformation and Change			
People Directorate	0.150	0.00	0.150
Public Health			
Place Directorate			
	0.000	0.000	0.000

Recommendation

It is recommended that Cabinet approve the non-delegated virements which have occurred since 1st July 2016.

Capital Programme 2016-2021

The latest approved capital budget was reported to Council on 21 November 2016, as £475m. This covered the 5 year period 2016 –2021.

The budget has since been reviewed resulting in an increase in the overall funding for the period 2016 – 21, by £3m to £478m. This is set out in Table 6 below.

Table 6: Current Capital Resources

Description	£m
Latest Approved Budget 2016 - 2021	475
Addition of ring-fenced grants 2016-2021	5
Other Changes	(2)
Total Revised Capital Budget for Approval (2016 – 21)	**478**

Within the approved budget (representing forecast resources), the Capital Programme represents projects approved for delivery. Table 7 below shows the revised annual programme for the 2016 – 21 period, as at the end of December 2016.

Table 7: Revised Capital Programme

	2016/17	2017/18	2018/19	2019/20	2020/21	Total
Directorate	£m	£m	£m	£m	£m	£m
Transform & change	4.628	1.603				6.231
People	12.182	5.543	0.464			18.189
Place	86.182	59.314	22.512	9.214	2.713	179.935
Public Health	0.224					0.224
Total	103.216	66.460	22.976	9.214	2.713	204.579

Recommendation

Cabinet are asked to recommend to Council that the Capital Budget 2016 -2021 is increased to £478m (as shown in Table 6)

Appendix 9

Response to Place and Corporate Overview and Scrutiny Committee

Recommendation	Response
1. To thank the Executive, Senior Management Team and Scrutiny Councillors for their patience and contribution to the process.	I would also like to thank Members of the Scrutiny Committee for all their hard work and contribution to the budget process and thank officers for their hard work in bringing forward the budget proposals.
2. That the Committee considered that the budget documentation presented was not sufficiently detailed and as such the Committee was unable to judge whether the Draft Budget was effective and in line within the Corporate Plan.	Members received a number of policy and financial reports which have culminated in the budget Scrutiny meetings. The Medium Term Financial Strategy is the key financial planning document and supports the Corporate Plan and delivery of Plymouth's priorities.
3. To recommend to Cabinet that the budget, when presented to council should include, a breakdown of proposed 2017/18 budget levels across departments and that transformation stretch savings and efficiencies in 2017/18 must be presented with some comment on how those savings are likely to be made.	Accepted. Further details will be provided within the Budget report to Council on 27 February 2017.
4. To establish a standing Select Committee on the Budget.	Accepted.
5. To note that a four year settlement has now been accepted by the city council and recommend to the cabinet member for finance that the draft budget for 2018/19 is presented to cabinet in September to enable scrutiny of the draft budget to be completed by the standing select committee by January 2018.	The four year settlement does provide the City Council with greater clarity as to its financial planning. I will discuss with the Section 151 Officer to report back on a timetable for the draft 2018/19 budget.
6. To recommend to the Cabinet Member for Finance that, working with the Shadow Cabinet Member for Finance and the	I will discuss with the Section 151 Officer any revised reporting requirements with respect to the budget and information

standing Select Committee, a Budget template is developed for clear and consistent annual reporting of proposed budgets which is accessible by members of the public and is provides a sufficiently detailed budget and savings proposals for meaningful scrutiny.	presented to Scrutiny Committees.

Response to Wellbeing Overview and Scrutiny Committee

Recommendation	Response
1. To thank the Executive, Senior management Team and Scrutiny Councillors for their patience and contribution to the process.	I would also like to thank Members of the Scrutiny Committee for all their hard work and contribution to the budget process and thank officers for their hard work in bringing forward the budget proposals.
2. To note the draft report.	Noted
3. Express the Committee's significant concern on whether a sustainable, quality service and savings can be delivered in 2017/18 given rising demand on chronic underfunding of services by national government. As such recommend to council to call upon national government to deliver a fair and sustainable settlement for the future of local social care.	The City Council will continue to lobby government and press for a sustainable long term funding package to meet the increasing demands and pressures within adult social care and will continue to work with our health partners to provide an efficient service that meets the needs of local residents.

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