LONDON BOROUGH OF RICHMOND UPON THAMES

BUDGET BOOK

2019-2020

Mark Maidment CPFA

Director of Resources & Deputy Chief Executive

Budget Book 2019/20

Each year the Council sets detailed revenue & capital budgets. The revenue budgets relate to the income & expenditure incurred on the day to day running of the Council. The capital budgets include income & expenditure that will yield benefit to the Council over a period of more than a year (e.g. roads, buildings).

Produced by Financial Control

Resources Directorate

We are continuously trying to improve the content & presentation of all our financial publications & would welcome any suggestions from readers.

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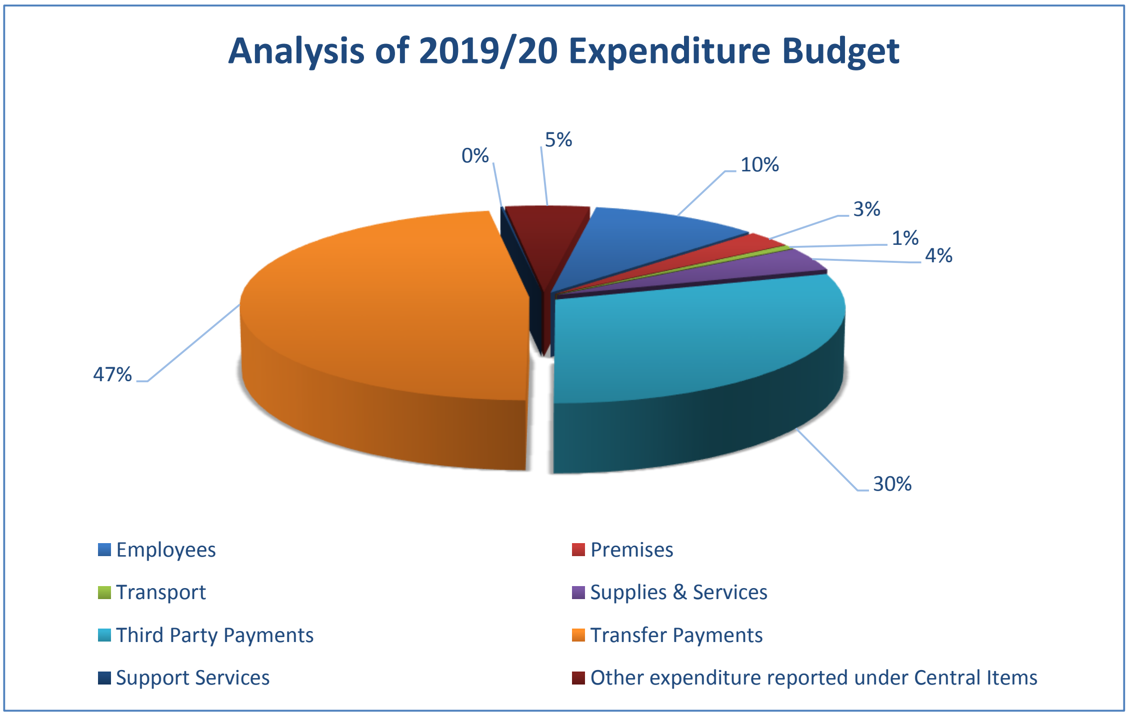
COUNCIL'S REVENUE BUDGET 2019/20
SUBJECTIVE SUMMARY OF EXPENDITURE AND INCOME

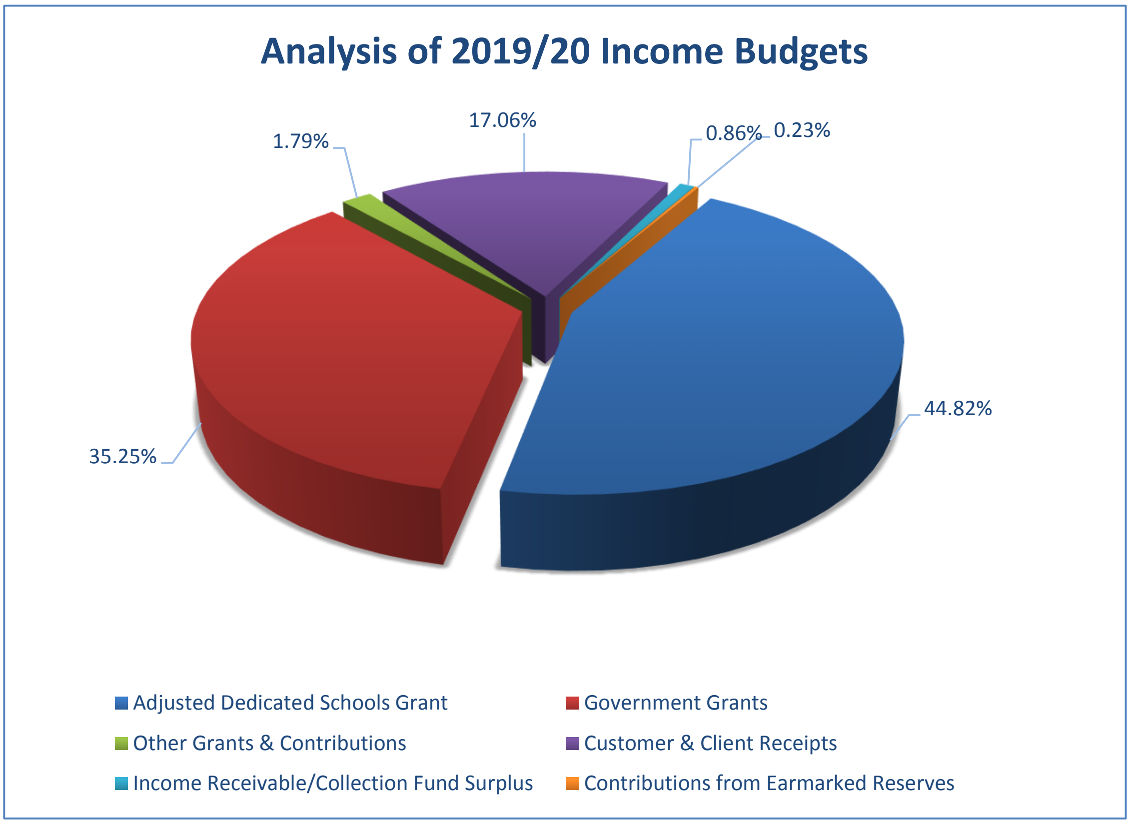
	2018/19 Estimate £	2019/20 Estimate £
Expenditure		
Employees	46,870,100	49,066,600
Premises	12,338,200	13,357,100
Transport	3,452,000	3,284,500
Supplies & Services	20,544,700	19,283,100
Third Party Payments	132,362,200	141,685,500
Transfer Payments	174,160,100	226,824,700
Support Services	733,300	744,200
TOTAL EXPENDITURE	390,460,600	454,245,700
Income		
Adjusted Dedicated Schools Grant	(95,487,200)	(155,728,000)
Government Grants	(95,623,500)	(96,898,900)
Other Grants & Contributions	(5,444,300)	(6,215,700)
Customer & Client Receipts	(56,910,400)	(59,267,400)
TOTAL INCOME	(253,465,400)	(318,110,000)
NET EXPENDITURE (EXCL. CENTRAL ITEMS	**136,995,200**	**136,135,700**
Central Items	(11,588,200)	(4,927,700)
NET EXPENDITURE (CONTROLLABLE)	**125,407,000**	**131,208,000**

Variation Analysis (Excluding Schools)	2019/20 Budget £
2018/19 ORIGINAL BUDGET	**125,407,000**
Inflation	5,035,400
Changes in Government Grants	(1,311,800)
Other Government or Outside Body Changes	81,000
Demand Led Growth	1,289,700
Efficiency Savings	(5,487,100)
Investment Priorities	1,462,000
Other Growth & Savings	4,731,800
Budget Transfers	0
2019/20 ORIGINAL BUDGET	**131,208,000**

SUBJECTIVE ANALYSIS BY SERVICE - BUDGETS 2019/20

	Achieving for Children, Client Side & Residual Functions	Adult Social Services & Health	Housing, Community Safety & Environment	Finance, Policy & Performance	**TOTAL**
Expenditure					
Employees	249,700	18,545,600	13,140,700	17,130,600	**49,066,600**
Premises		1,475,800	6,114,300	5,767,000	**13,357,100**
Transport		1,248,800	1,830,500	205,200	**3,284,500**
Supplies & Services	4,438,200	3,931,600	4,222,900	6,690,400	**19,283,100**
Third Party Payments	55,932,000	56,851,700	26,124,400	2,777,400	**141,685,500**
Transfer Payments	144,283,900	8,854,300	596,600	73,089,900	**226,824,700**
Support Services				744,200	**744,200**
Total	204,903,800	90,907,800	52,029,400	106,404,700	**454,245,700**
Income					
Adjusted Dedicated Schools Grant	(155,728,000)				**(155,728,000)**
Government Grants	(12,001,300)	(18,117,600)	(1,464,200)	(65,315,800)	**(96,898,900)**
Other Grants & Contributions	(1,772,000)	(3,806,000)	(216,300)	(421,400)	**(6,215,700)**
Customer & Client Receipts	(118,900)	(16,790,100)	(32,349,000)	(10,009,400)	**(59,267,400)**
Total	(169,620,200)	(38,713,700)	(34,029,500)	(75,746,600)	**(318,110,000)**
NET EXPENDITURE (EXCL. CENTRAL ITEMS)	**35,283,600**	**52,194,100**	**17,999,900**	**30,658,100**	**136,135,700**
Central Items				(4,927,700)	**(4,927,700)**
NET EXPENDITURE	**35,283,600**	**52,194,100**	**17,999,900**	**25,730,400**	**131,208,000**


Analysis of 2019/20 Expenditure Budget
0%
5%
10%
3%
1%
4%
47%
30%
Employees
Premises
Transport
Supplies & Services
Third Party Payments
Transfer Payments
Support Services
Other expenditure reported under Central Items


Analysis of 2019/20 Income Budgets
1.79%
17.06%
0.86%
0.23%
44.82%
35.25%
Adjusted Dedicated Schools Grant
Government Grants
Other Grants & Contributions
Customer & Client Receipts
Income Receivable/Collection Fund Surplus
Contributions from Earmarked Reserves

ACHIEVING FOR CHILDREN CLIENT SIDE AND RESIDUAL FUNCTIONS

Should you have any queries concerning the Achieving for Children (Client Side and residual Functions) pages please contact:

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ACHIEVING FOR CHILDREN (AFC) CLIENT SIDE AND RESIDUAL FUNCTIONS

SUMMARY BY SERVICE AREA

PURPOSE	2018/19 Original £	2018/19 Revised £	2019/20 Original £
AFC Contract	47,879,700	53,360,500	52,468,300
Children's Retained	174,200	364,700	369,600
Grant Funding	(17,352,600)	(21,666,400)	(21,666,400)
Public Health	2,823,700	2,823,700	2,823,700
Schools PFI	1,292,400	1,288,400	1,288,400
Total	**34,817,400**	**36,170,900**	**35,283,600**

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	34,817,400
Inflation	439,500
Changes in Government Grants	(564,400)
Other Government or Outside Body Changes	0
Demand Led Growth	564,400
Efficiency Savings	(728,800)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	755,500
2019/20 ORIGINAL BUDGET	35,283,600

ACHIEVING FOR CHILDREN (AFC) CLIENT SIDE AND RESIDUAL FUNCTIONS

SUBJECTIVE ANALYSIS

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Expenditure			
Employees	240,100	244,800	249,700
Premises	0	0	0
Transport	0	0	0
Supplies & Services	4,442,200	4,438,200	4,438,200
Third Party Payments	50,703,400	56,324,200	55,932,000
Transfer Payments	85,110,300	97,293,800	97,293,800
Support Services	0	0	0
TOTAL EXPENDITURE	140,496,000	158,301,000	157,913,700
Income			
Government Grants	(103,787,700)	(120,239,200)	(120,739,200)
Other Grants & Contributions	(1,772,000)	(1,772,000)	(1,772,000)
Customer & Client Receipts	(118,900)	(118,900)	(118,900)
TOTAL INCOME	(105,678,600)	(122,130,100)	(122,630,100)
NET EXPENDITURE	**34,817,400**	**36,170,900**	**35,283,600**

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ADULT SOCIAL SERVICES & HEALTH

SUMMARY BY SERVICE AREA

SERVICE	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Adult Service Operations	47,215,500	45,568,100	45,220,000
Adult Social Services & Business Resources	2,475,200	2,588,100	2,440,100
Commissioning & Quality Standards	2,592,700	4,287,900	4,324,700
Contracts & Leisure - Arts, Culture and Sport	3,953,600	4,132,500	4,097,600
Public Health	(4,244,700)	(3,897,400)	(3,888,300)
Total Adult Social Services & Health	**51,992,300**	**52,679,200**	**52,194,100**

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	51,992,300
Inflation	685,900
Changes in Government Grants	(1,225,300)
Other Government or Outside Body Changes	504,500
Demand Led Growth	725,300
Efficiency Savings	(800,900)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	312,300
2019/20 ORIGINAL BUDGET	52,194,100

ADULT SOCIAL SERVICES & HEALTH

SUBJECTIVE ANALYSIS

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Expenditure			
Employees	17,999,200	18,528,800	18,545,600
Premises	1,915,900	1,499,500	1,475,800
Transport	1,412,200	1,248,800	1,248,800
Supplies & Services	3,237,900	3,931,600	3,931,600
Third Party Payments	56,409,600	56,032,900	56,851,700
Transfer Payments	7,749,400	8,854,300	8,854,300
Support Services	0	0	0
TOTAL EXPENDITURE	88,724,200	90,095,900	90,907,800
Income			
Government Grants	(16,460,000)	(17,137,300)	(18,117,600)
Other Grants & Contributions	(3,047,400)	(3,806,000)	(3,806,000)
Customer & Client Receipts	(17,224,500)	(16,473,400)	(16,790,100)
TOTAL INCOME	(36,731,900)	(37,416,700)	(38,713,700)
NET EXPENDITURE (CONTROLLABLE)	**51,992,300**	**52,679,200**	**52,194,100**

ADULT SOCIAL SERVICES & HEALTH

Adult Service Operations

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Adult Service Operations Teams	6,737,000	6,612,600	6,585,400
Care Provision	1,480,300	1,729,900	1,750,500
Early Help & Enablement Services	1,499,300	816,800	817,200
Services for Adults with Learning Disabilites	18,626,100	19,908,500	20,004,700
Services for Adults with Mental Health Needs	2,351,200	2,181,900	2,196,600
Services for Older People, Sensory & Physical Disabilites	16,521,600	14,318,400	13,865,600
	47,215,500	45,568,100	45,220,000

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	47,215,500
Inflation	364,800
Changes in Government Grants	(1,225,300)
Other Government or Outside Body Changes	501,300
Demand Led Growth	725,300
Efficiency Savings	(549,500)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	(1,812,100)
2019/20 ORIGINAL BUDGET	45,220,000

ADULT SOCIAL SERVICES & HEALTH

Adult Social Services & Business Resources

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Business Resources	2,475,200	2,588,100	2,440,100
	2,475,200	2,588,100	2,440,100

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	2,475,200
Inflation	85,000
Changes in Government Grants	0
Other Government or Outside Body Changes	0
Demand Led Growth	0
Efficiency Savings	(200,600)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	80,500
2019/20 ORIGINAL BUDGET	2,440,100

ADULT SOCIAL SERVICES & HEALTH

Commissioning & Quality Standards

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Adult Public Health Services	(414,600)	(586,600)	(586,600)
Advocacy, Supported Employment & Other Minor Service	420,100	416,500	416,500
Commissioning Teams	290,000	844,400	858,000
Prevention & Wellbeing Services	1,651,200	2,659,600	2,668,900
Professional Standards & Safeguarding	646,000	954,000	967,900
	2,592,700	4,287,900	4,324,700

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	2,592,700
Inflation	76,900
Changes in Government Grants	0
Other Government or Outside Body Changes	0
Demand Led Growth	0
Efficiency Savings	(5,400)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	1,660,500
2019/20 ORIGINAL BUDGET	4,324,700

ADULT SOCIAL SERVICES & HEALTH

Contracts & Leisure - Arts, Culture and Sport

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Analysis by Service			
Arts & Culture	764,700	733,300	739,300
Libraries	3,372,200	3,506,600	3,554,600
Sports	(183,300)	(107,400)	(196,300)
	3,953,600	4,132,500	4,097,600

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	3,953,600
Inflation	138,000
Changes in Government Grants	0
Other Government or Outside Body Changes	3,200
Demand Led Growth	0
Efficiency Savings	(39,500)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	42,300
2019/20 ORIGINAL BUDGET	4,097,600

ADULT SOCIAL SERVICES & HEALTH

Public Health

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Public Health core (including Public Health Grant)	(4,244,700)	(3,897,400)	(3,888,300)
	(4,244,700)	(3,897,400)	(3,888,300)

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	(4,244,700)
Inflation	21,200
Changes in Government Grants	0
Other Government or Outside Body Changes	0
Demand Led Growth	0
Efficiency Savings	(5,900)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	341,100
2019/20 ORIGINAL BUDGET	(3,888,300)

HOUSING, COMMUNITY SAFETY AND ENVIRONMENT

Should you have any queries concerning the Housing, Community Safety & Environment pages please contact:

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HOUSING, COMMUNITY SAFETY AND ENVIRONMENT

SUMMARY BY SERVICE AREA

SERVICE	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Housing and Community Safety	568,700	596,500	603,600
Housing Management	602,900	619,600	594,800
Housing Services	2,774,600	2,938,000	2,641,600
Strategy and Development	225,200	228,200	192,000
Transport and Street Scene	(3,635,500)	(3,655,300)	(6,103,400)
Environment, Planning & Sustainability - Other	2,455,900	3,258,700	3,028,800
Environment, Planning & Sustainability - Contracts and Leisure	16,365,900	16,743,100	17,042,500
Total Housing, Community Safety and Environment	**19,357,700**	**20,728,800**	**17,999,900**

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	19,357,700
Inflation	1,000,000
Changes in Government Grants	(269,700)
Other Government or Outside Body Changes	78,900
Demand Led Growth	0
Efficiency Savings	(2,932,200)
Investment Priorities	0
Other Growth & Savings	428,000
Budget Transfers	337,200
2019/20 ORIGINAL BUDGET	17,999,900

HOUSING, COMMUNITY SAFETY AND ENVIRONMENT

SUBJECTIVE ANALYSIS

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Expenditure			
Employees	12,169,800	13,068,700	13,140,700
Premises	6,414,600	6,240,900	6,114,300
Transport	1,860,800	1,830,500	1,830,500
Supplies & Services	3,780,900	4,433,500	4,222,900
Third Party Payments	22,737,400	26,099,700	26,124,400
Transfer Payments	3,556,200	596,600	596,600
Support Services	0	0	0
TOTAL EXPENDITURE	50,519,700	52,269,900	52,029,400
Income			
Government Grants	(929,100)	(1,205,400)	(1,464,200)
Other Grants & Contributions	(203,500)	(176,300)	(216,300)
Customer & Client Receipts	(30,029,400)	(30,159,400)	(32,349,000)
TOTAL INCOME	(31,162,000)	(31,541,100)	(34,029,500)
NET EXPENDITURE	**19,357,700**	**20,728,800**	**17,999,900**

HOUSING, COMMUNITY SAFETY AND ENVIRONMENT

TRANSPORT AND STREET SCENE

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Air Quality	62,600	63,900	63,900
Depots	99,600	211,400	56,000
Emergency Planning	58,300	59,200	60,100
Engineering 1 - Parking and Traffic	614,900	718,300	724,000
Engineering 2 - Highways	3,747,200	3,890,500	3,762,300
Engineering 3 - Road Safety	183,500	249,300	252,200
Highways	(313,200)	(317,900)	(302,600)
Inspection & Enforcement	577,700	658,200	565,500
Network Management	(366,300)	(517,500)	(536,500)
On and Off street parking inc contract management	(9,655,400)	(10,033,200)	(12,117,800)
Transport & Workshops	1,355,600	1,362,500	1,369,500
	(3,635,500)	(3,655,300)	(6,103,400)

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	(3,635,500)
Inflation	179,600
Changes in Government Grants	0
Other Government or Outside Body Changes	74,500
Demand Led Growth	0
Efficiency Savings	(2,642,800)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	(79,200)
2019/20 ORIGINAL BUDGET	(6,103,400)

HOUSING, COMMUNITY SAFETY AND ENVIRONMENT

HOUSING AND COMMUNITY SAFETY

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Community Safety	345,200	351,100	355,700
Private Sector Housing	223,500	245,400	247,900
	568,700	596,500	603,600

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	568,700
Inflation	17,800
Changes in Government Grants	0
Other Government or Outside Body Changes	0
Demand Led Growth	0
Efficiency Savings	(2,700)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	19,800
2019/20 ORIGINAL BUDGET	603,600

HOUSING, COMMUNITY SAFETY AND ENVIRONMENT

HOUSING MANAGEMENT

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Animal Welfare	13,200	13,200	13,200
Careline	126,300	137,900	137,500
CCTV	175,500	175,500	145,500
Directorate and Support	287,900	293,000	298,600
	602,900	619,600	594,800

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	602,900
Inflation	26,200
Changes in Government Grants	0
Other Government or Outside Body Changes	0
Demand Led Growth	0
Efficiency Savings	(33,900)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	(400)
2019/20 ORIGINAL BUDGET	594,800

HOUSING, COMMUNITY SAFETY AND ENVIRONMENT

HOUSING SERVICES

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Direct Homelessness Costs	828,400	382,400	107,700
Ex HRA Property	(31,200)	(4,900)	(4,900)
Home Improvement Agency	58,500	61,500	0
Homelessness Prevention Schemes	(44,500)	431,700	436,700
Housing Services Administration	1,963,400	2,067,300	2,102,100
	2,774,600	2,938,000	2,641,600

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	2,774,600
Inflation	74,400
Changes in Government Grants	(269,700)
Other Government or Outside Body Changes	0
Demand Led Growth	0
Efficiency Savings	(65,600)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	127,900
2019/20 ORIGINAL BUDGET	2,641,600

HOUSING, COMMUNITY SAFETY AND ENVIRONMENT

STRATEGIC DEVELOPMENT

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Strategy and Development	225,200	228,200	192,000
	225,200	228,200	192,000

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	225,200
Inflation	8,400
Changes in Government Grants	0
Other Government or Outside Body Changes	0
Demand Led Growth	0
Efficiency Savings	(40,800)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	(800)
2019/20 ORIGINAL BUDGET	192,000

HOUSING, COMMUNITY SAFETY AND ENVIRONMENT

ENVIRONMENT, PLANNING & SUSTAINABILITY - OTHER

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Building Control	(27,300)	(29,200)	(16,800)
Development Management	53,300	332,300	356,000
ECS Management & Support	1,087,000	1,342,300	1,321,100
Environmental Services	585,800	609,600	590,200
Flood Defence	182,000	0	0
Information & Business Support	72,600	94,300	95,800
Land Charges	(226,200)	(224,800)	(257,700)
Policy & Design	518,300	724,200	522,300
Precepts & Levies	0	201,500	201,500
Strategic Developments	13,000	2,300	4,400
TLS	9,400	11,400	13,400
Transport Strategy	188,000	194,800	198,600
	2,455,900	3,258,700	3,028,800

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	2,455,900
Inflation	160,400
Changes in Government Grants	0
Other Government or Outside Body Changes	0
Demand Led Growth	0
Efficiency Savings	(80,700)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	493,200
2019/20 ORIGINAL BUDGET	3,028,800

HOUSING, COMMUNITY SAFETY AND ENVIRONMENT

ENVIRONMENT, PLANNING & SUSTAINABILITY - CONTRACTS AND LEISURE

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Parks	4,161,500	4,244,000	4,176,000
Public Conveniences	84,600	91,000	66,100
Registrars and Cemeteries	(918,300)	(945,300)	(933,800)
Street Cleansing	2,709,200	2,709,200	2,709,200
Waste & Street Cleansing Contract Management	120,400	366,900	222,200
Waste Collection & Recycling	2,491,300	2,854,500	2,785,400
Waste Disposal inc Levy	7,717,200	7,422,800	8,017,400
	16,365,900	16,743,100	17,042,500

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	16,365,900
Inflation	533,200
Changes in Government Grants	0
Other Government or Outside Body Changes	4,400
Demand Led Growth	0
Efficiency Savings	(65,700)
Investment Priorities	0
Other Growth & Savings	428,000
Budget Transfers	(223,300)
2019/20 ORIGINAL BUDGET	17,042,500

FINANCE, POLICY AND PERFORMANCE

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FINANCE POLICY AND PERFORMANCE

SUMMARY BY SERVICE AREA

SERVICE	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Corporate Services	6,353,300	6,229,000	6,047,000
Customers and Partnerships	2,055,700	2,214,600	2,158,900
Economic Development	302,100	378,600	381,600
Equality, Communications & Voluntary Sector	1,781,600	1,928,800	1,969,400
Policy and Performance	2,800,600	2,960,000	2,865,500
Property Services	2,253,400	2,366,400	2,350,700
Resources General Services	4,863,300	4,474,200	4,414,300
Revenue Services	10,417,800	10,677,000	10,470,700
	30,827,800	31,228,600	30,658,100
Central Items	(11,588,200)	(15,400,500)	(4,927,700)
Total Finance Policy and Performance	**19,239,600**	**15,828,100**	**25,730,400**

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	19,239,600
Inflation	2,910,000
Changes in Government Grants	747,600
Other Government or Outside Body Changes	(502,400)
Demand Led Growth	0
Efficiency Savings	(1,025,200)
Investment Priorities	1,462,000
Other Growth & Savings	4,303,800
Budget Transfers	(1,405,000)
2019/20 ORIGINAL BUDGET	**25,730,400**

FINANCE POLICY AND PERFORMANCE

SUBJECTIVE ANALYSIS

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Expenditure			
Employees	16,461,000	17,512,200	17,130,600
Premises	4,007,700	5,781,500	5,767,000
Transport	179,000	205,200	205,200
Supplies & Services	8,673,700	6,809,200	6,690,400
Third Party Payments	2,921,800	2,801,000	2,777,400
Transfer Payments	77,744,200	73,031,700	73,089,900
Support Services	733,300	744,200	744,200
TOTAL EXPENDITURE	110,720,700	106,885,000	106,404,700
Income			
Government Grants	(69,933,900)	(65,397,800)	(65,315,800)
Other Grants & Contributions	(421,400)	(421,400)	(421,400)
Customer & Client Receipts	(9,537,600)	(9,837,200)	(10,009,400)
TOTAL INCOME	(79,892,900)	(75,656,400)	(75,746,600)
NET EXPENDITURE (excluding central items)	**30,827,800**	**31,228,600**	**30,658,100**
Central Items	(11,588,200)	(15,400,500)	(4,927,700)
NET EXPENDITURE (including central items)	**19,239,600**	**15,828,100**	**25,730,400**

FINANCE POLICY AND PERFORMANCE

CORPORATE SERVICES

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Analysis by Service			
Apprenticeship levy	0	225,000	229,500
Electoral Services	730,400	732,700	440,900
HR & Payroll	1,049,400	873,500	889,300
IT & Telecoms	4,573,500	4,397,800	4,487,300
	6,353,300	6,229,000	6,047,000

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	6,353,300
Inflation	192,100
Changes in Government Grants	0
Other Government or Outside Body Changes	0
Demand Led Growth	0
Efficiency Savings	(11,000)
Investment Priorities	0
Other Growth & Savings	(300,000)
Budget Transfers	(187,400)
2019/20 ORIGINAL BUDGET	6,047,000

FINANCE POLICY AND PERFORMANCE

CUSTOMER AND PARTNERSHIPS

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Analysis by Service			
Customer Services	1,268,500	1,368,100	1,429,200
Resident Engagement	787,200	846,500	729,700
	2,055,700	2,214,600	2,158,900

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	2,055,700
Inflation	80,500
Changes in Government Grants	0
Other Government or Outside Body Changes	0
Demand Led Growth	0
Efficiency Savings	(30,700)
Investment Priorities	0
Other Growth & Savings	(24,000)
Budget Transfers	77,400
2019/20 ORIGINAL BUDGET	2,158,900

FINANCE POLICY AND PERFORMANCE

ECONOMIC DEVELOPMENT

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Analysis by Service			
Economic Development	302,100	378,600	381,600
	302,100	378,600	381,600

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	302,100
Inflation	7,500
Changes in Government Grants	0
Other Government or Outside Body Changes	0
Demand Led Growth	0
Efficiency Savings	(1,400)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	73,400
2019/20 ORIGINAL BUDGET	381,600

FINANCE POLICY AND PERFORMANCE

EQUALITY, COMMUNICATIONS & VOLUNTARY SECTOR

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Analysis by Service			
Communications	387,800	384,900	384,900
Community and Partnerships	1,393,800	1,543,900	1,584,500
	1,781,600	1,928,800	1,969,400

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	1,781,600
Inflation	46,900
Changes in Government Grants	0
Other Government or Outside Body Changes	(700)
Demand Led Growth	0
Efficiency Savings	(37,500)
Investment Priorities	100,000
Other Growth & Savings	25,000
Budget Transfers	54,100
2019/20 ORIGINAL BUDGET	1,969,400

FINANCE POLICY AND PERFORMANCE

POLICY AND PERFORMANCE

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Analysis by Service			
Chief Exec, Support and Trainees	826,800	796,300	760,600
Corporate Initiatives	4,700	84,900	84,900
Legal	47,600	47,600	47,600
Member Services	1,484,300	1,585,600	1,548,200
Policy, Performance and Analysis	437,200	445,600	424,200
	2,800,600	2,960,000	2,865,500

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	2,800,600
Inflation	96,700
Changes in Government Grants	0
Other Government or Outside Body Changes	0
Demand Led Growth	0
Efficiency Savings	(155,200)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	123,400
2019/20 ORIGINAL BUDGET	2,865,500

FINANCE POLICY AND PERFORMANCE

PROPERTY SERIVCES

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Analysis by Service			
AfC Properties	(1,499,600)	(1,560,600)	(1,484,600)
Facilities Management	4,170,200	4,163,800	4,132,900
Halls/Community Centres	(262,300)	(253,400)	(266,000)
Office Accommodation	419,200	676,600	624,800
Sustainability	13,500	10,700	10,700
Valuation and Asset Management	(587,600)	(670,700)	(667,100)
	2,253,400	2,366,400	2,350,700

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	2,253,400
Inflation	179,400
Changes in Government Grants	0
Other Government or Outside Body Changes	34,100
Demand Led Growth	0
Efficiency Savings	(97,100)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	(19,100)
2019/20 ORIGINAL BUDGET	2,350,700

FINANCE POLICY AND PERFORMANCE

RESOURCES GENERAL SERVICES

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Analysis by Service			
Audit and Insurance	435,400	448,600	467,900
Corporate Management	532,000	477,900	477,900
Directorate Management and Support	398,200	391,800	398,300
Financial Management	1,738,400	1,825,400	1,853,900
Health and Safety Team	61,700	91,100	92,800
Levies	945,500	541,300	441,300
Pensions Administration	53,700	51,500	52,100
Procurement	698,400	646,600	630,100
	4,863,300	4,474,200	4,414,300

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	4,863,300
Inflation	176,100
Changes in Government Grants	0
Other Government or Outside Body Changes	100,000
Demand Led Growth	0
Efficiency Savings	(259,600)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	(465,500)
2019/20 ORIGINAL BUDGET	4,414,300

FINANCE POLICY AND PERFORMANCE

REVENUE SERVICES

Analysis by Service	2018/19 Original £'000	2018/19 Revised £'000	2019/20 Original £'000
Accessible Transport Unit/Concessionary Fares	8,632,900	8,635,300	8,642,100
Council Tax & Business Rates	(68,600)	(30,400)	(137,000)
Housing Benefit Subsidy	172,000	179,800	179,800
Housing Benefits inc Social Fund	1,043,300	1,245,100	1,119,800
Parking	638,200	647,200	666,000
	10,417,800	10,677,000	10,470,700

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	10,417,800
Inflation	110,100
Changes in Government Grants	45,600
Other Government or Outside Body Changes	58,200
Demand Led Growth	0
Efficiency Savings	(376,500)
Investment Priorities	0
Other Growth & Savings	0
Budget Transfers	215,500
2019/20 ORIGINAL BUDGET	10,470,700

FINANCE POLICY AND PERFORMANCE

CENTRAL ITEMS

	2018/19 Original £'000	2018/19 Revised £'000	2019/20 Original £'000
ASSET MANAGEMENT & TREASURY			
Interest Payable	4,255,000	4,255,000	4,440,000
Interest Receivable	(1,326,000)	(1,326,000)	(1,420,000)
MRP (Principal Loan Repay)	4,067,000	4,067,000	4,797,000
Revenue Funding of Capital Expenditure	917,000	917,000	917,000
CONTINGENCY & INVESTMENT ITEMS			
General Contingency	1,075,800	500,000	500,000
Pay and Other Contingency	1,652,500	200,000	2,130,600
Contract Inflation Contingency	2,525,800	390,400	3,033,400
Investment Initiatives	150,000	0	100,000
NON-RINGFENCED GOVERNMENT GRANTS			
New Homes Bonus Grant	(2,214,200)	(2,214,200)	(1,512,200)
Section 31 Grants	(1,038,000)	(1,038,000)	(1,038,000)
OTHER			
Centrally Funded Pensions	4,173,400	4,173,400	4,256,700
Distribution of surplus/deficit on Collection Fund	(1,750,000)	(1,750,000)	(1,500,000)
NNDR	(21,699,400)	(21,699,400)	(23,043,400)
Contributions to Earmarked Reserves	(663,100)	(161,700)	4,211,200
Transfers to/from Earmarked Reserves to reduce Council	(1,714,000)	(1,714,000)	(800,000)
NET EXPENDITURE	**(11,588,200)**	**(15,400,500)**	**(4,927,700)**

Variation Analysis	2019/20 Budget £
2018/19 ORIGINAL BUDGET	(11,588,200)
Inflation	2,020,700
Changes in Government Grants	702,000
Other Government or Outside Body Changes	(694,000)
Demand Led Growth	0
Efficiency Savings	(56,200)
Investment Priorities	1,362,000
Other Growth & Savings	4,602,800
Budget Transfers	(1,276,800)
2019/20 ORIGINAL BUDGET	(4,927,700)

LONDON BOROUGH OF RICHMOND UPON THAMES

CABINET

DATE:	**14th FEBRUARY 2019**
REPORT OF:	**STRATEGIC CABINET MEMBER FOR FINANCE AND PERFORMANCE**
TITLE OF DECISION	**REVENUE BUDGET STRATEGY AND COUNCIL TAX 2019/20**
WARDS:	**ALL**

KEY DECISION?: NO

IF YES, IN FORWARD PLAN?: YES

For general release

1. MATTER FOR CONSIDERATION

1.1 This report gives details of the budget strategy and recommends to Council that the Band D level of Council Tax, excluding the GLA element, be set at £1,483.21 (an increase of 2.99% in Council Tax plus 2% for the Social Care Precept). Including the GLA precept, which has increased by 8.93%, the Band D Council Tax will be £1,803.72.

2. RECOMMENDATIONS

2.1 That Members consider the advice of the Director of Resources and Deputy Chief Executive in respect of Section 25 of the Local Government Act 2003 in setting the budget (see paragraphs 3.29 to 3.39)

2.2 That the Council be recommended to agree the Revenue Budget for 2019/20

2.3 That the Cabinet notes the intention to increase the Council Tax by 2.0% in relation to the Adult Social Care precept (see paragraph 3.23)

2.4 **That the Council be RECOMMENDED to agree that the Band D level of Council Tax for 2019/20, including the Council's increase in Council Tax of 2.99%, the Social Care Precept of 2% and the GLA increase of 8.93%, be set at £1,803.72, an overall increase of 5.67% on 2018/19. The levels of Council Tax for all property bands are shown at Appendix A; and**

2.5 That the Cabinet note that the Medium Term Financial Strategy was approved by the Cabinet in September 2018 and a further update will be provided in September 2019.

3. DETAILS

Background

3.1 The development of the Council's financial strategy continues to be set against a background of austerity measures designed to reduce the UK budget deficit and public borrowing alongside continuing increases in demand for public services.

3.2 In developing its strategy the Council has produced a number of reports reviewing the national budget, assessing the impact of the local government finance settlement, reviewing reserves and balances and setting out the Administration's key aims and priorities for capital investment.

3.3 The new administration set out in its manifesto a Fairer Finance agenda to ensure that there is a fairer deal for all residents and support for the most vulnerable in our community. The new administration has also committed to responsible stewardship of council finances and all areas of council expenditure have been reviewed to seek further efficiencies and rebalance priorities. The council has been active in fighting for a fairer funding deal for Richmond residents, coordinating lobbying of ministers especially in relation to the shortfall in Special Educational Needs funding.

The Local Government Finance Settlement (LGFS)

3.3 In December 2015 the Government proposed a four year funding settlement. In announcing the provisional settlement, the Secretary of State set out a number of aims for the settlement including:

- Help with Adult Social Care; and
- The right for Councils to spend locally what they raise locally

3.4 The key headlines for the Borough arising from the four year settlement offer were:

- A 66% reduction in Government support to the Borough by 2019/20. (The national average reduction was 33.4% and the London average was 32.2%)
- No additional funding to be available to the Borough from the "Improved Better Care Fund"
- An additional tariff (loss of funding to the Council) on locally raised Business Rates of £7.5m by 2019/20.

Following further representations by a number of authorities, including Richmond, a transitional grant for those who suffered the sharpest losses was made in 2016/17 and 2017/18 which has now ceased.

3.5 Since then, Richmond joined the pilot pool for London Business Rates for London to retain a greater share of the growth in business rates (see report to Cabinet 14/12/17) with 100% retention of business rates within the pool in 2018/19. The move to 75% retention pilot has been confirmed for 2019/20.

The December 2018 LGFS announcement made the following changes:

- Removed "negative" Revenue Support Grant (RSG) for 2019/20 (but uncertainty remains for future years)
- Announced the continuation of the New Homes Bonus allocations using the 0.4% baseline so that authorities need to achieve tax base growth greater than 0.4% before receiving NHB funding. This created a reduction of £1.070m in 2018/19 and £702,000 in 2019/20.

- Confirmed that Council Tax increases continues to be up to 2.99% in 2019/20 before a referendum is required. This is in addition to the Social Care "precept" element which can be up to 2%.

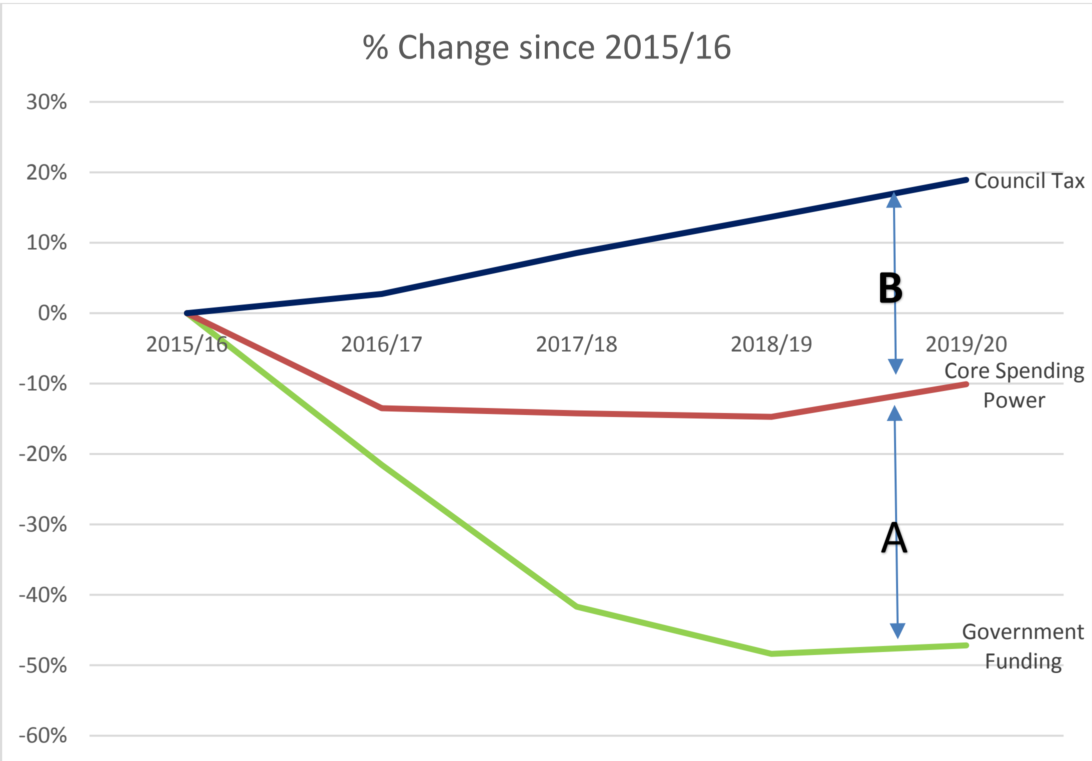
The overall Settlement Funding Assessment for London Boroughs will increase by 2.3% compared to 2018/19. The Funding Assessment by Central Government assumes that councils will raise Council Tax by the maximum amount allowable without a local referendum, i.e. for Richmond 2.99% for core Council tax and 2.00% for the adult social care precept.

3.6 The reversal of the proposed negative RSG removes a key risk to Richmond's finances for 2019/20 that had been threatened in the 2015 4 year settlement, however, it is unclear if this risk will rematerialise in later years. Richmond remains one of the lowest funded Boroughs and will continue to argue that the current core funding position should be the minimum baseline for any future funding settlement. In addition, the structural underfunding of special needs education needs to be addressed.

3.7 The latest December 2018 settlement demonstrates a 10.1% reduction in Richmond's Core Spending Power between 2015/16 and 2019/20. Core Spending Power is made up of Government funding for the Council plus locally raised Council Tax and Business Rates and relevant grants.

3.8 The chart (chart 2) below illustrates how a 47% reduction in funding from Government translates to a 10% reduction in Core Spending Power. The loss in Government funding (area A on the chart), is compensated for the Government's assumption of increased Council Tax from Richmond residents (area B on the chart).

<u>Chart 2: Spending Power, Government Funding and Council Tax</u>



3.9 The Council has, since the introduction of Spending Power as a measure of the impact of the LGFS, argued that it dilutes the true effect of reductions in central Government funding by using locally raised Council Tax to offset the reductions. Spending Power calculations by central government assume that council tax is raised by the maximum amount possible locally.

3.10 The Council has engaged with Government throughout this year on consultations on changes to the underlying formula and proposals for further retention of business rates. Most recently this has included responding to the Local Government Finance Settlement consultation, discussions with Treasury and MHCLG on general Local Government Finances and meeting with Department for Education officials to discuss schools funding in December.

The Medium Term Financial Strategy (MTFS)

3.11 The MTFS is intended to identify a financially sustainable way of achieving the Council's aims, recognising the need to balance service demands with available resources and the impact on Council Tax payers. The MTFS was updated in September 2018 to reflect the new Administration's plans.

3.12 The latest budget monitoring data shows that the Council is forecasting £2.7m underspend on its revenue budget in 2018/19. This is made up of a number of over and underspends across the wide range of services provided by the Council. However, this needs to be seen in the context of a much larger Dedicated Schools Grant issue where there is a predicted in-year deficit of up to £4.4 million (and an accumulated deficit of around £12.4m). The monitoring report has been agreed by Cabinet Members and reviewed by Overview and Scrutiny Committees.

3.13 The Council continues its strong commitment and good track record of working in partnership. The Council works with the local Clinical Commissioning Group (CCG) and wider GP membership on joint commissioning across a number of services as well as with the voluntary sector and community groups to address the impact of the current economic situation. The Shared Staffing Arrangement with Wandsworth continues to identify joint procurement opportunities in addition to the efficiency and savings delivered from the shared staffing.

Balances and Reserves

3.14 Appendix B to this report contains a full listing of the revenue balances and reserves held by the Council and gives details on their intended application. The key issues are:

- The General Reserve currently shows as £9.96m. This is within the range (5-10% of Budget Requirement) agreed by the Council. Approximately 25% (£10.4m) e.g. PFI Reserve and Insurance Funds, whilst being under Council control, are essentially not available for use for other purposes. Approximately 18% (£8.0m) of the quoted balances at 1.4.18 are funds that are outside of the Council's direct control e.g. school balances.
- Once any schools become academies, reserves associated with these schools will be transferred out of Council funds.
- The Council agreed to place the "one off" freeze grants from central government into a reserve to be used from 2014/15 to hold down any future Council Tax increases. The total use of freeze grants to support the Council Tax in 2019/20 is proposed to reduce to £0.8m. The full £2.7m currently showing in this reserve is assumed to be fully utilised across the period of the Council's MTFS.

- The use of the Invest to Save Reserve will be subject to decisions taken at year end 2018/19 in respect of funding of redundancies and set up costs associated with transformation programmes.
- The Dedicated School Grant (DSG) has proved insufficient to meet the requirement to provide a “minimum funding guarantee” to schools and meet the rising costs of those with high needs. Whilst school funding has been removed from local authority general grant, any shortfall needs to be met by the local authority or recovered in some way from schools funds. At present the DSG has a projected overspend of between £3.6m and £4.4m giving a projected cumulative deficit of around £12.4m by the end of this financial year. Ultimately if the DSG cannot be brought back into balance and no other source of funding is identified this could result in a call on the Council’s general reserves. The Council has agreed a number of measures with AfC to seek to contain this position, however, these are unlikely to recover the existing deficit or significantly reduce the overspend in the short term. The Council has written to Government and met with Government officials requesting both additional funding and additional flexibility in existing funding streams to seek to recover this position. Further meetings are being held in January 2019.
- It is anticipated that, overall, reserves will fall by around £5.9m by the end of 2018/19 before any in-year under or overspend is taken into account (including schools) (see Appendix B). Balances are available for use only once. Their use to reduce Council Tax or meet existing cost pressures can allow the Council to smooth the impact of underlying funding and service changes but must be carefully considered as part of longer term planning.
- Given the current financial risks facing the Council, the Council’s budget proposal includes the establishment of a Resilience Reserve to provide for flexibility in managing any short term impact on services and investing in preventative measures to reduce longer term costs. The key immediate risk is the accumulated deficit on the DSG and the widening annual gap in special needs funding, with no central government action to address the problem on the horizon. In the medium term the funding outlook is very unclear with revisions to the Local Government funding mechanisms from 2020 and possible changes to the approach for the delivery of Adult Social Care to be announced in the long awaited Green Paper. The government's room for manoeuvre may be limited by an uncertain economic outlook in the run up to Brexit, which may also increase costs for the Council. In addition, demand pressures are also continuing in Social Care Services (adults and children's).

Overall Budget Proposals

3.15 In line with the Constitution and in accordance with proposals agreed by Leading Members, individual service budgets have been agreed by the relevant Cabinet Member and reports have been submitted to the relevant Overview and Scrutiny Committees.

3.16 The Council has had to continue to base its planning for Council Tax in the light of the serious, long term reductions in Local Government funding. It has attempted to do this in a way that strives to maintain service standards whilst addressing the need for significant budget reductions.

3.17 The Council has entered a new efficiency programme from 2019/20 and this is likely to need to continue in future years. Managing the council's finances prudently in this way allows for targeted investment in specific priorities as set out in the new administration’s manifesto including the Fairer Finances agenda.

3.18 In particular the 2019/20 budget has:

- Built in specific funds for addressing fairer funding priorities, new demands / costs of statutory services:
    - £1.13m to reflect increased demand for social care services and £0.7m for winter pressures within adult social services
    - Allowed for a reduction of £440k collectible council tax as a result of changes to the council tax reduction scheme
    - An additional £100k to fund additional road repairs
    - £25k to accommodate re-affirmation with Richmond's twinned boroughs
    - Incorporated £30k to fund the amendment to the homeless removal and storage charge policy
    - Included £20k discretionary fund for extreme hardship cases highlighted by Citizens Advice
    - Allowed for the removal of the charge for cycling lessons within the borough to encourage active transport
    - The continuation of the one off £0.15m added in 2018/19 for the following specific initiatives:
        - £50k to provide additional mental health support in schools
        - £50k to provide support to those young people leaving care to meet the cost of council tax
        - £50k to fund measures to boost in-house foster care provision

- Included efficiency/savings/income generation of £5.4m as follows:
    - Savings from reorganisations, shared services and service redesign etc. £1.5m
    - Reductions generated from procurement and contract savings £1.1m
    - Income and holding down inflation on supplies budgets £2.6m
    - Other efficiency initiatives £0.2m
- Provided continuing support for capital investment.
- Provided for a 2.0% LG pay award effective from 1 April 2019 and zero on non-contracted services.
- Added a new Resilience Reserve of £3.9m as detailed in paragraph 3.14.

3.19 The final service totals are:

	£m
Adult Social Services and Health	52.2
Children's Services and Schools*	35.3
Housing, Community Safety and Environment	18.0
Finance, Policy and Performance	30.7
Total	136.2

* includes £52.5m Achieving for Children Contract

3.20 Central Items and contingency

	£m
Capital Funding and Investment	8.7
Pensions deficit funding	4.3
General Contingency	0.5
Pay Award / Contract Contingency / Other	5.3
Transfers to/from Reserves	3.4
Non Ring Fenced Grants	-1.5
Central Items – budget requirement	20.7
Retained Business Rates	-24.0
Contribution from Collection Fund (CTAX)	-1.5
Central Items - funding	-25.5
Total Central Items	-4.9

3.21 Summary of Borough Expenditure

	£m
Service Estimates	136.2
Central Items and Contingency	20.7
Total	156.9

Levies

3.22 There are a number of levies and other charges, which the Council has to pay each year. These levies count as part of the borough's expenditure and they are, therefore, included in the relevant service budgets. The amounts and services are set out below:

Levy	**2018/19 £000**	**2019/20 £000**	**Variation %**
West Waste	7,916	8,138	2.80
Lee Valley Park	215	215*	TBC
Flood Defence	196	196*	TBC
London Pension Fund Authority	325	325*	TBC
Coroner's Service	124	124*	TBC

*Yet to be received. All figures are based on the latest information at the time of writing the report and are subject to change once final levies have been agreed.

There are no levies this year from the Mortlake or South West Middlesex Crematorium Boards.

Capping/Council Tax Referendums and the Social Care "Precept"

3.23 The Localism Act abolished direct capping by the Government and replaced it with the ability of the Secretary of State to set a maximum level of council tax increase. Any Council wishing to set a higher level of increase will be required to hold a local referendum. The Secretary of State has announced the level that will trigger a referendum will continue to be 3% (or higher) for 2019/20.

3.24 The Spending Review 2015 also announced that for the rest of the current Parliament, local authorities responsible for adult social care "will be given an additional 2% flexibility on their current council tax referendum threshold to be used entirely for adult social care". This flexibility was increased in the December 2016 settlement to allow the maximum "additional flexibility" to increase to 3% in both 2017/18 and 2018/19 provided it does not exceed 6% across the 3 year period to 2019/20. This is being offered in recognition of demographic changes which are leading to growing demand for adult social care, and increased pressure on council budgets.

3.25 Taken together this would raise the maximum Council Tax increase before a referendum is required to 4.99% for this Council.

The Greater London Authority (GLA) Precept

3.26 The Band D Council Tax in respect of the GLA Precept is expected to increase by £26.28 to £320.51.

3.27 **Summary of requirements and Council Tax**

	£m
Total LBRuT Budget Requirement	156.789
School expenditure funded from DSG *	155.727
	312.516
Less	
NNDR retention	-24.081
DSG *	-155.727
Contribution from Collection Fund (CTAX)	-1.500
Richmond Requirement for Council Tax	131.208
GLA Precept	28.354
Total Requirement including GLA Precept	159.562

*Final figures, including all academy adjustments, are still awaited.

The Council Tax Base for 2019/20 was set as 88,464 Band D equivalents in the delegated authority report published on 28th January 2019.

Based on the above figures, allowing for roundings, the total tax at Band D including the GLA element would be <u>increased</u> to £1,803.72, an increase of 5.67%.

3.28 The table below shows the impact of the increases in Council Tax provisionally proposed by the Council and the GLA:

	2018/19 £	**2019/20 £**	**% change**
LBRUT	1,412.71	1,483.21	4.99
GLA	294.23	320.51	8.93
TOTAL	1,706.94	1,803.72	5.67

3.29 **Section 25(2) of the Local Government Act 2003**

Section 25(2) of the Local Government Act 2003 requires the Chief Financial Officer of an authority to report on:

(a) the robustness of the estimates made for the purposes of the calculations, and

(b) the adequacy of the proposed financial reserves.

In doing so, the Director of Resources and Deputy Chief Executive has had particular regard to the guidance offered by the Chartered Institute of Public Finance and Accountancy and the views of the Council's external auditor.

3.30 The Council's stated aim is to achieve long term stability in its finances whilst restricting Council Tax increases. To achieve this, the Council must have regard to the major risks to its financial position and in particular:

- The relatively low (compared to other London Councils) level of reserves.
- The current economic position and future outlook
- Whether budget setting and monitoring processes are robust and effective
- Demand pressures on the budget, particularly in light of the high proportion of the budget spent on Social Care services and the current pressures on the high needs element of the schools budget
- Identifying and achieving cost and income improvements
- Changes to the system of funding for Local Government
- Risks to Government funding levels
- Risks to other income streams

3.31 The Council has a good track record in financial management and in the delivery of Value For Money (VFM). The judgements by external inspectorates take into account both the service performance of the Council and the way we prepare and monitor our budgets as well as the wider use of resources including staffing and physical resources.

3.32 Local government finance issues have been dominated in recent times by cuts in government funding and pressure to keep council tax increases down set against growing demand for services. Alongside this the longer term position has also been made more uncertain by the changes in the way Government funding is calculated. The Council now has revised provisional funding figures to 2019/20 which are detailed above. The impending Fair Funding and Business Rate Retention consultations mean that it is extremely difficult to plan with any certainty beyond this year. The Council has therefore taken a prudent stance to providing reserves and assuming the need for further efficiency measures.. Whilst the Council's position is stable, reserves have declined and borrowings increased in recent years and the longer term position remains extremely challenging and uncertain especially considering the position with the deficit in the high needs part of the schools budget.

3.33 The Council has sufficient reserves to deal with the challenges it faces in the short term and continually reviews its savings and efficiency programme as part of medium and longer term planning. Following the full review of the Medium Term Financial Strategy in September 2018, savings and efficiencies plans are now in place for 2019/20 and the medium term.

3.34 Given the resource constraints and uncertainty over demand pressures faced by the Council it is imperative that efficiency remains at the heart of all Council activities. This will contribute towards the achievement of the Council's objectives.

3.35 Despite the constrained funding position, the Council remains committed to investing in the essential infrastructure which underpins high quality services. The affordability of this programme has been helped by the identification of one-off capital and revenue resources but the programme still relies heavily on the Council being prepared to increase its borrowing in future years. The Council also believes that, faced with the level of growth projected, it is essential that the Government steps up its contribution to this essential infrastructure and will be making its case robustly to Government. The impact of the required increase in borrowing is built into the Medium Term Financial Strategy and will be kept under regular review with the aim of reducing the borrowing need if possible.

3.36 The Council's reserves and their usage are linked to both the capital and revenue budget. A full list of the current reserves held by the Council is attached at Appendix B and will be reviewed again as part of the update of the MTFS later in 2019/20. The overall level has reduced over recent years but remains adequate for the purposes identified.

3.37 The financial strategy relies on the use of one off monies received from the Government for freezing Council Tax to smooth increases in coming years. With levels of reserves below the London average, reserves will continue to be monitored and reviewed regularly. Both the current and projected levels of General Reserve are expected to remain within the Council's agreed range of 5-10% of the Budget Requirement. However, there is a particular concern in relation to the deficit being built up on the Dedicated Schools Budget which is now placing a significant additional strain on the Council's reserves. Discussions are currently ongoing with both schools and Government on this issue but without swift resolution this could significantly undermine the Council's future plans.

3.38 It should be noted that the Pension Fund Reserve is, in common with many other Pension Funds, showing a large deficit. The Council has a long term recovery plan for the fund but this faces continual challenges from reducing numbers contributing to the fund, increasing longevity of members and volatile investment returns. The next triennial fund valuation is to take place in 2019 and the Council's required contribution has been set within existing budgets by the new Joint Pension Committee (Wandsworth and Richmond Pension schemes merged with effect from October 2016).

3.39 In summary, the Chief Financial Officer (being the Director of Resources and Deputy Chief Executive) confirms that he is content that the estimates are robust for the purposes of the required budget/council tax calculations and that the Council's reserves are adequate in the short to medium term, although the position in relation to the DSG deficit presents a particular risk at this time.

4. FINANCIAL AND EFFICIENCY IMPLICATIONS

4.1 These are set out in the body of the report.

5. PROCUREMENT IMPLICATIONS

5.1 Improvements in procurement processes and outcomes forms a key part of the Council's efficiency programme. Included in the budget proposals are a number of new procurements which are anticipated to contribute to the overall savings targets for the Council.

6. LEGAL IMPLICATIONS

6.1 There are none arising directly from this report.

7. CONSULTATION AND ENGAGEMENT

7.1 The Council has undertaken a number of Residents Surveys in recent years which have included key questions on their priorities for spending and opinion of the Council's approach to financial management. The results have been used to inform the budget strategy.

7.2 The Council maintains contact with the local business community via the Chamber of Commerce and other business and community forums. Officers have been invited to attend business breakfast meetings at which they provide an update on the Council's financial position and its future plans as well as keeping businesses informed about changes to the business rating system.

7.3 Scrutiny have also considered relevant detailed service budget reports and have the opportunity to comment before Cabinet recommends final decisions to Council.

8. POLICY IMPLICATIONS/CONSIDERATIONS

8.1 There are none arising directly from the report although the level of budget resources available is a major influence on the delivery of Council policy in all areas. The Council's budget is part of the Policy Framework and, therefore, requires the approval of Council.

9. RISK ASSESSMENT

9.1 The risks faced by the Council in relation to financial planning and budget setting are set out in paragraphs 3.29 to 3.39 of this report as part of the Director of Resources and Deputy Chief Executives' comments on Section 25 (2) of the Local Government Act 2003.

9.2 Many of the risks are similar to previous years but it is particularly worth noting the risks in relation to Government Funding, Schools and Children's/Adult social care.

10. EQUALITY IMPACT/CONSIDERATIONS

10.1 Appendix C considers the equality impact of major changes to the 2019/20 budget.

11. APPENDICES

Appendix A – Council Tax Bands 2019/20
Appendix B – Revenue Reserves
Appendix C – Equality Impact Assessment

12. BACKGROUND PAPERS

None

13. CONTACTS

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APPENDIX A

Council Tax Bands 2019/20

Band	Richmond Council Tax (2019/20) £	Greater London Authority (2019/20) £	Total Council Tax (2019/20) £
A	988.81	213.67	1,202.48
B	1,153.61	249.29	1,402.90
C	1,318.41	284.90	1,603.31
D	1,483.21	320.51	1,803.72
E	1,812.81	391.73	2,204.54
F	2,142.42	462.96	2,605.38
G	2,472.02	534.18	3,006.20
H	2,966.42	641.02	3,607.44

DESCRIPTION	Actual Balance at 1.4.18 £000	Estimated Revenue Usage 18/19 £000	Estimated Capital Usage 18/19 £000	Estimated Additions 18/19 £000	Estimated Balance at 31.3.19 £000	PURPOSE OF RESERVE
STATUTORY RESERVES OVER WHICH THE COUNCIL HAS LIMITED OR NO CONTROL						
Schools	-7,370	*	*	*	-7,370	Ring fenced to schools
Schools' Maternity & Supply Cover Scheme	-327	*	*	*	-327	Internal insurance arrangement for supply and maternity cover in schools
Dedicated Schools Grant Reserve	7,970	4,400	*	*	12,370	Created from underspend of Dedicated Schools Grant. Currently showing a deficit balance. Earmarked for schools expenditure.
Orleans House	-81	0	0	0	-81	Balance of rent income received on trust assets managed by the Council. To be used in relation to the Orleans House site.
Home Loans Unit	11	0	0	0	11	Funds associated with former GLC mortgages (distributed across all London boroughs)
Thames Landscape Strategy	-15	0	0	0	-15	Ringfenced reserve managed on behalf of London boroughs
South London Partnership Reserve	-323				-323	5 borough collaboration to promote sustainable growth
Sub total	**-135**	**4,400**	**0**	**0**	**4,265**	
NON STATUTORY BUT ESSENTIAL RESERVES						
PFI Reserve (Future Liabilities)	-8,761	0	0	0	-8,761	To allow for future smoothing of annual payments under PFI contracts
General Insurance Reserve	-1,349	84	0	-300	-1,565	Internal insurance fund (non vehicle). Revaluation is completed as part of the insurance tendering process.

DESCRIPTION £000	Actual Balance at 1.4.18 £000	Estimated Revenue Usage 18/19 £000	Estimated Capital Usage 18/19 £000	Estimated Additions 18/19 £000	Estimated Balance at 31.3.19 £000	PURPOSE OF RESERVE
Vehicles Insurance Reserve	-190	0	0	0	-190	Internal insurance for Council vehicles
Sub total	**-10,300**	**84**	**0**	**-300**	**-10,516**	
DISCRETIONARY RESERVES CURRENTLY EARMARKED						
Council Tax Freeze Grant	-2,686	1,200	0	0	-1,486	To be used to contribute to minimising Council Tax in future years
Repairs and Renewals Fund	-2,976	0	0	-496	-3,472	Purchase or creation of assets providing benefits of at least 3 years
Waste & Recycling Reserve	-1,948	100	0	0	-1,848	Used to fund Waste and Recycling Strategy
Invest to Save Fund	-5,973	600	0	0	-5,373	Funding for efficiency work across the Council, including an allowance for redundancy costs
All in One Uplift Projects	-411	211	0	0	-200	To support the development of Uplift projects and also projects resulting from the All in One Consultation/Twickenham Riverside
Youth Development Fund	-248	0	0	0	-248	To fund capital schemes to improve youth facilities
Commitments Reserve	-231	0	0	0	-231	Unspent revenue budgets carried forward for specific Cabinet approved projects
Climate Change Reserve	-555	0	0	-53	-608	To support the Council’s Sustainability Team in reducing the threat of climate change, to cut carbon emissions and promote energy efficiency
Youth Centres Reserve	-75	66	0	0	-9	Income generated by youth centres (e.g. lettings) which is earmarked for re-investment within youth services

DESCRIPTION £000	Actual Balance at 1.4.18 £000	Estimated Revenue Usage 18/19 £000	Estimated Capital Usage 18/19 £000	Estimated Additions 18/19 £000	Estimated Balance at 31.3.19 £000	PURPOSE OF RESERVE
Lincoln Fields	-297	0	0	0	-297	Net income for Lincoln Field site to be put towards pitch re-surface as per Football Foundation agreement
Economic Support Fund	-206	50	0	0	-156	Support for economic development initiatives
VAT Reserve	-105	0	0	0	-105	To cover potential tax liabilities
Village Plans Reserve	-106	0	0	0	-106	Fund to support residents' community programs
Other Reserves	-354	67	0	0	-287	Various small reserves (under £100k)
Sub total	**-16,171**	**4,884**	**231**	**-874**	**-14,426**	
GENERAL FUND						
General Reserve (available for any purpose)	-9,956	0	0	0	-9,956	To be used to contribute to minimising Council Tax in future years
TOTAL RESERVES	**-36,562**	**6,778**	**0**	**-849**	**-30,633**	
TOTAL RESERVE MOVEMENT	**-36,562**			**5,929**	**-30,633**	

* Decisions on these reserves are normally taken as part of the final accounts process and so no changes are shown at this time

LONDON BOROUGH OF RICHMOND UPON THAMES

Medium Term Financial Strategy

'Fairer Finances and Responsible Stewardship'

September 2018

1 EXECUTIVE SUMMARY and PURPOSE

The Council sets a Medium Term Financial Strategy (MTFS) in order to ensure that it can plan for future commitments, establish a framework for setting council tax, ensure financial sustainability and recognise and address the risks inherent in achieving these aims. This is the first revision to the MTFS following the local election in May 2018 which saw the election of a new Liberal Democrat Administration. The new Administration made commitments within its manifesto and these have now been translated into a new corporate plan. This strategy seeks to ensure that the aims of the corporate plan can be achieved within the finance available to the council.

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2 Fairer Finances and Responsible Stewardship

The key objective of the MTFS will remain to set the lowest possible Council Tax consistent with delivering Fairer Finances and the other objectives of the Corporate Plan. However, the new Administration has to recognise the context of a severe reduction in the central government support grant [and structural underfunding by the government of special needs education]. The new Administration will ensure the most vulnerable in our community are supported and cared for whilst achieving fairer outcomes for all residents.

In pursuing this aim, the Council will:

- be open and accountable,
- support the most vulnerable in the community,
- act as trustees for the natural and built environment of the borough,
- focus expenditure on services of direct benefit to local residents,
- give local people a more direct say in Council services.
- Be open to best practice and innovative ideas

The Strategy will include taking specific actions in respect of:

- Pursuing a fairer Government funding deal for residents,
- Maximising income and innovative ways to deliver services to minimise the scope of savings required,
- Reviewing every current budget to ensure it is being used in the most effective way and identify options for efficiency
- Ensuring that all departments have costed plans to deliver the Fairer Finances and Corporate Plan objectives
- A refocussing of capital and infrastructure investment including prioritising 'Spend to Save' projects
- Engagement with Government on underfunding in Special Educational Needs

Further details on the actions already in progress are provided in section 9 later in this document.

3 The current MTFS

3.1 The current MTFS showed that even if Council Tax rose by 3.99% each year the Council would face the need to identify further savings (on top of those already agreed and in the future plans) each year as follows:

Year	2019/20	2020/21	2021/22	2022/23
MTFS Gap £	£6.9m	£4.2m	£0.9m	£0.7m

3.2 The core assumptions that drove these figures were:

Year	2019/20	2020/21	2021/22	2022/23
Pay Inflation (2.5% inc increments) *inc national living wage*	£1.7m	£1.8m	£1.9m	£1.9m
Contract/other inflation	£3.3m	£3.5m	£3.5m	£3.6m
Growth in Children's Social Care	£0.5m	£0.5m	£0.5m	£0.5m
Growth in Adult Social Care	£0.5m	£0.5m	£0.5m	£0.5m
Treasury (capital programme) costs	£0.4m	£0.5m	£0.5m	£0.5m
General RSG loss	£7.5m	£2.0m	£0.0m	£0.0m
Other Grant Changes	£0.9m	£0.4m	£0.0m	£0.0m
Assumed NNDR pooling loss/gain ??	£1.7m	??	??	??
Savings already built in				
• Remaining Wandsworth SSA	-£1.9m	-	-	-
• Service Other savings/income	-£1.6m	-	-	-
• Tax base growth	-£0.8m	-£0.9m	-£0.9m	-£1.0m
• Collection Fund Use	-£1.5m	-£1.2m	-£1.2m	-£1.0m
• Use of Freeze Grant	-£0.8m	-£0.4m	-£0.2m	-

3.3 Action: These assumptions and others are considered within the remainder of this paper as part of updating the latest MTFS.

4. Local Government Finance - Current

4.1 Historically the London Borough of Richmond (LBR) has received relatively little of its funding from general Government grants because the majority was distributed on a needs basis – and as a relatively wealthy area Richmond was allocated a relatively lower level of funding. Typically throughout recent times Richmond's general government grant funding has made up only just over 20% of its funding compared to the average London Borough receiving around 70% of funding from Government. This has also meant that, in order to provide an equivalent level of services, funding from Council Tax had to be significantly higher in Richmond than in other areas.

4.2 Since 2010 funding of local government has fallen by 49% in real terms. LBR's general support from Government has fallen by 66% and will reduce by a further £7.5m in 2019/20. If the rate of decline was to continue the Council would receive no general funding from the Government (general grant or share of business rates by 2022). Over the same period Council Tax rises have been constrained by Government imposed limits (above which a referendum would be required) and a series of one off cash incentives to freeze Council Tax. Council Tax in Richmond has therefore only risen by 3.6% (excluding the Social Care Precept) over this 9 year period – equivalent to a real terms reduction of over 20% or equivalent to a saving now of £250 per year for a Band D property.

4.3 Whilst some limited extra funding has been made available by the Government through specifically targeted funds or allowing specific precepts to be included in Council Tax, such as the Better Care Fund (BCF) and Social Care Precept for older people's care, the "gap" between rising costs and falling income has had to largely be bridged by improved efficiency and / or savings.

4.4 At the same time it is worth noting that school funding, effectively now provided directly from Government to schools, has not kept pace with rising costs and demands, particularly for Special Educational Needs and Disability (SEND). This has left this latter service, for which authorities still have a statutory duty, significantly underfunded to the extent that, for Richmond, there is currently a cumulative deficit of some £8m.

4.5 The current Local Government Finance Settlement includes the following key elements which are expected to be present until 2019/20:

- A new pilot of a pooling arrangement for London Business Rates which will see London Boroughs retain a greater share of the growth in business rates.
- An allowance for Council Tax increases up to 2.99% plus a Social Care Precept element which, for LBR, can be up to a further 2% in 2019/20.
- An extra tax of £7.5m being levied on Richmond Council Tax payers via the removal of part of the Borough's retained business rates in 2019/20 (so-called "negative RSG").

5. Local Government Finance - Future

The future for local Government Finance remains very unclear. As stated above, the current settlement provides broad details of Government funding up to 2019/20. By the time that settlement expires the Government intends to have consulted on three major potential changes:

5.1 Negative RSG/Consultation on 2019/20 Financial Settlement

When the Government introduced the new funding methodology for local government in 2013/14 (which included 50% of business rates collected being retained by local government – in Richmond's case then further split 30/20 with the GLA) it rolled into this funding both the general grant and a number of specific grants. The end result was that Richmond received a much lower level of general government grant with the balance up to its previous level of funding being made up from retained business rates. Government funding reductions since 2013/14 have focussed on cutting the general Government Grant element whilst the retained business rates element remained relatively protected and included a small element of growth if local business rates grew. After successive years of cuts Richmond has now reached the point where it receives no general government grant. Rather than stopping at that point the Government decided to continue applying cuts to Richmond meaning that (in effect) it is now paying an extra tax to the Government – this is what is generally now referred to as "negative RSG". This has been somewhat controversial and the Government has recently begun a consultation on the 2019/20 LG Finance settlement which includes the option of negative RSG being removed. *If* negative RSG were to be reduced altogether then Richmond could avoid the loss of £7.5m for the next year at least. The Consultation also suggests other changes: the most important including a change to New Homes Bonus calculations that could be detrimental to the Council (this is currently worth £2.2m per annum to the Council).

5.2 Fair Funding Review
Pre 2013/14, local government general funding all came via a grant underpinned by a formula based on relative needs i.e. indicators such as higher diversity, higher indicators of poverty, higher older populations would all yield a relatively higher share of the national funding available. The critical elements of that formula (how underlying needs were judged) has not changed for many years as successive Governments have avoided what was always an argument between the perceived “winners” and “losers” from any changes i.e. if the total amount of money available nationally stayed the same any changes that benefit one group of authorities would always come at the expense of another set of authorities losing grant share. The Government is now consulting on resetting the underlying formulas with a view to doing so by the 2020/21 settlement. Whatever the judgements made on this underlying formula it is unclear what impact this may have on Richmond given its starting position of receiving no general government grant. It will remain important for Richmond to engage fully in this discussion as this formula often also becomes the underlying mechanism for distributing different specific grants and Richmond still receives some £47m in specific Government Grants (excluding schools).

5.3 Business Rate Retention
The Government has also announced a proposed move to a system which sees local government retain 75% of Business Rates as part of the funding settlement (this was originally expected to be 100% retention) thereby reducing local government reliance on direct Government Funding (and also potentially reducing the influence that national government has on local funding decisions). It is not expected that this will see a sudden increase in funding coming to local government – the Government has stated that this, combined with the Fair Funding Review referred to above, will involve the “resetting” of baseline funding for each local authority. Such a move could see the financial effect of negative RSG (whether reversed or not in the short term) becoming hardwired into the LBR funding baseline along with any other negative adjustments to the formulas as part of the “resetting”. The authority will therefore be fighting hard to ensure that Richmond does not lose any further funding and that the outcomes adequately reflect the costs associated with being in London and providing universal services.

5.4 Balancing the risks and opportunities
In summary, the future local government finance position is very uncertain and whilst the 2019/20 LG Finance Consultation offers some short term opportunity in the potential removal of “negative RSG”, there are equally many risks in the other proposals being considered. At this stage it is necessary to plan within a range of possible outcomes and hence the MTFS has been adjusted to reflect this uncertain picture.

6 Working with our key partners

6.1 At the same time as Local Government is facing funding reductions, we must recognise that our other key partners also face significant pressure – the local NHS Clinical Commissioning Group (CCG), the voluntary sector who partly rely on public sector funding and support, and our local schools are particularly important for the quality of life in the London Borough of Richmond upon Thames.

6.2 For the local CCG we are working in partnership through the Health and Wellbeing Board to ensure that we maximise our joint working and thereby make most effective use of our joint resources including shared targets around issues such as minimising delayed discharges from hospitals into community care based settings. The Council will continue to work with the Local Government Association and others to ensure that the recent announcements of further funding for the NHS are also adequately reflected in funds coming through for social care as part of either joint Better Care Funding or other baseline funding shared with the NHS.

6.3 The Council continues to also work closely with the local voluntary sector recognising that, particularly following a long period during which public funding has been reduced, it is vital that we work to make the best use of all the resources available in the local area. The Council recognises the support provided to the local community from the many volunteers, charity trustees, fundraisers etc who help to ensure the local community maintains its strength and cohesiveness. The Richmond upon Thames Compact is a written understanding between the voluntary and statutory sector (London Borough of Richmond upon Thames and the Clinical Commissioning Group) as to how they should work together and ensure a mutually beneficial relationship exists. The Richmond upon Thames Compact aims to build upon our existing commitment to partnership working by setting out our shared principles and how we will consult, involve and manage our resources together. The Council works with Richmond Council for Voluntary Services (CVS) on embedding the principles of the Compact in how both partners work together. The Council works with many voluntary organisations and local people in a range of partnerships such as the Welfare Reform Board, Children's Strategic Partnership Board, and Homelessness Forum. Our overarching partnership is the Richmond upon Thames Partnership and further information on this can be found on the Council's website.

6.4 We are determined that despite the financial challenges we both face, we must maintain a strong relationship with our local schools who are so vital in providing the best start in life for our children and young people. Of particular concern is the increasing financial pressure experienced by both schools and the Council from the growing number of young people with Special Educational Needs and Disabilities (SEND). These young people are amongst the most vulnerable in our community and as part of this strategy we will continue to fight for the funding we need to ensure that they are all appropriately supported.

7. Key Risks/Opportunities

7.1 The Council faces a range of risks which can potentially have a serious impact on its financial position. Set against these are a number of opportunities which may benefit the Council. The major identified risks and opportunities are considered in more detail in Annex 3.

7.2 In overall terms, the Council's plans for efficiency, longer term commissioning and procurement programmes, innovation, cost control and governance frameworks seek to ensure that the risks are mitigated and opportunities exploited where possible. The sensitivity analysis set out in Annex 1 identifies how changes in different elements of income or expenditure can affect the Council's budget and Council Tax.

7.3 The Council maintains a number of reserves and balances aimed at both protecting against financial risks and providing opportunities for targeted investment. The overall position is reviewed in the 2018/19 budget setting report but will be reviewed as part of the further work on the MTFS set out at the end of this document. In particular the Council is considering further action in terms of the DSG deficit. It should however be noted that the Council's reserves are relatively modest (the Council's latest External Audit report flagged as a "risk" that they were amongst the lowest in London) and leave little room for flexibility in their use.

8 Capital Programme

8.1 As in previous years this MTFS focusses on the revenue budget. A review of the capital element of the MTFS and the Capital Programme for 2017/18 to 2022/23 is set out in a report to Cabinet on 22 February 2018. The Capital Programme totals around £146m over the 6 year period. Education projects (43% of the total programme over the next 5 years) continue to be the largest element of the programme.

8.2 The table below shows some of the key capital financing expectations for forthcoming years. Importantly, external debt is likely to rise unless new sources of alternative funding can be identified. The potential increase in borrowing costs will be spread over a number of years as the Council will run down its internal cash holdings in the short term (see commentary in capital programme and treasury reports) which will help to limit its impact on Council Tax. In the long term the potential increase in borrowing nevertheless remains significant. Given the overall revenue projections it is clear that the Council will need to review its commitments for the future carefully to ensure they are affordable.

	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s
Total Capital Expenditure	35,163	21,471	11,816	11,566	13,286
To be funded from revenue, reserves and capital receipts	9,743	0	0	0	0
To be funded from grants and contributions	14,247	9,410	5,525	5,775	5,119
To be funded form borrowing (internal and external)	11,173	12,061	6,291	5,791	8,167
Implied underlying need to borrow at 31 March	**185,916**	**193,185**	**194,360**	**194,812**	**197,581**

8.3 The underlying need to borrow at 1 April 2018 was £171.2m, estimated to rise to £185.9m by year end. The actual level of outstanding external borrowing at 1 April 2018 was £118m.

8.4 The above table shows that the Council still has a significant Capital Programme and although some is funded through Government Grant, the current plans include assumed increased borrowing. The Council believes that it is essential that Central Government provide more direct capital funding (particularly for schools). In addition the Council is doing further work on ensuring that all Community Infrastructure Levy due to the Council is collected. The new Administration is also committed to ensuring that future reviews of the programme will particularly consider the need to support affordable housing demands.

9 Forward Financial Strategy

9.1 The MTFS has been updated for the following elements:

- To reflect an estimate of the range of outcomes associated with current grant and business rate consultations
- The Council's commitment to remove minimum Council Tax payments and as part of the Council Tax Reduction scheme (estimated at up to £500,000)
- Delay or non-achievement of previously identified savings opportunities
- To reflect updated capital financing assumptions – particularly removing previous assumptions of direct revenue financing.
- To reflect current Council Tax raising powers rising by up to 3% plus a further 2% for the Social Care Precept for the whole period. Whilst this does not indicate or mean that the Council will use the full extent of this flexibility it better reflects the current range that is expected to hold across this period.
- An updating of all underlying assumptions.

9.2 Following initial discussions with the new Administration, officers are currently carrying out the following further work which will underpin the final revisions to the MTFS and the next year's budget exercise:

- A detailed review and challenge of all areas of expenditure. This is a major exercise covering all areas of the budget to enable full review by the new Cabinet

Members, identification of potential changes to the focus of expenditure and the identification of potential efficiencies.

- A review of all income and potential for further income generation and review of current innovations across Council services.
- A review of major Capital Schemes and their funding.
- Engagement with Government to both respond to current consultations and to proactively seek fairer funding allocations for the Council.

9.3 The table below summarises the current update of the areas indicated above (underlying assumptions in Annex 2), to provide an indicative potential range for the next 4 years (all figures are cumulative):

Year	**2019/20**	**2020/21**	**2021/22**	**2022/23**
MTFS Gap £ assuming 3.99% Council Tax increase	**£6.9m**	**£11.1m**	**£12.0m**	**£12.7m**
Potential range of change in general Government grant assumptions	£0.0m to -£7.5m	£0.0m to -£9.5m	£2.0m to -£9.5m	£4.0m to -£9.5m
Potential New Homes Bonus Loss	£0.0m to +£1.0m	£0.0m to +£2.0m	£0.0m to +£2.2m	£0.0m to +£2.2m
Potential range of retained business rate income	£0.0m to -£2.0m	£0.0m to -£2.0m	£0.0m to -£2.0m	£0.0m to -£2.0m
Council Tax Reduction Scheme	+£0.4m	+£0.4m	+£0.4m	+£0.4m
Risk in previously agreed savings plans	£0.0m to +£1.0m	£0.0m to +£1.0m	£0.0m to +£1.0m	£0.0m to +£1.0m
Capital financing changes	-£0.9m	-£0.9m	-£0.9m	-£0.9m
Income from maximum Council Tax increase (assuming current rules remain)	-£1.3m	-£2.6m	-£4.0m	-£5.4m
Taxbase risk	£0.0m to +£0.3m	£0.0m to +£0.6m	£0.0m to +£0.9m	£0.0m to +£1.2m
SEND Base Funding risk	£0.0m to +£4.0m	£0.0m to +£5.0m	£0.0m to +£5.0m	£0.0m to +£5.0m
Revised Gap £ average range (using max and min in each of above)	**£1.9m to £5.1m**	**£5.1m to £8.0m**	**£5.1m To £9.5m**	**£4.7m To £10.8m**

9.4 The above attempts to pick out the major potential changes to financing and costs compared with when the MTFS was last reviewed (although there will be many other smaller changes). These changes, in different combinations, could produce a very wide range of outcomes. Using a potential range of averages the above suggests savings of between approximately £5m and £11m will be required over the next 4 years. However, given the introduction of the new London Business Rates pooling pilot and the announcement of a consultation specifically in relation to "negative RSG" the projection of this gap is even more uncertain than in recent years. The revised ranges above are only indicative of a number of possible outcomes with, by way of example, the largest variants being if "negative RSG" were to be removed permanently the budget "gap" would drop by almost £9.5m and, alternatively, if the Government do not address the funding shortfall in DSG High Needs this could add some £4m-£5m to the budget gap.

9.5 Despite the forward financial planning and action taken by the Council to date, the overall financial position has become significantly tighter over the last 2 years, leaving the Council with relatively little room to deal with unexpected demands i.e. any further growth in costs above those estimated above are likely to need to be matched £ for £ with further savings proposals. At present the above figures would suggest that the Council needs to plan for savings of at least £5m in the short term and up to £10m in the medium term.

10 Key actions and reports in the next 6 months

10.1 The following summarises the key actions and reports that will impact on the Council's budgetary position in the next 6 months:

- Consultation on 2019/20 LG Finance settlement - including negative RSG (August/September)
- Q2 monitoring report for 2018/19 (October)
- Performance monitoring reports (Quarterly)
- DCLG proposals on the future of Local Government Finance and 100% retention of Business Rates (throughout 2018)
- LG Finance Settlement 2019/20 (December 2018)
- Directorate Budget proposals (January 2019)
- Q3 Monitoring report for 2018/19 (February 2019)
- Revenue and Capital Budget reports (February 2019)

The above will all be monitored via reports to the Cabinet and Scrutiny Committees as appropriate.

Sensitivity analysis of projections

A1.1 In any assessment of the future position of the Council, it is important to understand the main financial drivers which influence overall expenditure and the risks associated with them. The table below shows a high level breakdown of Council expenditure and income.

Description	2018/19 £'000	2018/19 %
Employee Costs	46,870	10.3%
Premises Costs	12,338	2.7%
Transport Costs	3,452	0.8%
Supplies and Services Costs	10,168	2.2%
Third Party Payments	132,438	29.0%
DSG Expenditure	109,672	24.0%
Transfer Payments	89,050	19.5%
Support Services	733	0.2%
Treasury	8,413	1.8%
Central Items	43,788	9.6%
	456,923	100.0%
Funded by:		
Income from Fees and Charges etc.	-62,223	13.6%
Housing Benefit Subsidy	-68,928	15.1%
Government Grants:		
Revenue Support Grant/ NNDR	-54,786	12.0%
Specific Government Grants	-26,827	5.9%
Non Ring Fenced Grants	-3,252	0.7%
DSG	-109,672	24.0%
Collection Fund Surplus	-1,750	0.4%
NNDR Pooling	-1,700	0.4%
Transfers from Reserves	-2,377	0.5%
Council Tax	-125,407	27.4%
	-456,923	100.0%

* Third party payments are mainly contract based expenditure and includes care budgets, waste collection and disposal, and ICT expenditure.

A1.2 The largest variable elements of the budget are staffing costs, third party payments and the income, predominantly from fees and charges for services. Relatively small changes in these have a significant impact on the overall financial position.

A1.3 The budgeted impact of inflation is similar to previous years' projections (see Annex 2). To put inflation in context, a 1% increase in staff costs equates to £0.5m and a 1% increase in other costs equates to £2.0m (excluding housing benefit payments and DSG). The model assumes that the budgetary effect of general inflation is restricted wherever possible and held low over the next 4 years.

A1.4 There has been consistent pressure on "demand led" budgets over the years reflecting the impact of demographic changes including a growing population, increasing numbers of school children, increasing numbers of older people, adults with learning disabilities and children requiring care. The MTFS assumes that these pressures will continue into the future although they will be ameliorated to some extent by efficiency measures being undertaken. Although the exact impact of this cannot be known, there is a significant underlying risk related to the level of social care that may be required as well as numbers of clients. The Council currently spends approximately £75m on the provision of children's and adult social care so a 1% increase in costs or client numbers would cost £0.8m. This expenditure is mostly included in the third party costs figure in the table.

A1.5 The Council generates income from a number of key sources (e.g. planning fees, building control fees and parking charges) which are subject to fluctuation over time across economic cycles. These and other income streams support large expenditure budgets which do not reduce in the same way as the income budgets thus putting pressure on the overall budget. Although income might be expected to stabilise in the future, there will remain the underlying risk of shortfalls. The Council currently budgets to collect around £62m in fees, charges and non-government grants or contributions. If the Council underachieved these budgets by 1%, it would lose £0.6m in income.

A1.6 A further key variable is the level of Government support for services. This comes to the Council in a variety of ways e.g. Settlement Funding Assessment (Revenue Support Grant and Retained Business Rates), specific grants and non-ring fenced grants. As discussed earlier, these will be under severe pressure for the foreseeable future as the Government continues to take steps to reduce the public sector deficit. The total funding received from Government (including Retained Business Rates and Pooling) is currently £53m so each 1% reduction costs the Council £0.5m.

A1.7 The overall impact of a 1% adverse change in these factors would be a cost to the Council of approximately £4.4m, which is equivalent to around £50 on a Band D Council Tax. This clearly illustrates the potential impact of the volatile risk factors underlying the budget.

ANNEX 2

Significant Known/ Committed Cost Pressures

Inflation

Details of items included in the inflation figure are set out below.

Inflation – Salaries and General Prices

This needs to allow for the projected pay award for 2018/19 along with salary progression and general price inflation. The MTFS assumes a 2.0% general inflation increase each year from 2018/19 to 2021/22, which is slightly below the Office for Budgetary Responsibility's projections for inflation. No allowance has been made for inflation on other items except where stated below.

Inflation – Energy

Energy costs continue to be very difficult to predict with events overseas and currency values having an impact as well as changes in demand. For the current model an increase of 5.0% per annum has been included.

Inflation - Pensions

The triennial valuation of the Council's pension fund was carried out in 2016/17. This was as proposals were being developed for the merger of the fund with the London Borough of Wandsworth's pension fund. The outcome provides for a small increase in the assumed future service funding rate but a reduction in the past service deficit contributions. The next full review will be due in 2019/20, and no increase is assumed at this stage.

Inflation – Contracts

The Council has a significant level of outsourced services which run under contract with the private and voluntary sectors. Most of these contracts have either specific inflation indices built into them (often RPI linked or industry specific) or require renegotiation on an annual basis such as social care spot purchases. An inflation allowance of 2-3% has been made in the MTFS. The Council will, however, continue to seek to negotiate lower increases where possible.

Inflation and the economy also impact on the cost and value of capital contracts which is kept under regular review as contracts are let.

Capital Financing Costs/ Investment Income

The Council still has a significant capital programme and, although some is funded through Government Grant, the current plans see a potential increase in the underlying need to borrow (either internal or external) over the next 5 years. This, combined with continuing low rates of interest from a declining level of investments, is built into the forward strategy but is subject to review for affordability on an annual basis.

Adult Social Services growth and efficiency measures

The restructure and modernisation of these services has continued to yield both performance and efficiency gains. Nationally, the Government has recognised that rising demand on social care and health budgets represent one of the greatest pressures on public finances. This has led to a greater drive for integrating care and the partial introduction of the Care Act, the Better Care Fund and the ability to raise a higher level of Council Tax to help support adult social care. Councils remain concerned that insufficient funding has been provided by Central Government for social care and that the Government expects councils to raise additional funds through Council Tax.

Schools Funding/Special Educational Needs

Although school funding is provided direct from Government via a specific grant which has been protected from the higher levels of grant cuts seen in other parts of the public sector, the Council holds the funding risk where Dedicated Schools Grant (DSG) proves insufficient to meet statutory requirements. The Council's DSG currently has an accumulated deficit of just under £8m at the end of 2017/18 and this continues to grow. The Council is engaging with the Government on this issue and considering what other action can be taken to recover this position but there is a risk that this funding shortfall will need to be met by the local taxpayer.

Social Care for Children

Plans to control the growth in expenditure have been agreed. However, there remains a risk that growth in demand for children looked after placements will outstrip these plans.

National Living Wage

The Government has announced the introduction of a National Living Wage rising to £9 per hour by 2020. The exact annual increase and the impact this will have on contract costs is difficult to predict with accuracy. An allowance has been made in the MTFS but this will be reviewed and adjusted in the light of experience.

ANNEX 3

Risks and Opportunities

The Identification and Achievement of Savings Plans

The MTFS is modelled on the basis that the Council will achieve all the savings targets it sets within the agreed timescales. The focus of the plan is across all the next 4 years beyond 2018/19. With a continuing savings programme and reducing staff numbers, the capacity to deliver such change represents a substantial challenge. This has been recognised in the risk work the Council has done and processes have been set up to ensure all the plans are closely monitored, that pump priming funding is available and that opportunities to work better/differently are fully explored.

Current Economic Climate

The current economic climate remains challenging, leaving little scope for improvements in general Government funding.

Inflation

The expected impact of changes in inflation is set out in Annex 2.

Government Funding

The Government has set out figures for the 4 years to 2019/20 which show significant reductions in local government funding. It has announced one possible change to this in that it is consulting specifically in relation to those authorities who become “RSG negative” as a result of these changes (this includes LBR).The Government is also consulting on transferring further responsibilities to local government alongside the “localisation” of 75% of Business Rates income (current funding is based on 50%). This will include a review of the underlying needs formula. Each of these changes offers both risks and opportunities for the Council and officers will engage fully in Government consultations.

Business Rate Collection

The new system of Local Government Finance passes a significant financial risk to local authorities in that the failure to collect the target level of Business Rates will result in direct financial loss. The system also retains nationally set elements for reliefs and discounts over which councils have no control. Whilst Richmond has a good record of collection, economic pressures on businesses could put this at risk. Conversely, the new system allows a proportion of any additional income generated by the Council to be retained in future years.

The introduction of Business Rates pooling for London offers potential for London to retain a greater share in the growth in Business Rates, however, modelling is in the early stages and the inclusion of expected growth must therefore represent a new risk to the Council.
The actual position continues to be very difficult to monitor and predict because of the high levels of appeals in the system and the impact of the revaluation.

Looked After Children Budgets

The numbers and costs of Looked After Children have continued to grow over the last few years. Although some allowance for this has been made in the MTFS, the risk remains that further resources will be required.

Adult Social Care

A combination of demand pressure, reducing local government funding and squeezed local health sector funding means that adult social care is likely to continue to provide one of the key pressures on the Council's budget in future years. The Council was one of very few to receive none of the "enhanced Better Care Fund".
The Social Care precept (additional flexibility to increase Council Tax) will also increase market expectations in this area.

Investment Income/Capital Investment

The Council has a significant investment portfolio and a growing demand for borrowing. Therefore, the revenue budget is more vulnerable to interest rate movements. The Council has taken an explicit decision to reduce the level of its investments as part of managing this risk in the short to medium term. Current projections are for interest rates to remain low for some time; however, this is ultimately influenced by both national and international issues.

Homelessness

Spend is demand led against statutory criteria and the Council's costs in this area are again under pressure. The new Homelessness Reduction Act extends the range of duties under the legislation to more people than currently, and complying with its likely requirements will place an additional strain on the budget unless the prevention leads to a significant reduction in demand/need.

Contracts

Recent events have demonstrated the risks posed by contractor failure in major contracts. The Council keeps all such contracts under regular review

Savings from shared services partnership working including joint commissioning

The Council has a number of projects in this area including the Shared Staffing Arrangement with Wandsworth, Achieving for Children, legal services, shared audit services and various care services. The Council's strategy continues to review wider sharing of management and infrastructure opportunities to generate efficiencies and their successful implementation is key to the Council's budget strategy.

ANNEX 4

Flexible Use of Capital Receipts Strategy
(as updated)

Extension of the Strategy

The Secretary of State for Communities and Local Government's statement on the Provisional Local Government Finance Settlement announced that this flexibility would continue for a further 3 years. Guidance has yet to be updated for this, but this Strategy is written on the basis that there will be no change to the current rules.

Criteria to Assess Relevant Projects

Government Guidance on Flexible Use of Capital Receipts requires councils to prepare a Flexible use of Capital Receipts Strategy ("the Strategy"), to be approved by Full Council prior to the start of the year but to be updated during the year if required. Every approved Strategy must be reported to the DCLG. The guidance gives the following examples of projects which would be qualifying expenditure for this purpose. The list is not exhaustive, but to give a flavour of the type of projects that can be funded in this way:

- Sharing back-office and administrative services with one or more other council or public sector bodies,
- Investment in service reform feasibility work, e.g. setting up pilot schemes,
- Collaboration between local authorities and Central Government departments to free up land for economic use,
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation,
- Sharing Chief-Executives, management teams or staffing structures,
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible,
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations,
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training,
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others), and
- Integrating public facing services across 2 or more public sector bodies (for example children's social care, trading standards) to generate savings or to transform service delivery.

Proposed Projects to be funded from Capital Receipts

The London Borough of Richmond intends to make use of this flexibility in relation to the Shared Staffing Arrangement (SSA) where Richmond and Wandsworth intend to move to a joint employed model and fully share all council staff. The SSA encompasses several of these example projects and is therefore considered to meet the qualifying criteria. In addition the borough is likely to fund costs associated with other invest to save projects as part of its Medium Term Financial Strategy (MTFS), these will be added to the programme as costs and savings are appropriately identified.

SSA Costs and Savings

The SSA was formally established on 1 October 2016. The final spend on the SSA project is unknown at this point, as it will include items such as redundancy costs which are dependent on individual staffing decisions and systems costs which will be dependent on detailed reviews which have yet to be carried out. The Council's MTFS includes a further £9m of achieved/planned efficiencies for 2018/19 to 2019/20.

The MTFS identifies that further such efficiencies are required across these and future years. The exact level of savings will depend on the Council Tax levels agreed and the outcome of the Local Government Finance system review proposed by the Government. It is the Council's intention to make use of this flexibility to fund spend where appropriate. This Strategy will be updated as relevant costs become known.

The Capital Programme assumptions exclude the use of receipts associated with this strategy. It was originally estimated that up to £10m may be available for use against this strategy but this has now been revised in line with lower spending and receipt expectations. It is unlikely that the Council will need to fully utilise this level of receipts but an initial profile has been assumed as follows:

	2016/17 Actual	**2017/18 Actual**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
Use of Capital Receipts	£2.2m	£0.8m	£5.0m	tba	tba	tba

Any unused element of the above anticipated capital receipts would be applied in the normal way to reduce the financing costs of the capital programme.

The SSA formally started on 1 October 2016, when staff moved to joint employment by both authorities, and the Richmond pension fund was formally closed. Start-up costs incurred during 2016/17 included:

- Legal and taxation advice on the vehicle to be used for the SSA,
- System implementation costs for the share payroll and other systems, and
- Redundancy costs incurred by moving to a shared structure across both councils.

There remain a number of programmes associated with the ongoing development of the SSA including a small number of restructures yet to be completed, changes to IT infrastructure and changes to shared office accommodation which will continue to form a call on this budget..

Impact on Prudential Indicators

The Council is required to report the impact of this Strategy on its Prudential Indicators. The main purpose of the Prudential Indicators is to control planned borrowing. The "flexible" use of capital receipts has not been included in the main Capital Programme but will rather be accounted for separately and hence will have no impact on the Council's assumed borrowing reported elsewhere.

Capitalising the qualifying expenditure and financing this expenditure from the anticipated new receipts held back from financing the Programme has net nil impact on the Council's borrowing. Therefore, the only Prudential Indicator which will change is the Capital Expenditure Indicator, as the expenditure and income is added per the table above.

LONDON BOROUGH OF RICHMOND UPON THAMES

CABINET

DATE:	**14 February 2019**
REPORT OF:	**Cabinet Member for Finance and Performance**
TITLE OF DECISION	**Capital Programme 2018/19 to 23/24**
WARDS:	**All**

KEY DECISION?: YES

IF YES, IN FORWARD PLAN?: YES

For general release

1. MATTER FOR CONSIDERATION

1.1 The report reviews the current 6 year capital programme, details new schemes, and looks at how the capital programme is funded. The Prudential Indicators (used to inform the affordability of the Programme) and Capital Strategy (showing how the proposed budget was derived) are attached as appendices to this report.

2. RECOMMENDATIONS

- That Cabinet approve the overall Capital Budget for 2019/20 in Appendix A and that it be RECOMMENDED to Council for approval in March.
- That Cabinet note the proposals in Appendix A for financial year 2020/21 to 2023/24.
- That Cabinet approve the Prudential Indicators in Appendix B be RECOMMENDED to Council for approval in March.
- That Cabinet approve the Capital Strategy in Appendix C be RECOMMENDED to Council for approval in March.

3. DETAIL

3.1 Since 2010 the Council has spent £428m on the Capital Programme. The current 6 year Capital Programme was approved by Cabinet in February 2018. That programme included a potential need to borrow a further £62.4m, which brought the Council's total underlying need for borrowing by the end of the programme to around £205m.

4. OUTTURN 2017/18

4.1 Final outturn for 2017/18 was £43.7m, of this £11.3m was funded from increased borrowing (£10m external and £1.3m internal). This £43.7m is net of £12.1m slippage between Q3 figures used in the February report and Outturn.

4.2 Between the February 2018 report and Outturn, the following new schemes totalling £4.6m and funded from specific resources were added to the programme:

Scheme	£000	Approved by
New Schemes		
SSA Set Up Costs	815	Flexible Use of Capital Receipts per MTFS
Schools – Contributions to capital to broaden projects	1,040	Schools regulations
Sixth Form at St Richard Reynolds	300	Cabinet March 18, funded from borrowing
S106 & Contribution funded schemes	251	S106
Feasibility works transferred back to revenue (mainly Twickenham Riverside)	-928	Funded from revenue, approved by virement process
	1,478	
Change in Funding		
Decreased TfL Grant Funded Schemes (spend reduced to match reduced funding)	-795	TfL Grant reduced so both income and expenditure amended
	-795	
Total Change in 17/18 Budget	**683**	

4.3 The programme was refinanced to reflect changes in grants and other receipts during the year, which increased borrowing by £0.3m at outturn.

5. THE CURRENT PROGRAMME

5.1 The overall 6 year capital budget as reported in February 2018 was £145.8m. The main schemes in the 6 year Capital Programme relate to schools expansion projects, uplift schemes, TfL and Highways & Pavements works. There is also provision for affordable housing schemes funded from S106 (assuming ongoing receipt of S106).

5.2 During the course of the year various new schemes have been added to the programme which has been approved by Cabinet. A breakdown of these new schemes is given in paragraph 5.8 below.

5.3 Additional DfE Funding

The current Capital Programme commits a further £33.0m towards schools expansion. This includes additional Basic Needs and Special Provision grant funding, as reported to Cabinet in July 2017 and new Healthy Pupils Capital funding. Members receive regular updates on the more significant schemes during the year.

5.4 White Hart Lane Footbridge

Cabinet of June 2018 approved a Council contribution towards these works in partnership with Network Rail.

5.5 Use of Neighbourhood CIL for Village Planning Fund

The second round of Village Planning Fund bids resulted in the approval of £333k of spend under the process approved by Cabinet in March 2017.

5.6 Street Lighting

The Street Lighting replacement budget for 2018/19 was increased £1.7m to £3.3m by Cabinet in December 2018. Further bids of up to £14.1m are included in para 6.1.

5.7 Highways Maintenance

The Government announced new grants to fund highways and potholes maintenance of £612k

5.8 The tables below summarise the revised programme and funding after allowing for the changes since the programme was first agreed in February 2018:

Scheme	£000	Approval
Additional DfE grant funding	2,068	Cabinet July 2017 plus further increases in grant allocations
White Hart Lane Footbridge	821	Cabinet June 2018 – use of BCIL
Village Planning Fund (round 2)	333	Delegated authority – funded from NCIL (Community Fund)
Street Lighting Replacement	1,690	Cabinet December 2018 – funded from increased borrowing
Transport for London (grant funded)	999	Grant funded - approved on TfL bid
Highways	612	New grant
Other smaller changes	249	Various approval and funding
Total Change in the Programme	**6,772**	

5.9 The changes since the current Programme was approved a year ago are summarised below:

	£000	£000
6 Year Programme approved February 2018		**145,812**
Changes to budget between February and year end (para 4.2)		683
2017/18 budget expended during the year (para 4.1)		-43,666
Remaining 5 Year Programme at 1st April 2018		**102,829**
Changes to the budget during 2018/19 (para 5.8):		
Environment Schemes	4,186	
Children's Schemes	2,253	
Use of Neighbourhood CIL	333	6,772
Current Programme 2018/19 to 23/24 (before changes proposed in this report)		**109,601**

5.10 The changes above have not all impacted the need to borrow. The increase has been offset by increased grant funding and identifying schemes where borrowing can be replaced with S106 or CIL funding. The impact of these changes on the financing of the Programme is summarised below:

	£000	£000
6 Year Programme at February 2018 - Unfinanced Spend (borrowing requirement)		62,402
New Education schemes added between February and Outturn		731
Changes in financing identified at Outturn (para 4.3)		328
2017/18 budget financed during year		-11,723
Remaining Unfinanced 5 Year Programme at 1st April 2018		**51,738**
Changes to the unfinanced budget during 2018/19:		
New Spend – Street Lighting increased budget	1,690	
New Spend – Children's Home increased budget	185	
Refinancing – Change in S106	-2,376	
Refinancing – Change in anticipated capital receipts	111	**-390**
Current Financing Requirement 2018/19 to 23/24 (before changes proposed in this report)		**51,348**

5.11 Further details about the Council's funding sources are given in paragraph 7.

6. NEW SCHEMES AND INCREASES TO BUDGETS

6.1 Street Lighting

A report went to Cabinet in December estimating a need for £14.1m to replace 5,900 mild steel street lighting columns and to upgrade 4,800 lighting units (all non-LED lighting within the Borough) to more energy efficient LED's. The bid includes replacement of all heritage lighting units at a total cost of £0.9m.

This is a significant value of works and the phasing is dependent on ongoing safety checks needed to inform the works programme. The proposed Programme therefore includes £3m in 2019/20 and 20/21. However, given the urgent health and safety nature of the works, it is recommended that the Directors of Resources and Environment are given delegated authority to increase this budget as required, with the understanding that the works will be funded from borrowing at a cost of around £70k per year for every additional £1m of spend. Any agreed increase in this programme will be discussed with the Lead Members and reported to Cabinet as part of budget monitoring.

6.2 Libraries Improvements

A total of £702k is added to fund the replacement of RFID self-service kiosks in libraries (£318k) to allow them to accept contactless payment of fines etc, and improvements to 2 libraries (£384k).

6.3 Pools on the Park

The Council took back responsibility for running Pools on the Park in April 2016. The ventilation systems need to be replaced and the Pool Hall lighting needs to be upgraded (£458k).

6.4 Transport for London (TfL) - Additional Grant

Grant funding for 2019/20 has now been announced as £1.6m which is a slight reduction from the £1.9m allocated this time last year (and subsequently increased by £1m).

6.5 Disabled Facilities Grant (DFG)

An additional £960k has been added to the existing budget in line with increased grant funding from DHCLG and therefore is fully grant funded

6.6 Addition of 2023/24

An additional year (2023/24) of recurring programmed works (planned maintenance, improvement grants etc.) has been added to maintain a 6 year cycle.

6.7 Below is a breakdown of the changes to the Council's Capital Programme as a result of the new schemes noted above:

	£000	£000
Current Programme 2018/19 to 23/24 (before changes proposed in this report)		**109,601**
Add recurring spend for 2023/24	7,112	
New TfL Funding 2019/20	1,556	
Street Lighting Replacement	6,000	
Disables Facilities Grant increase	960	
Libraries Improvements	702	
Pools on the Park	458	
Various small schemes added and grant funded schemes reduced	200	
Total Proposed New Budget		**16,988**
Proposed Capital Programme 2018/19 to 2023/24 (Appendix A)		**126,589**

6.8 In overall terms this means the Council is proposing to add £17.0m, in addition to the £6.8m of changes already approved during 2018/19 (noted in paragraph 5.9). Therefore £24.4m (of which £8.3m requires additional funding to be identified) has been added to the Capital Programme since the February 2018 report.

6.9 The cumulative effect of these changes is a proposed Capital Programme (2018/19 to 2023/24) of £126.6m with £59.4m potential new borrowing as detailed in Appendix A. Cabinet should also note that we will be seeking to rigorously pursue all funding avenues. The Council has taken a prudent approach as part of its financing assumptions and will refine these as funding decisions are made.

7. FINANCING

7.1 The projected outstanding funding requirement in the programme is £57.1m. This means that 45% of the current 6 year programme could need to be funded by borrowing if other sources of funding cannot be identified. This includes the impact of the changes in spend but also the availability of capital receipts. The Council does not hold a significant balance of receipts and uses new receipts to replace borrowing in the Programme when they are identified. This means that the loss of anticipated disposal income will increase the need to borrow while new receipts will reduce borrowing.

7.2 The Council's potential underlying need to borrow therefore increases to £195m (although the aim is to reduce this through additional Government funding, in year efficiencies, additional Community Infrastructure Levy/S106 etc.). Below is a reconciliation of the changes to the Councils funding requirement.

	£000	£000
Current Financing Requirement 2018/19 to 23/24 (before changes proposed in this report)		**51,348**
Proposed Changes to the Financing Requirement		
Less new receipts identified	-3,900	
Add New Homes Bonus grant used as Revenue Financing in 2019/20	-917	
Assume increased DFG continues in future years	-912	
Add recurring spend for 2023/24	4,058	
Street Lighting	6,000	
Libraries Improvements	702	
Pools on the Park	458	
Various small schemes funded from borrowing	235	
Total Proposed New Budget currently unfinanced		**5,724**
Proposed Capital Programme 2018/19 to 2023/24 (Appendix A) Financing Requirement		**57,072**

7.3 Grants & Contributions (excl. S106 & CIL)

The Council is forecasting to fund £40.6m of the programme via grants and contributions. This is approximately 32% of total funding and the majority of grants are used to fund Education schemes. The largest capital grants received by the Council are Basic Needs, School Condition Allocation, and TfL grant funding for infrastructure works.

7.4 Capital Receipts

Financing of the Capital Programme in prior years has reduced the opening level of unringfenced receipts held to £1.4m. This has assisted in keeping the borrowing requirement to a minimum. The last programme originally assumed £8.8m funding from capital receipts in 2018/19 and a total of £9.2m across the 6 year programme. This has changed significantly due to the decision to remove Friar's Lane Car Park from the disposals list whilst an overall review of parking in Richmond is undertaken. This has been offset by increased anticipated receipts from other sites, although there have been delays in some disposals. The likely usable receipts are now £7.8m or 6% of the current programme. This does not allow for any flexible use of capital receipts.

7.5 Section 106 Receipts & Borough Community Infrastructure Levy (CIL)

The use of Section 106 receipts is agreed with the developer as part of the planning process and are used to finance the programme where schemes meet the agreed criteria for use. The use of Borough CIL is set in the Regulation 123 list, and CIL collected to date is used to finance schemes meeting the criteria on this list. No assumptions are made for future S106 or CIL receipts except where schemes will only go ahead if they are received.

The Capital Programme will be financed by £19.2m of S106 and CIL which is 15% of the Programme.

7.6 Officers will continue to look at all potential funding sources and will try and reduce the Council's borrowing requirement whenever possible.

8. FINANCIAL IMPLICATIONS

8.1 The timing and funding of capital expenditure has a direct impact on the level of Council cash balances and the level of borrowing. Therefore, any changes to the Programme will have an impact on the Treasury Management position.

8.2 The Council prudently plans on the basis that it may need to meet the funding gap in the programme through borrowing over a number of years (internal borrowing is assumed to be used to smooth the impact of any actual external borrowing). This means that the significant potential impact of the increased programme is built into our budget assumptions for the future. This is separately identified in the Medium Term Financial Strategy, spread over a number of years and minimised through the use of internal borrowing, direct revenue financing and rigorous pursuit of additional government funding.

8.3 The Council is required by statute to set its own limits on the affordability, sustainability and prudence of its capital plans in the form of Prudential Indicators. These proposed indicators are attached with commentary at Appendix B. They are based on the proposed Capital Programme and the budgetary provision for the debt and investment costs of the Council as reported in the MTFS and Treasury Management budgets.

8.4 As well as the indicators and limits required by statute, there are 2 Local Indicators proposed to help Members assess the impact of capital decisions on the Council's finances. These indicators are the ratio of external loans to fixed assets (set at a 15% trigger for review of the planned spend) and the ratio of gross loan interest to gross budget (set at 2% trigger for review).

9. CAPITAL STRATEGY

9.1 The CIPFA Prudential Code was updated in 2017. The main change was the requirement for all authorities to set a Capital Strategy. The purpose of this Strategy is to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The capital strategy should set out the long-term context in which capital expenditure and investment decisions are made and give due consideration to both risk and reward and impact on the achievement of priority outcomes.

9.2 The Council's Capital Strategy has been written using the guidance in the CIPFA Prudential Code and is attached as Appendix C for approval.

10. PROCUREMENT IMPLICATIONS

10.1 None specifically in relation to this report – all works will be commissioned in line with procurement regulations.

11. LEGAL IMPLICATIONS

11.1 None specifically in relation to this report.

12. CONSULTATION AND ENGAGEMENT

12.1 Consultation and engagement will be carried on individual schemes within the Capital Programme.

13. WIDER CORPORATE IMPLICATIONS (INCLUDE / DELETE AS APPROPRIATE)

13.1 POLICY IMPLICATIONS / CONSIDERATIONS
The new demands identified in this report are all driven from the Council's key priorities and feedback received as part of consultation exercises.
13.2 RISK CONSIDERATIONS
Please refer to Appendix D
13.3 EQUALITY IMPACT CONSIDERATIONS
None specifically identified for this report
13.4 ENVIRONMENTAL CONSIDERATIONS
None specifically identified for this report

14. BACKGROUND INFORMATION:

Previous Capital Programme Report(s).

15. BACKGROUND PAPERS

None

16. APPENDICES

Appendix A – Capital Programme Report 2018/19-2023/24
Appendix B – Prudential Indicators
Appendix C – Capital Strategy
Appendix D – Risks

17. CONTACTS

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6 Year Capital Programme 2018/19 to 2023/24

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Education & Children's Services							
Devolved Formula Capital & Healthy Pupils Fund	326	225	225	225	225	225	**1,451**
Primary Places Phase 1							
Stanley	1,392						**1,392**
Primary Places Phase 2							
Heathfield phase 2 expansion	5						**5**
St John's Site for St Mary's Expansion	28	50					**78**
Buckingham	3						**3**
The Vineyard Permanent Expansion	21						**21**
Primary Places Phase 3							
Nelson Construction	79						**79**
Darell - ASP SEN	53						**53**
East Sheen double demountable classrooms	4						**4**
Sheen Mount Expansion to 3FE	51						**51**
Barnes Junior Bulge	57						**57**
Primary Phase 3 Contingency	83						**83**
Primary Places Phase 4							
Hampton Infant 3FE	56						**56**
Hampton Junior 3FE	221						**221**
Collis 3FE to 4FE	2,004	1,230					**3,234**
East Sheen 3FE	181						**181**
Schools Expansion Projects	105	6,500					**6,605**
Academies							
Hampton	114						**114**
Twickenham	19	150					**169**
Sixth Forms							
Christ's	5						**5**
Grey Court	5						**5**
Orleans Park	8						**8**
Teddington	32						**32**
St Richard Reynold's	300						**300**
Waldegrave	12	34					**46**
Twickenham Academy	40						**40**
Richmond Park Academy	0	300					**300**
SEN Provision							
Strathmore at Grey Court SEN	63						**63**
Strathmore at the Russell	953	1,069					**2,022**
Strathmore at St Richard Reynolds	485						**485**
Clarendon at Buckingham	12						**12**
Clarendon at Newhouse	1,012	38					**1,050**
Clarendon at The Gateway	13						**13**
Heathfield SEN ASD	143						**143**
Windham Nursery Jigsaw Expansion ASC	119						**119**
East Sheen SEMH (3 extra places)	20						**20**
Hampton Hill SEMH (3 extra places)	20						**20**
Heathfield SEN ASD Phase 2	20						**20**
Grey Court SEN ASD	272	728					**1,000**
Alternative provision	200						**200**
Additional places	71	195	532				**798**
Richmond upon Thames School	4,782						**4,782**
Schools General Planned Maintenance	1,617	1,320	866	866	866	866	**6,401**
Universal Infant Free School Meals (UIFSM)	6						**6**
Children's Centres	121						**121**
Children’s Social Care including Homes	694	400					**1,094**
Youth Facilities	97	109					**206**
Short Break Care	11						**11**
Early Years - Tic Toc & Kerswell Kids	23						**23**
Feasibility Funding - to be vired to revenue	16						**16**
Basic Needs - Additional Grant		4,045	1,256	1,256	1,256	1,256	**9,069**
Total Education & Children's Services	**15,974**	**16,393**	**2,879**	**2,347**	**2,347**	**2,347**	**42,287**

Adult Social Services							
Management Information System	24						**24**
Extra Care Housing - Capital in Grant Conditions	335						**335**
Kingston Lane Adaptations	164						**164**
Autism Grant	10						**10**
Langdon Park	12						**12**
Integrated Care Records	59						**59**
LD Care Home Reprovison	1620						**1,620**
Total Adult Social Services	**2,224**	**0**	**0**	**0**	**0**	**0**	**2,224**
Housing & Regeneration							
Sponsored Moves	300	335	200	200	200	200	**1,435**
Housing Grants and Loans (Improvements)							
DFG (Except RHP)	1,413	1,273	1,273	1,273	1,273	1,273	**7,778**
DFG (RHP)	300	300	300	300	300	300	**1,800**
Houses in Multiple Occupation	27						**27**
Renovation Grants - Landlords	90						**90**
Coldbusters Home Repair Assistance Grant	512						**512**
	2,342	**1,573**	**1,573**	**1,573**	**1,573**	**1,573**	**10,207**
Affordable Housing Development							
Land at Craig Road	250						**250**
105 Queens Road	85						**85**
Extension Programme RHP	475	100					**575**
Affordable Home Ownership Scheme	300	413	413	413			**1,539**
Other Housing Schemes - Unallocated	2,007	3,712	2,287	2,537	4,670		**15,213**
	3,117	**4,225**	**2,700**	**2,950**	**4,670**	**0**	**17,662**
Other Housing & Regeneration							
General Planned Maintenance	1,242	1,330	1,330	1,330	1,330	1,330	**7,892**
	1,242	**1,330**	**1,330**	**1,330**	**1,330**	**1,330**	**7,892**
Total Housing & Regeneration	**7,001**	**7,463**	**5,803**	**6,053**	**7,773**	**3,103**	**37,196**
Environment & Community Services							
Parks Cyclical Maintenance	147	150	150	150	150	150	**897**
Parks Strategy	320	300	300	300	300	300	**1,820**
Parks S106	146						**146**
Hampton Sport & Fitness Centre 3G/MUGA	41						**41**
Area Uplift (Incl. Twickenham Riverside)	444	6,916					**7,360**
Dukes River Project	111						**111**
Works at St Mary's (Busen)	0	970					**970**
Orleans House Gallery - Delivery phase	320						**320**
Library Toilets	60						**60**
Townmead Road H & S Improvements	26						**26**
Contracts & Leisure	**1,615**	**8,336**	**450**	**450**	**450**	**450**	**11,751**
Highways and Pavements	2,564	1,200	1,200	1,200	1,200	1,200	**8,564**
Community Pavement Repair Fund	588	500	500	0			**1,588**
Street Lighting	3,281	0	0	0			**3,281**
Uplift Schemes/Twickenham Area Action Plan	379						**379**
S106 Schemes	13						**13**
S278 Schemes	20						**20**
Transport for London (TfL)	2,855	1,556					**4,411**
Parking Machines PCI Compliance	386	96					**482**
White Hart Footbridge Rail Crossing	821						**821**
Traffic & Engineering	**10,907**	**3,352**	**1,700**	**1,200**	**1,200**	**1,200**	**19,559**
Total Environment & Community Services	**12,522**	**11,688**	**2,150**	**1,650**	**1,650**	**1,650**	**31,310**
Resources							
ICT Investment	766	1,000	1,000	1,000	1,000		**4,766**
Flexible Capital Receipt Use							**0**
Total Resources	**766**	**1,000**	**1,000**	**1,000**	**1,000**	**0**	**4,766**
Chief Executive							

Neighbourhood CIL	916						**916**
Empty Property Grant	283	12	12	12	12	12	**343**
Total Chief Executive	**1,199**	**12**	**12**	**12**	**12**	**12**	**1,259**
New Schemes							
Street Lighting		3,000	3,000				**6,000**
Libraries Improvements		702					**702**
Pools on the Park		458					**458**
Supported Living Homes fit out		152					**152**
Mosaic Database Merger		140					**140**
IT Infrastructure - PCI & PSN Compliance		57	38				**95**
	0	**4,509**	**3,038**	**0**	**0**	**0**	**7,547**
Total Capital Programme	**39,686**	**41,065**	**14,882**	**11,062**	**12,782**	**7,112**	**126,589**
Financed By :							
Grants	14,056	13,196	3,586	3,054	3,054	3,054	**40,000**
S106 & CIL	1,983	0	0	0	0	0	**1,983**
Affordable Housing S106	2,716	4,225	2,700	2,950	4,670	0	**17,261**
Contributions	174	400	0	0	0	0	**574**
Revenue funding (DRF)	917	917	0	0	0	0	**1,834**
Earmarked Reserves	39	6	0	0	0	0	**45**
Application of Cap Receipts	1,554	6,266	0	0	0	0	**7,820**
Borrowing Requirement	18,247	16,055	8,596	5,058	5,058	4,058	**57,072**
Total Financing	**39,686**	**41,065**	**14,882**	**11,062**	**12,782**	**7,112**	**126,589**

Prudential Indicators

The Prudential Indicators (PIs) required by statutory guidance are classified as controls on the affordability, sustainability and prudence of the planned borrowing.

The Prudential Borrowing regime, where councils set their own limit on borrowing using Prudential Indicators as controls, is based on the rule that councils are only authorised to borrow long term to fund capital projects, although they can borrow short term for cash flow purposes.

However, government guidance on Treasury Management requires councils to treat liquidity almost as highly as security when investing surplus cash, and on this basis it should be unusual for a Council to have the need to borrow short term on a regular basis.

The key information in setting PI is therefore the amount of capital expenditure financed by borrowing and the existing need to borrow.

It should be noted that the calculation of PI is set by regulations, which defines Borrowing as being formal loans and Debt as being Borrowing plus leases and other similar debt instruments.

These prescribed definitions do not match those used by the Council for its own internal budget monitoring and therefore totals are split where possible to assist users in matching PI figures to those used in budget setting and monitoring throughout the year.

The Council now takes new loans on an annuity basis. These are very similar to a mortgage, with set annual payments split between interest and principal repayment. This means that the element of principal repayment is being taken as making prudent provision for repayment, and included in MRP. This is described fully in the Treasury Strategy and Policy report elsewhere on this agenda.

A. Capital Expenditure

Councils are only authorised to borrow long term to fund capital spend (although they can borrow very short term to cover cash flow). The financing of the Capital Programme is therefore key to determining future borrowing need.

Capital expenditure forms the basis of determining the need to borrow. The capital expenditure shown in this indicator reflects the proposed Capital Programme for 2018/19 to 2023/24.

	Revised 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Capital Expenditure	39,686	41,065	14,882	11,062	12,782	7,112
Of Which:						
Financed from Grants & Contributions	18,929	17,821	6,286	6,004	7,724	3,054
Financed by RuT	2,510	7,189	0	0	0	0
New Borrowing Required by Programme	18,247	16,055	8,596	5,058	5,058	4,058

The estimate of capital expenditure changes during the course of the year as schemes are added and completion dates change.

The Programme includes later stages of the school expansion programme up to 2019/20 and a significant amount of spend on Street Lighting column replacement to address health and safety issues. The remaining Programme then includes significant spend on Affordable Housing and Highways.

The proposed Capital Programme reduces after 2019/20 per the above, as the current schools programme ends. External funding also decreases with the government grants held to finance schools schemes being spent and anticipated future allocations being lower than in previous years. The Council also has less anticipated receipts from the sale of properties and reserves available to fund new schemes. The new Programme includes £7.5m of new schemes for approval in this report increasing the Council’s need to borrow unless other funding sources can be identified, and a further £1m of increased spend on DFG to match increased grant funding.

The amount financed by RuT includes the use of capital receipts anticipated in the proposed disposal programme, which does not have any approved sales anticipated after 2019/20. An updated disposal programme could potentially improve the funding position.

B. The Capital Financing Requirement

The Capital Financing Requirement (CFR) determines the authority's underlying need to borrow for capital purposes. Schemes that have no specific funding source increase the authority's underlying need to borrow hence the CFR increases. The level of provision required to repay debt (MRP) also increases, which will decrease the CFR.

	Revised 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Capital Financing Requirement (CFR)	**184,502**	**194,727**	**197,418**	**196,189**	**194,789**	**192,265**
Year on Year Increase in CFR	+13,256	+10,225	+2,691	-1,229	-1,400	-2,524
Change represented by:						
Schemes financed by Borrowing (incl. leases)	18,247	16,055	8,596	5,058	5,058	4,058
MRP contributions to fund the Requirement						
- represented by MRP	-3,763	-4,584	-4,640	-5,001	-5,149	-5,248
- Financing Leases and Similar (incl. PFI)	-999	-999	-999	-999	-999	-999
WLWA Loan repayment used to reduce CFR	-229	-247	-266	-287	-310	-335
	13,256	**10,225**	**2,691**	**-1,229**	**-1,400**	**-2,524**

The CFR increases when there is an increase in spending which is not funded from existing resources. The Council would therefore need to borrow to fund this scheme. The CFR does not distinguish between real borrowing (either by taking out a loan or financing lease from an external body) and "internal borrowing" from cash flow.

The Council's £15m Capital Loan to WLWA is included in the CFR, and therefore requires money is set aside for debt repayment. WLWA are now repaying the loan, and the Council is using these principal repayments as the prudent provision, transferring them to reduce the CFR on receipt. As WLWA is effectively a group of London Boroughs there are no concerns about its ability to repay the loan in full.

The CFR decreases where there is either no new debt taken or contributions to repay debt are higher than the new debt. Repayments rise as borrowing rises, and the decrease in spend from 2020/21 onwards means the increase in borrowing in year falls below the amount to be repaid.

Indicators of Affordability

Affordability indicators are designed to ensure authorities have considered the costs of borrowing in a number of ways before they approve the capital spend that requires them to borrow. To do this, they consider :

The interest and principal repayment costs as a percentage of the Council's revenue budget.
The impact of the change in financing costs on Council Tax.

C. Ratio of Financing Costs to Net Revenue Stream

This indicator compares the net financing costs budget (interest due, interest receivable, set aside and actual repayment of principal) to the Council's Budget Requirement (before Formula Grant, GLA Precept and Collection Fund surplus).

	Revised 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Net Financing Costs	8,538	9,802	9,896	10,077	10,123	10,182
Net Revenue Stream	183,643	160,839	162,503	169,416	176,664	184,197
As a Ratio	**4.65%**	**6.09%**	**6.09%**	**5.95%**	**5.73%**	**5.53%**

Financing costs represent the net interest costs to the Council (interest payable on debt less interest due on balances) and a prudent provision for debt repayment (the Minimum Revenue Provision).
These costs include those paid as part of a financing lease arrangement, such as in PFI contracts.

These costs are taken as a percentage of the Council's Net Revenue Stream, which is the amount the Council has budgeted to spend for the year net of specific grants but excluding Council Tax, NNDR and Formula Grant income.

The Net Revenue Stream in 2018/19 is unusually high due to a one year only impact of NNDR London Pooling Pilot expenditure. This is offset by NNDR income, which is excluded from the definition of this calculation.

This figure is a latest estimate and will not be final until the Council approve the budget and Council Tax in March. Future year figures are estimates per the Medium Term Financial Strategy.

The financing costs are linked to movements in interest rates, as well as principal borrowed. Most borrowing is at a fixed rate, meaning interest payments will not vary, whereas most investments are for under a year meaning there are often amounts maturing which can be reinvested during the year.

The interest payable costs are budgeted to increase every year as new borrowing is taken to fund the Capital Programme. Interest rates on new borrowing are projected to increase slowly going forward. These costs are offset in later years by increases in interest receivable due to projected increases in these interest rates.

The loan to West London Waste Authority is now being repaid. Annual interest receivable on this loan is over £1m, although this will reduce over the 25 year term as principal is repaid.

D. The impact of Capital Investment decisions on the Council Tax

This indicator shows the change in the level of Council Tax each year that will result from the authority's total capital plans. This can be viewed in 2 ways, both by the impact of the full effect of changes in financing costs as a percentage of Council Tax, or as the increase in a Band D Council Tax.

Impact of Change in Financing Costs	Revised 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Interest Payable						
- Direct borrowing	4,377	4,815	4,847	4,849	4,864	4,974
- Leases and PFI	1,684	1,602	1,512	1,414	1,307	1,191
Interest Receivable	-2,285	-2,198	-2,102	-2,186	-2,196	-2,230
Principal Repayment						
- Represented by MRP	3,763	4,584	4,640	5,001	5,149	5,248
- Financing Leases and Similar (incl. PFI)	999	999	999	999	999	999
Financing Costs	8,538	9,802	9,896	10,077	10,123	10,182
Year on Year Change	+744	+1,264	+94	+181	+46	+59
Impact on the Council Tax Requirement (RuT element)	**0.59%**	**0.96%**	**0.07%**	**0.13%**	**0.03%**	**0.04%**
Impact on a Band D Property	**£8.38**	**£14.29**	**£1.06**	**£2.03**	**£0.51**	**£0.66**

This indicator is designed to allow Members to make informed decisions on project approval based on affordability to the Council and priority against other cost pressures.

The cost to the Council Tax Payer is either a cost of borrowing to finance the scheme or an opportunity cost of lost income where balances (such as S106, Infrastructure Fund, Capital Receipts) are spent instead of being held as investments.

To comply with IFRS these costs include leased assets which are or will be at the end of the lease owned by the Council, such as the PFI Schools and Care Homes. The costs of financing these assets via the lease are also now shown in the principal repayment (the lease includes elements of loan charges and can also include service charges not included here, as with the PFI arrangements). PFI principal costs are fixed over the long life of the lease.

The increase in Principal Repayments on Debt is due to the anticipated increased need to borrow which increases the provision for debt repayment (MRP). This consists of actual repayments for new annuity loans and set aside for repayment on maturity for historic debt.

Interest payable would be expected to increase over time as the anticipated level of debt increases. However, the move to the use of annuity repayment loans (similar to a mortgage) for new borrowing means that interest payments could reduce. This is because the total cash payment is the same every year, but in early years it is predominantly interest with low principal value, with the balance switching over the term of the loan as principal repayment leads to interest being charged on a lower balance.

SECTION H

There are 4 loans maturing over the next 3 years with interest rates around 4%. The anticipated interest rates for new borrowing are lower, giving a lower than anticipated increase in interest payable.

Interest Receivable is fairly stable. This is due to investment balances remaining fairly low. The main element of this income is the WLWA loan interest which is around £1m pa.

The year on year increase in Financing Costs is due to the financing of the capital programme. This will change if further resources are identified to reduce the borrowing requirement. The reduction in the size of the Programme and therefore reduced need to increase borrowing means that principal repayments will remain higher than new borrowing, leading to a small reduction in net financing costs.

Indicators of Prudence

Prudence indicators are designed to ensure authorities consider the impact of their spending decisions on borrowing. To do this, they compare Gross Borrowing (being loan debt and other financing lease arrangements) to the Capital Financing Requirement.

E. Gross Debt and the Capital Financing Requirement

The Prudential Code states that 'In order to ensure that over the medium term borrowing will only be for a capital purpose, the local authority should ensure that borrowing 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.'.

Gross Debt is defined as all external borrowing in the form of loans as well as financing leases.

The limit for debt is based on the current CFR plus the increase in the CFR over the next 3 years (the amount of the capital programme which is financed from borrowing in these years) to comply with the Code.

This limit allows authorities to borrow to meet their current need and to borrow in advance of need where this is prudent. For example, if an authority has £50m borrowing planned for capital spend over the next 3 years and interest rates are anticipated to rise next year, it could be prudent to borrow some of that £50m now.

	Revised 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Gross External Debt Limit Set	197,400	196,200	196,200	196,200	n/a	n/a
Projected Gross External Debt	152,657	161,157	164,322	161,044	n/a	n/a
Amount above/(below) limit	-44,743	-35,043	-31,878	-35,156	n/a	n/a

Debt is projected to stay within the limit set in the medium term.

This indicator cannot be set for 2022/23 and 23/24 as this would require an additional 2 years to be added to the Capital Programme (2024/25 and 2025/26) to allow for the potential to borrow up to 2 years in advance of need to be calculated for inclusion in the 2022/23 limit.

Indicators for Treasury Management

Treasury Management indicators use debt, being formal loan arrangements only, as opposed to the accounting definition of borrowing used for indicator E above, which includes finance leases.

F. Authorised Limit for External Debt

The authorised limit is the absolute limit of borrowing based upon the authority's plans and includes sufficient headroom for unpredictable cash movements. External Debt includes both direct borrowing and indirect borrowing implied in a financing lease or PFI arrangement. It excludes internal borrowing.

	Revised 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Authorised Limit Set	173,000	181,000	184,000	184,000	182,000	182,000
Projected Gross External Debt	152,657	161,157	164,322	161,044	161,662	161,067
Amount above/(below) limit	-20,343	-19,843	-19,678	-22,956	-20,338	-20,933

The above indicator shows the maximum level of external borrowing including use of financing leases, and net of scheduled repayments on annuity loans. An in principle decision has been made to borrow internally, accepting the associated risk of adverse interest rate movements. This figure therefore excludes any unfunded capital expenditure which the Council anticipates funding short term by running down balances.

The Council is projected to stay well within the Authorised Limit set. This limit is at the Council's discretion and any change in the projected external debt should be reflected in this limit.

G. Operational Boundary

The operational boundary should be based upon the authority's plans and should show the maximum level of external debt. It is not significant if the operational boundary is breached on occasion although sustained or regular trend above the boundary should warrant further investigation.

	Revised 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Operational Boundary Set	168,000	176,000	179,000	179,000	177,000	177,000
Projected External Debt	152,657	161,157	164,322	161,044	161,662	161,067
Amount below Limit	-15,343	-14,843	-14,678	-17,956	-15,338	-15,933

The Council is projected to stay well within this limit.

H. Adoption of the CIPFA Code of Practice for Treasury Management

The CIPFA Code of Practice sets out best practice in treasury management and the Code has always been followed in Richmond. The Prudential Indicator states that Authorities should adhere to the Code of Practice. All Treasury activities currently adhere to the Code of Practice and regular reviews ensure that this continues.

I. Limits on Fixed and Variable Interest Exposure

This indicator is designed to show that the authority can manage fluctuations in interest rates and that both the borrowing and investment portfolios are balanced between fixed and variable rates.

The limits are set on net exposure, which is borrowing (loans and leases/PFIs) less investments.

Short term investments or debt which last less than a year are included as variable rate investments. Although the rate is fixed for the duration, the money may be re-invested or re-borrowed at a different rate when it matures during the year. Investments and debt lasting over a year are included as fixed rate exposure.

Fixed Rate Exposure	Revised 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Upper Limit	168,000	176,000	179,000	179,000	177,000	177,000
Lower Limit	124,000	134,000	137,000	134,000	135,000	134,000
Projected Exposure	148,692	158,792	161,957	159,429	160,047	159,452

Changes in the exposure limit are linked to the timing of projected borrowing in future years (which will be at a fixed rate) and repayment of existing loans.

Variable Rate Exposure	Revised 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Upper Limit	-72,000	-67,000	-69,000	-69,000	-68,000	-71,000
Lower Limit	3,000	8,000	6,000	6,000	7,000	4,000
Projected Exposure	-22,016	-17,177	-18,632	-19,042	-17,832	-21,295

The movements in the exposure limit reflects the projected change balances. Borrowing is mainly taken at fixed rates for certainty, and the variable rate exposure is therefore closely linked to short term investment levels.

J. Maturity Structure of Borrowing

This indicator sets limits for the amount of fixed rate borrowing that will mature within certain time bands in the future. This is designed to ensure that authorities spread the maturity dates of their loans to avoid the risks associated with having to repay or re-borrow large amounts within a short period.

The Council has decided to take all new borrowing on an annuity basis, making annual repayments of principal. This indicator is therefore less relevant for Richmond going forward as the risk of large values becoming due in any one year is mitigated by the regular repayments. Loans which have annual repayments are therefore excluded from this PI on this basis.

	Lower Limit 2019/20 %	Upper Limit 2019/20 %	Estimate 2019/20 %
Under 1 year	0%	30%	11%
1 to 2 years	0%	40%	3%
2 to 5 years	0%	50%	8%
5 to 10 years	0%	60%	9%
10 to 15 years	0%	}	28%
15 to 25 years	0%	} 85%	32%
over 25 years	0%	}	9%

K. Total Principal Sum Invested Beyond the Period End.

Previously, authorities with debt could not invest for greater than 364 days. Under the prudential controls this restriction is lifted (i.e. Authorities can invest for more than one year).

This limit is to ensure that authorities do not invest too much of their portfolio beyond one year (which could lead to losses in interest during times of volatile interest rate fluctuations)

	Revised 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Limit	10,000	10,000	10,000	10,000	10,000	10,000
Projected Investments at 31st March	750	750	750	0	0	0

Interest rates are usually higher for longer term investments than short term. However, given the current levels of internal borrowing and relatively low cash balances, it is unlikely that there will be significant long term investments in the near future.

Officers are reviewing the levels of "core cash" which could be invested for the medium term with minimal risk to liquidity. These levels will be considered with any potential medium term investments and where the likely increased return outweighs the additional risk of these investments and is significant, longer term investments will be made.

Local Indicators

The Council has opted to set some local indicators to give further information and controls.

L1. Ratio of External Loans to Fixed Assets

The Council has opted to set a further, local indicator to review the value of its external loans.

This looks at the ratio of anticipated external loans to anticipated value of fixed assets (land & buildings, furniture, equipment, long licences etc.).

	Revised 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000
Value of Loans at 31st March	134,466	144,123	148,534
Estimated value of Fixed Assets at 31st March	1,303,624	1,353,758	1,390,191
Loans as % of Assets	10.3%	10.6%	10.7%
Current Limit	15.0%	15.0%	15.0%

The estimated value of assets includes allowance for depreciation and revaluation changes as well as sale of assets per the approved disposal programme.

This indicator is rising due to both the use of borrowing to finance capital spend and the reduction in asset values as academy school buildings are transferred to academy responsibility.

L2. Ratio of Gross Loan Interest to RuT Gross Budget

The Council has opted to set a further, local indicator to review the affordability of its external loans.

This looks at the ratio of interest payable on anticipated external borrowing in the form of loans.

	Revised 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000
Budgeted Loan Interest	4,377	4,815	4,847
RuT Gross Budget	456,923	436,956	436,956
Interest as % of Revenue	1.0%	1.1%	1.1%
Current Limit	2.0%	2.0%	2.0%

NB 2018/19 includes a one year only impact of NNDR London Pooling Pilot expenditure which is matched by income.

London Borough of Richmond upon Thames

Capital Strategy 2019/20

1. This capital strategy is in response to changes in CIPFA's Prudential Code and Treasury Management Code and sets out the long-term context within which capital expenditure, borrowing and investment decisions are made. It is to be approved by full Council. The overall aim of the framework is to demonstrate that such decisions properly take account of stewardship, prudence, value for money, sustainability and affordability.

2. Capital Expenditure – Capital Programme

Overview of Governance Process

2.1 The capital programme is based upon the approved capital schemes, Treasury Management Strategy, Asset Management strategy, capital resources projections and an annual process for prioritising additions which recognises cost in use and sustainability issues.

2.2 It contains currently approved spending and sets the financial parameters within which the Executive may add to commitments in the context of reserves and resources anticipated in the medium-term outlook.

2.3 The overall programme is reviewed and approved by the Full Council in February or March after additions are made to the programme. Individual schemes may be approved and added to the programme during the year using relevant committee approval or other delegated decision making frameworks as appropriate.

2.4 Capital spend and the availability of resources to finance that spend are monitored by the Director of Resources on a monthly basis.

Long-term View of Capital Spending Plans

2.5 The Capital Programme considers the programme and available resources for the current year and five subsequent years. The Council's ability to finance capital spending is restricted only by its own view on affordability, subject to the Government's possible imposition of limits on local authority borrowing for macro-economic reasons.

2.6 Due to the current pressures on the Council's finances and council tax, potential capital schemes are considered in the context of whether any specific capital resources will be available to contribute towards the funding of the scheme and the revenue impact of the scheme. General assumptions are as follows:

a) Expenditure on schools is driven by the Council's duty to educate and provide sufficient places for every age group in buildings which are fit for purpose. While much of the costs of repairs and new pupil places is funded from either Government grant, the Council will also use S106/CIL receipts and other resources and borrowing as required to meet this statutory duty.
b) For non-housing and non-school related Council operational property, schemes are prioritised where they will either provide future revenue savings, are critical to keeping a property in use, or will facilitate the Council's strategic priorities. Schemes that are critical to keeping a property in use are selected based upon the current condition information and maintenance forecast.
c) Highways type schemes and other areas where there is a regular annual budget are prioritised where there are health and safety considerations to road and pavement users, as well as facilitating travel within the Borough for residents and visitors to promote economic activity in the area.

2.7 The potential sources of finance for the Capital Programme are:

a) Grants – either earmarked for particular schemes or services, or available for any scheme. There is no revenue effect, provided that the receipt of grant is not significantly delayed.
b) CIL and Section 106 – these are either earmarked for particular use or generally for a specific type of spend. Where conditions are more general, these will be used to replace financing from borrowing or Council resources wherever possible. There is no revenue effect.
c) Borrowing – this is used where a need to spend is identified and no alternative funding is available. Borrowing is financially disadvantageous compared to other sources of finance. The Council must make annual provision for debt repayment and debt charges. Where possible the Council will use internal borrowing and the debt charge will be the loss of interest from reducing balances invested. Where there is no scope to borrow internally, external loans are taken out and the Council will make either "repayment" or "interest only" mortgage type payments. All borrowing costs are financed as a charge to the revenue budget (e.g. a charge to the Council Tax payer)
d) Revenue Reserves – other than specific schemes from the Repairs and Renewals Fund this is rarely used as there are minimal earmarked

reserves available. This reduces balances invested and therefore the interest income to the Council.

e) Capital Receipts – these are used where available in preference to borrowing. There is a loss of investment interest associated with their use. The Council reviews its assets regularly and will dispose of under-utilised assets and has used the proceeds extensively over time to support the Capital Programme. This history of sale of assets has resulted in reduced future sales income and minimal balance of receipts carried forward.

3. Investment

4.1 The underlying objectives of the Council's Investment Policy are security of the capital sums invested and liquidity to ensure the funds invested are available for expenditure when needed. Once proper levels of security and liquidity are determined, it is then reasonable to consider what yield can be obtained consistent with these priorities. The Council's Investment activities are conducted in a manner that regards the successful identification, monitoring and control of risk as of prime importance and accordingly the analysis and reporting includes a substantial focus on the risk implications.

Treasury Management Investments

4.2 These are investments that arise from the Council's cash flows and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

4.3 The Council's policy on Treasury Management Investments is submitted to the Audit Committee for review, the relevant decision making committee and approved by the full Council. The overall arrangements and strategy for the ensuing financial year are reviewed and approved in February or March, an Annual Report after the end of the financial year and a mid-year review report. From time to time the Director of Resources may submit additional reports recommending changes in Policy for approval if circumstances require.

4.4 The Director of Resources' responsibilities for Treasury Management are prescribed in the Council's Financial Regulations. Treasury Management activities and issues are reviewed at least monthly by a Treasury meeting within the Resources Directorate and chaired by the Director of Resources. Day to day Treasury Management activities are handled by the Financial Management Division of the Resources Directorate in accordance with a Treasury Systems Document. Treasury Management staff attend training courses to ensure they maintain sufficient knowledge and keep up to date with current developments.

4.5 Treasury Management advisers are appointed at least once within the lifetime of each Council to carry out an independent review of the Council's Treasury Management activities.

4.6 The Council's detailed investment policy is contained within the Treasury Policy Statement. Its overriding purpose is the control of risk. It specifies the types of investments that may be used and the limits of their use. These limits relate to the maximum time period for each investment type and to the maximum amount that may be held at any one time. The choice of limits is governed by the requirement to safeguard the security of the Council's portfolio and to spread risk through suitable diversification. The Council uses credit rating information from the three main credit rating agencies (Fitch, Moody's and Standard and Poor's) and this data is supplemented by other available information where appropriate. The limits also consider liquidity requirements and finally the yield that may be obtained.

4.7 The Council held investments of £55.6m at 31st December 2018 at an average rate of 0.64%. The Council is expected to begin 2019/20 with investments of around £27m and the estimated movements for the following two years based upon current cash flows show that investments are likely to increase slightly to around £32m.

Investments that are not part of Treasury Management Activity

4.8 The Council may invest in other financial assets and property primarily for financial return that are not part of Treasury Management activity. These activities are subject to similar assessments of risk as for Treasury Management investments. They are approved as part of the capital programme as described in Sections 2 or 3 of this Capital Strategy.

4.9 <u>Investment Property.</u> The Council owns Investment Property but has no policy to actively procure more. The annual review of Council assets may lead to operational use ceasing and the asset being reclassified as an investment property either to retain them long term for income generation or pending a further decision to dispose of or redevelop the site. The level of borrowing required to finance the Capital Programme is a consideration when reviewing the use of these assets.

4.10 <u>Loans to facilitate Council Policy.</u> The Council may make loans to organisations such as organisations the Council has an interest in (e.g. WLWA, SWMCB, AfC) Academy schools, other Service Providers, Voluntary Organisations or other bodies working to achieve Council priorities. The Council's Treasury Policy Statement includes the terms under which such loans can be made, as the monitoring process.

4.11 The main loans made under this facility at present are :

- £15m loan to WLWA to facilitate the building of a new EfW facility. This is made by Richmond as a constituent authority of WLWA who will therefore benefit from the improved facilities. This loan is now being repaid so the balance is declining. Interest was fixed when the loan was agreed, at a level
- Revolving Credit Agreement for AfC where the Council shares the cash flow "overdraft" funding for AfC pro rata to its ownership of the organisations with RB Kingston and RB Windsor & Maidenhead. This loan varies with the cash flow of Achieving for Children.

A loan to the South West Middlesex Crematorium Board has been agreed in principle to finance the cremator replacement project. This loan is likely to be made during 2019/20 for around £1m for under 5 years and is made by Richmond as a constituent authority of the Board.

5 Borrowing

5.1 **External Borrowing.** The Council's external long-term borrowing is from the Public Works Loan Board (PWLB) except for £5m from Barclays Bank. Historically, loans were taken on a maturity basis. However, the decision was taken to switch to repayment loans as a result of changes to the regulatory framework and as a way to minimise cost of carry and the potential loss of investment following financial crisis in 2008.

5.2 The Council also offers deposit facilities to other bodies such as the South West Middlesex Crematorium Board and manages invests on behalf of various Trusts. The SWMCB will be withdrawing its £1.6m deposit prior to taking borrowing from the Council during 2019/20. This will leave under £2m of Trust on deposit with the Council. The Council passes on it's average investment return to these depositors.

5.3 **Internal Borrowing.** This arises where capital expenditure is financed by borrowing but no external loan is taken out. This is effectively using positive cash flow in lieu of external debt. The money still has to be repaid (effectively the Council is not holding the cash required to support its reserves position, and the money will be needed when the reserves are used) but instead of incurring interest costs payable to PWLB or a bank, the Council receives less interest as it holds less investments.

5.4 In prior years the Council has had substantial cash balances which were used to support internal borrowing where required as it is cheaper than external borrowing. However, as the Council has a projected continuing need to increase its borrowing, it has to manage the risk of interest rate increases against the current saving. Decisions on capital expenditure being funded from any available cash flow (internal) or formal (external) borrowing will therefore be taken to balance the risks and rewards of both options considering market expectations and the Council's appetite for risk.

5.5 The following table shows estimates of the Council's External and Internal Borrowing outstanding balances based upon the currently approved capital programme.

	31 March 2019	31 March 2020	31 March 2021	31 March 2022	31 March 2023	31 March 2024
	£000	£000	£000	£000	£000	£000
External Borrowing						
- Loans	134,466	144,123	148,534	146,601	148,670	149,643
- Leases/PFI	18,191	17,034	15,788	14,443	12,992	11,424
Internal Borrowing	31,845	33,705	33,231	35,280	33,285	31,404
Underlying Need to Borrow	184,502	194,862	197,553	196,324	194,947	192,471

5.6 **Minimum Revenue Provision.** Regulations issued under the Local Government Act 2003 require local authorities to make prudent provision for the repayment of debt. This is referred to as the Minimum Revenue Provision (MRP) and is funded from revenue (e.g. is part of the Council Tax Requirement calculation). The annual statement on the Council's MRP Policy is contained within the Treasury Policy Statement and approved by full Council in February or March.

5.7 **Voluntary Revenue Provision.** The Council can make more than the minimum prudent set aside to cover debt repayment if it decides that is the best use of its resources in any year. However, this would again be funded from revenue budget and an there are other ways to produce future savings in a more flexible way which are more likely to be used.

5.8 **Authorised and Operational Borrowing Limits.** Section 3 of Part 1 of the Local Government Act 2003 requires local authorities to set an affordable borrowing limit and operational boundary each year. This is contained within the Prudential Indicators and approved by full Council in February or March each year. The authorised limit was set at £173m in February 2018 for 2018/19 and a limit of £179m is proposed for 2019/20.

Risk Assessment

Risks to the Capital Programme can arise from the following:

- Overspending against the agreed budgets.
- Interest rate movements making borrowing more costly than anticipated.
- Increased level of borrowing requiring greater use of revenue budgets for interest and repayments.
- The complete or partial loss (or delay in the receipt of) anticipated capital receipts.
- Insufficient internal staffing capacity to support projects.
- Unexpected calls on the Council's capital resources from unforeseen events.

These risks cannot be completely removed but the following actions have been taken to try and minimise the risks:

- A budget manager is clearly assigned responsibility for monitoring the budget and to ensure that the necessary approvals have been sought and funding identified.
- Regular capital expenditure monitoring meetings are held with budget managers to identify any problems at an early stage.
- The approval process for new capital schemes considers the revenue implications of increased borrowing requirements.
- Officers receive regular advice from the Council's Treasury Advisors in respect of the timing in external and internal borrowing.
- Receipts are only included in the programme when there is a definite disposal timetable for the relevant assets. The 6 year capital programme assumes a prudent level of disposals will actually be received.
- Staffing levels in construction and property development areas to support capital projects are kept under regular review.

Definitions of Budget Headings

SeRCOP
The Service Reporting Code of Practice (SeRCOP) provides guidance on financial reporting to stakeholders to ensure that it meets the needs of modern local government; particularly the duty to secure and demonstrate best value in the provision of services to the community. The code of practice provides a standard subjective analysis to be used by Council's to ensure consistency in Local Government reporting.

EXPENDITURE

Employees
This includes the cost of employee expenses, both direct and indirect, to the authority. Direct employee expenses include salaries, employer's national insurance contribution, employer's retirement benefit cost, agency staff and employee expenses. Indirect employee expenses include relocation, interview, training, advertising, severance payments and employee-related schemes.

Premises
This includes expenses directly related to the running of premises and land and covers repairs, alterations and maintenance of buildings, energy costs, rents, rates, water services, fixtures and fittings, apportionment of expenses of operational buildings, cleaning and domestic supplies, grounds maintenance costs and premises insurance.

Transport
This includes all costs associated with the provision, hire or use of transport, including traveling allowances and home to school transport. It covers direct transport costs such as repairs & maintenance and running costs as well as recharges for vehicles hired from a central pool, hire and operating leases, staff traveling expenses, transport insurance and car allowances.

Supplies and Services
This includes all direct supplies and service expenses to the authority. It covers equipment, furniture and materials, catering, clothes, printing, stationery and general office expenses, communications and computing, members' allowances, expenses including subsistence and conferences, grants and subscriptions, Private Finance Initiative, and miscellaneous expenses.

Third Party Payments
A third party payment is a payment to an external provider or an internal service delivery unit defined as a trading operation (e.g. payment to a building firm would be shown under Premises costs).

Transfer Payments
This includes the cost of payments to individuals for which no goods or services are received in return by the local authority. This covers mandatory and discretionary awards to students, payments to Social Services clients, and Housing Benefit payments.

Support Services
Charges for Legal and HR shared services that are hosted by other Local authorities and support the provision of services to the public. These are apportioned or allocated to the service divisions that they support using an agreed method.

INCOME

Government Grants
This covers all specific and special government grants.

Other Grants & Contributions
This includes income received to finance a function/project which is undertaken with other bodies and other contributions from other local authorities.

Customer & Client Receipts
This includes sales of products or materials, fees and charges for services, use of facilities, admissions and lettings.

FINANCIAL ACCOUNTING ADJUSTMENTS

Central Support Charges
This covers charges for services that support the provision of services to the public. These costs are apportioned or allocated to the services they support and include the costs of finance, IT, human resources, property management, office accommodation, legal services, procurement services, corporate services and transport functions.

Central Support Income
This covers income for the services that support the provision of services to the public.

Capital Charges
The costs associated with the revenue impact of capital items in the service revenue accounts are reported here, these items have a net effect of nil on Council Tax. The charges record the affect of depreciation, revaluation losses, loss of impairment of assets, amortization of intangible fixed assets and movement in fair value of investment property.

OTHER DEFINITIONS

Business Rates Levy / Tariff
As part of the new business rates retention scheme, a tariff and levy approach has been implemented to enable a one-off distribution of resources at the outset of the scheme. This is calculated for each individual authority, by comparing the business rates baseline against its baseline funding level. An authority with a higher individual authority business rates baseline than its baseline funding level pays a tariff, and the opposite applies for a levy payment.

Collection Fund
Local authorities who are required by law to collect Council Tax and Business Rates must establish a ‘Collection Fund’ that records the amounts collected from Council Tax and

Business Rates separately from the Council's own accounts. The Collection Fund also shows payments made to the government and precepting authorities, and transfers to the Council's General Fund.

Corporate and Democratic Core
This comprises corporate management and democratic representation and management costs.

Depreciation
The writing down of the value of a fixed asset in the balance sheet in line with its expected useful life.

Earmarked Reserves
Amounts set aside for specific purposes falling outside the definition of provisions.