SOUTHAMPTON CITY COUNCIL

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MEDIUM TERM FINANCIAL STRATEGY
2016/17 TO 2020/21

NOVEMBER 2016

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INTRODUCTION

1. Background

The Medium Term Financial Strategy (MTFS) is a core part of the Council's strategic framework and plays a pivotal role in translating the city vision and Council's strategic plans and ambitions into actions.

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

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

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

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

2. Aims and Purpose of the Medium Term Financial Strategy

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

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

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

The key overriding aim of the MTFS is therefore:

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

The 6 key objectives of the MTFS are to:

- Provide financial parameters within which budget and service planning should take place;
- Ensure that the Council sets a balanced and sustainable budget;
- Focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources. Ensuring services are defined on the basis of clear alignment between priority and affordability;
- Ensure that the Council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;
- Plan the level of fees, charges and taxation in line with levels that the Council regard as being necessary, acceptable and affordable to meet the Council's aims, objectives, policies and priorities whilst gradually reducing the Council's reliance on Central Government funding;
- Ensure that the Council's long term financial health and viability remain sound.

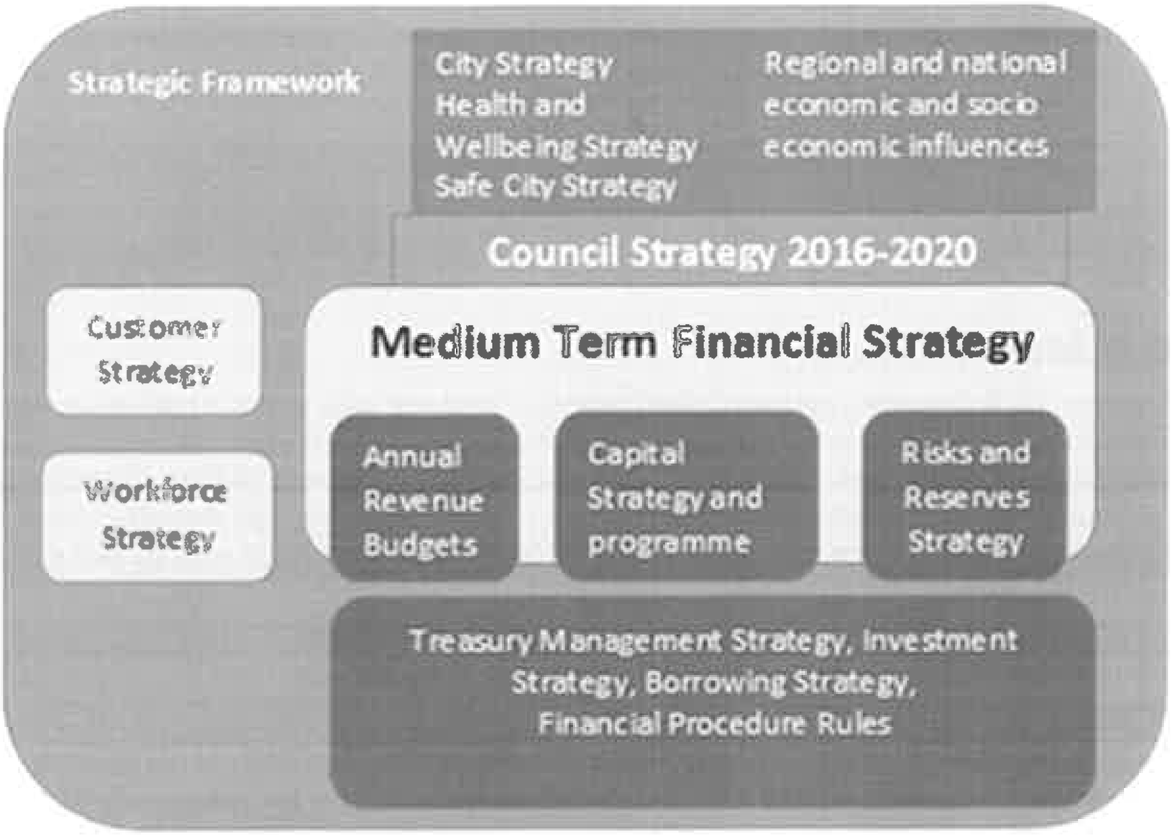
The MTFS enables the Council to move away from the historical position of setting annual budgets in isolation to future years, to integrated service and financial planning over the medium term, using an outcomes based planning and budgeting approach.

This approach will focus the planning process on the medium term facilitating a balanced budget by 2019/20, and the expected start of the new funding regime for local government, with full business rate retention.

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

3. Strategic context

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



Setting the context: key strategies and plans

4. **Southampton City Strategy 2015-25**

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

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

It also includes four cross cutting themes:

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

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

Southampton City Council Strategy 2016-2020

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

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

5. Workforce Strategy 2016 – 2020

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

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

6. Customer Strategy 2015 -2018

The Council's vision is:
We want to put our customers at the heart of everything we do and we are working with our partners to make Southampton: a city of opportunity were everyone thrives.

The Customer Strategy sets out the following principles:

- First time resolution – getting things right first time and delivering joined up services with partners
- Easy as 1,2,3 – simple, efficient services designed around our customers' needs
- Assisted digital – digital services, with extra help for those who need it
- Empower customers, communities and employees – supporting customers and communities to become more self-reliant
- Informed by insight – involving customers in the design, development and review of services
- Value for money – delivering cost effective services, ensuring that we can continue to keep customers at the heart of what we do

7. Other Major Strategies and Policies

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

The two other key financial strategies are detailed below:

8. Capital Strategy

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

The Capital Strategy and Capital Programme are approved each year in February by Council. Key issues and developments that are now incorporated in the strategy include:

- Recognition of the Devolution proposals, in which a key themes is accelerated housing delivery;
- Changes to the use of capital receipts, and implications on the use of this key funding source;
- Reviewing the alternative options for the disposal or development of land, notably the setting up of a Development Company and the use of our property partner;
- Recognition of the need for additional preventative Flood Defence schemes in the city;
- An update on the Council's Efficiency Strategy and transformation programme;
- The intention to set up a Property Investment Fund; and
- Clearer links to the outcomes, and executive commitments

9. Treasury Management Strategy 2016/17 to 2018/19

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

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

The core elements of the 2016/17 Treasury Management strategy are :

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

11. Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £61.72M and £108.5M. As at 30 September 2016, the authority had internal investments amounting to £62.5M with an average rate of return of 1.45%.

The current strategy is to continue to diversify into more secure and/or higher yielding asset classes in 2016/17 as there is increasing risk and low returns from short term unsecured bank investments.

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

12. Borrowing Strategy

As at the 30 September 2016, the Council's overall outstanding long term borrowing was £235M, at an average rate of 3.33% and an average maturity of 23 years. This has fallen by £6M since 1 April 2016 due to maturing debt which has not yet been replaced. The total long term debt portfolio is made up of loans from the Public Works Loan Board (PWLB) of £226M and market loans of £9M.

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

By doing this the Council is able to reduce net borrowing costs and reduce overall treasury risk. Details of borrowing options are included in full within the Prudential Limits and Treasury Management Strategy 2016/17 to 2018/19.

The budget for debt interest paid in 2016/17 is £14.5M based on an average debt portfolio of £400M at an average interest rate of 3.5%. Investment income for 2016/17 is budgeted at £0.4M based on an average portfolio of £65M at an average of 0.75%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondently different.

13. **Other Strategies and plans that have an impact on the MTFS**

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

- Solent Economic Plan 2014-20
- Health and Wellbeing Strategy
- Better Care Plan
- Safe City Strategy
- Local Transport Plan and Transport Asset Management Plan

- Housing Revenue Account Business Plan 2016/17 to 2045/46
- Corporate Property Strategy and Asset Management Plan

14 **National and External Factors**

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

15. Comprehensive Spending Review 2015 (Autumn Spending Review)

- Business Rates Retention - As part of the Autumn Spending Review the Government announced their intention was to radically change the way local authorities are funded by moving from 50% to 100% business rate retention (including other precepting authorities such as fire and police) and phasing out the Revenue Support Grant by 2020. Alongside this there will be additional responsibilities for local government to ensure the move was fiscally neutral to Central Government plans.

- Uniform Business Rates - The Government also reiterated its earlier proposal, made in October 2015, to abolish Uniform Business Rates by 2020, giving local authorities the power to cut rates to boost growth, and giving directly elected mayors for combined authorities the power to levy a business rates premium for local infrastructure projects with the support of local business.

- Tops and Tariffs - The current system of top ups and tariffs for redistributing revenues between local authorities will be retained, however how the formula for calculating this is still being determined

- Capital Receipts Flexibility - The announcement also included a new flexibility allowing local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects. Instead of holding assets that could be made surplus, councils will be able to sell them and reinvest in their services.

- Social Care Precept - In recognition of the increasing demand for local authority adult social care services, councils are able to levy a "social care precept" of up to 2% in council tax which must be spent exclusively on social care, with the potential to bring almost £2B more into the care system across the country. An announcement was also made that the Better Care Fund would be increased to support this and local authorities will be able to access an additional £1.5B by 2019-20.

- Public Health Funding - Alongside savings in the Public Health grant, the Government announced it will consult on transferring new powers and the responsibility for its funding and elements of the administration, to local authorities.

- New Homes Bonus - The Government have also consulted on reforms to the New Homes Bonus, including means of sharpening the incentive to reward communities for additional homes and reducing the length of payments from 6 years to 4 years. This will included a preferred option for savings of at least £800M, which can be used for social care.

- Housing - The national housing budget will be doubled, to £2Bn, and 400,000 affordable homes will be built, both to rent and to buy; almost half of these will be starter homes, while 135,000 will be available for the Help to Buy: Shared Ownership scheme.

- Troubled Families - Funding for the Troubled Families programme will continue, with efficiencies found from central budgets and current levels of funding will be maintained for community integration programmes, which will be targeted at supporting the recommendations made in Louise Casey's review of opportunity and integration in isolated and deprived communities.

- Education for three and four year olds - The Chancellor confirmed that there will be 30 hours of free, funded early education for three and four year olds from 2017, for families working for more than 16 hours and whose incomes are below £100,000 per parent. Free childcare for the most disadvantaged two year olds will be maintained and funding for the sector will be increased by £300M to support more free places.

- Funding for Free School Meals - This will be maintained, rates for the pupil premium will be protected and there will be an increase in the cash for the Dedicated Schools Grant.

- Education in the Future - The Government has expressed the view that local authorities will no longer run local schools, creating a governmental saving of £600m, on the Education Services Grant. The Government will phase out current school funding regime and create a new national funding formula to address the current inequities in funding, especially for the most disadvantaged pupils.

- Apprenticeships - The Government reiterated its commitment to creating three million apprenticeships by 2020. It will also introduce an Apprenticeship Levy from 2017, set at 0.5% of employers' pay bill, in order to raise £3bn a year.

16. Devolution – Solent Mayoral Combined Authority

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

- An allocation of £30M pa for 30 years (75% capital 25% revenue) for economic growth, that can also be capitalised;
- The retention of 100% of the business rates collected within the area earlier than the national roll-out in 2020 (currently 50% of all business rates collected are passed over to Central Government. The model assumes the proposal will be fiscally neutral to the Government;
- Funding and support for business growth and innovation;
- Control of Adult Education budgets to meet the needs of employers and local residents;
- A support programme to enable unemployed people to progress to work;
- Additional homes in the Solent area;
- New dedicated transport budgets and powers; and
- Measures to support public sector reforms.

The three Unitary Authorities have undertaken an eight week consultation over the Summer, which showed a favourable response to progressing with the MCA and devolved powers and funds. Further to the report being approved by the three Councils. A proposal was submitted to the Secretary of State to consider the establishment of an MCA in the Solent, with the expectation of an announcement in the Autumn. This would be followed by detailed negotiations and actions plans to take the various strands of the Deal forward, including all arrangements for governance, financial and risk management.

17. Housing

Local Plans for homes include delivery of 10,000 homes over the next 10 years including in the priority home categories of rural affordable, low-cost starter, council new-build and extra care, by making use of exception sites including redundant public land. A commitment has been made to develop at least 2,000 new starter homes within the city. This has been supported to date by additional government funding with the introduction of Help to Buy in 2013.

Help to Buy was created to ensure that working people who were doing the right thing and saving for a deposit could achieve their aspiration of buying their own home through Government support. Home ownership is a key part of the government's long term plan to provide economic security for working people across the UK. To date this has been facilitated through Equity Loans and Mortgage Guarantee Schemes with 80% of completions to date being made by first time buyers with just under 50% of the properties being new build. The government announced two further initiatives in the Comprehensive Spending Review on 25th November 2015 which will further encourage this agenda.

a) Help to Buy ISA introduced from 1st December 2015 whereby under the scheme, first-time buyers can save up to £200 a month towards their first home and the government will boost their savings by 25%, or £50 for every £200, up to a £3,000 bonus.
b) New streams of funding, such as for low-cost home ownership are intended to be available for councils as well as housing associations and private developers. Councils are encouraged to think creatively about the homes they could deliver by accessing some of the new grants.

It is anticipated that future disposal or development decisions within the Council will be mindful of the need to consider opportunities to fully utilise all available funding streams and to meet the low-cost starter home commitments.

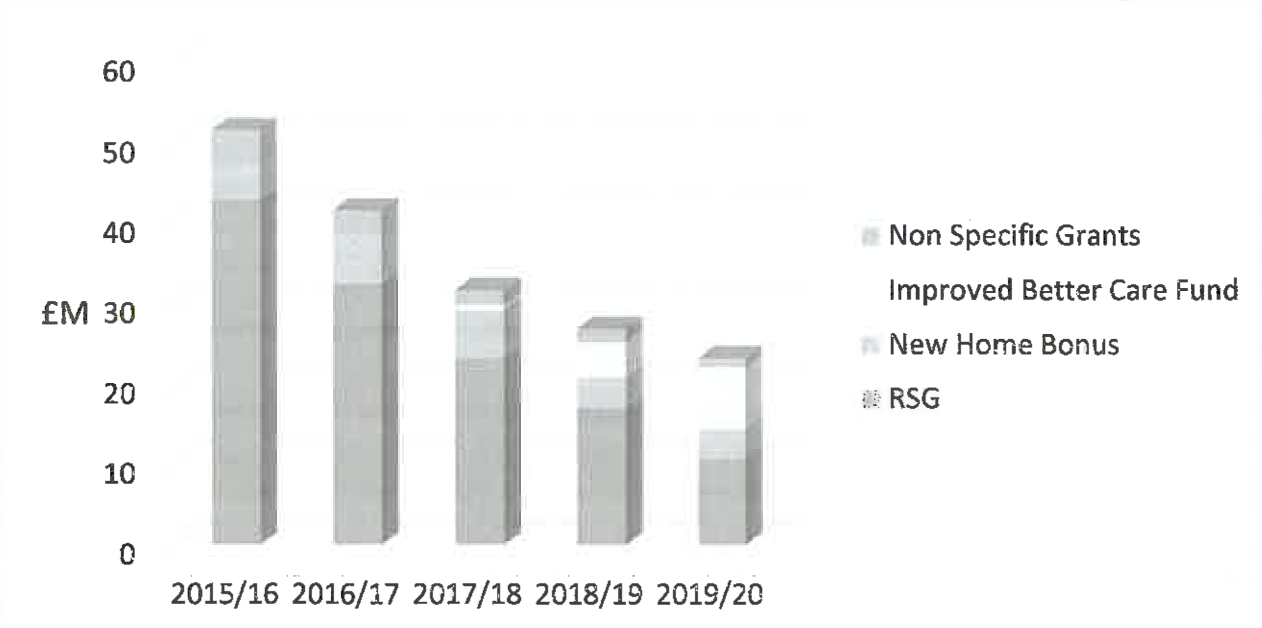
18. Local Government Finance Settlement

Following on from the Autumn Statement, the Government announced the Provisional Local Government Finance Settlement on the 17th December 2015 and confirmed the allocations in February 2016.

This gave local government funding figures for 2016/17 to 2019/20. It also came with the offer for local authorities to receive a four year funding settlement on the production of an Efficiency

Strategy, and more detail regarding the flexible use of capital receipts. The settlement looked to redistribute funding to authorities that have social care responsibilities.

For Southampton the impact of the settlement in terms of grant funding can be seen in the graph below. This shows Southampton's grant funding reducing by 55% from 2015/16 to 2019/20



The financial impact of the Local Government Finance Settlement has been included in the Medium Term Financial Model attached in Annex 1 and the offer of the four year settlement has been taken up..

19. **Key Assumptions**

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

Summary of Key Assumptions

Table 1 summarises the key assumptions contained within the Medium Term Financial Model from 2017/18, to arrive at the financial figures presented in Section 3. Figures in brackets represent a reduction.

Table 1 – Summary of Key Assumptions

Item	2017/18	2018/19	2019/20
Business Rates	1.00%	1.00%	1.00%
Council Tax	3.99%	3.99%	3.99%
Revenue Support Grant	(28.6%)	(26.6%)	(36.7%)
New Homes Bonus	0	(36.2%)	(2.63%)
Other Grants	(38.9%)	(12.2%)	(36.6%)
Consumer Price Index (CPI)	1.0%	2.0%	3.0%
Retail Price Index	2.0%	3.0%	4.0%
Pay Award	1.0%	1.0%	1.0%
Superannuation	14.1%	15.1%	16.1%
Past Service Costs and Compulsory Added Years	8.8%	8.8%	8.8%

20. Business Rate Retention Scheme

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

Councils are able to retain a proportion of their growth in business rates and will also be taking the risk for reductions in business rates, although there are 'safety net' arrangements in place to protect against very large reductions. By the end of this Parliament it is expected there will be a 100% business rates retention alongside additional responsibilities to ensure fiscal neutrality for Central Government.

The scheme as it currently stands means whilst Southampton has no influence over the rateable value, rates charged or the percentage increase each year, it does retain almost half the risk from the volatile nature of the receipts. The one element that the local authority can influence is the economic growth within the region which may result in increased revenues from Business Rates.

The Valuations Office is undertaking a reset of rateable values from 2017/18, and initial consultation has started on the outcome. Southampton City Council would achieve an increase in Business Rate income however, it is expected that this will be adjusted for as part of the multiplier.

Businesses can appeal against the rateable value given, and under the current scheme the Council carries approximately half the risk if values are reduced. Appeals can be backdated and as a consequence of this the Council has set aside a provision to deal with this element of the financial impact. In December 2014 the Government announced it was closing the appeals window and that appeals received on or after 1 April 2015 will only be backdated until this date.

During January 2016, a number of local authorities have received requests for 80% mandatory relief in respect of NHS trusts.for a refund of rates paid back six years (in line with s9 Limitation Act 1980). In Southampton there are 34 business rated properties which are occupied by NHS trusts, and a letter in respect of local trust has recently been received. If the agents are successful it would potentially result in up to £9.6M business rates being refunded to NHS trusts locally and a loss of £2.6M business rates pa in future years.

There has been an assumption built into the MTFS is for Business Rates growth, this is based on an assessment of the new property developments undertaken in conjunction with the Growth team,

21. Council Tax

The tax base for 2014/15 reflected the required adjustments as a result of the localisation of Council Tax Benefits and changes to associated funding which was implemented from 2013/14. A new Local Council Tax Scheme (LCTS) was introduced in 2013/14 which, as a result of the localisation of Council Tax Benefits, allows the Council to set its own criteria for offering reduced Council Tax for those eligible. The changes to discounts, exemptions and LCTS are now in place, and the LCTS administration grant has been confirmed and included in the forecast position. As set out in Table 1 above, the assumption is that Council Tax rises will be set at just below the 2% referendum limit in future years, at 1.99%. There remains a risk that the Government could impose a lower Council Tax referendum threshold.

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

22. Adult Social Care Precept

As set out in the Autumn Spending Review local authorities with adult social care responsibilities can now increase Council Tax by a further 2% adult social care precept. The MTFS assumes this precept will be taken in all years as the calculated increase in funding needed for adult social care far outweighs the income gained from this precept.

23. Revenue Support Grant Update Post Settlement

Historically a major source of funding for the Council has been the Revenue Support Grant (RSG), however since the austerity measures have been introduced this grant has been reduced drastically with the Council seeing a 28.5% reduction in 2015/16, and a 24.1% reduction in 2016/17.The MTFS reflects the allocations given in the PLGFS.

24. Housing Benefit Administration Subsidy

In addition to the changes resulting from the localisation of Council Tax Benefits, Housing Benefit is to be phased out and replaced by Universal Credit. As such there was an expectation that Housing Benefit Administration Subsidy, which is funding towards the cost of administering Housing Benefit, may cease from 2016/17.

Confirmation has now been received from the Department for Work & Pensions (DWP) that this funding will continue into 2016/17 whilst the delivery plans for the introduction of the Universal Credit are reviewed.

A further £1.2M of non-recurrent grant funding was therefore been assumed in setting the forecast position for 2016/17.

25. Public Health Grant

The Public Health Grant that was introduced in April 2013, will continue to be a ring-fenced grant to Local Authorities into 2016/17 and 2017/18. The allocation will be subject to a new formula and will incorporate the transfer of funding for Children's 0-5 Public Health services. The final allocation of Public Health grant for 2016/17 is £17.86M. As part of the spending review it was announced that there would be further reductions in the grant, in addition to the £200M announced for 2015/16, through to 2020/21, as outlined in Table 2 below.

Table 2 – Public Health Grant Reductions

	2016/17	2017/18	2018/19	2019/20
Percentage reduction in total grant from 2015/16 baseline	2.2%	2.5%	2.6%	2.6%

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

In 2016/17 the cumulative Public Health grant reduction was £1.47M of which £0.28M is still to be identified going into 2017/18. The rise in the grant reduction in the forthcoming year is £0.44M, which leaves a total of £0.72M to be achieved in 2017/18.

26. Care Act

The Care Act 2014 deals with the reform of adult social care and support legislation. The introduction of the Act was to be phased over two years. Changes including the rights of Carers, a national eligibility criteria and universal Deferred Payments which came into force on 1 April 2015. However the changes programmed to come into force from 1 April 2016, including the funding reforms, have now been postponed until at least 2020. This decision was taken nationally in recognition of the overwhelming pressure, across the country, within Adult Social Care services. In recognition of this the government have announced the flexibility for local authorities to increase the Council Tax by a further 2% as an Adult Social Care precept above the 1.99% referendum limit.

It is currently viewed that the additional burdens introduced from April 2015 have been met within the additional funding provided during 2015/16. It was also assumed for 2016/17 that the continued contribution from the Better Care Fund and funding levels announced within the settlement, although no longer subject to a specific grant, would be sufficient to meet the cost of these responsibilities in 2016/17.However, whilst costs have increased it is not possible to specify that this is solely in relation to the Care Act burdens.

27. New Homes Bonus

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

The LGFS provided a further update on the scheme with funding confirmed up to and including 2019/20. The funding for 2016/17 will be allocated on the basis of the current methodology, however, consultation has been undertaken to seek views on how the funding should be allocated from 2017/18. However, the results of the consultation have not yet been published. Additional funding assumptions have been included in the medium term financial forecast but due to the uncertainty around methodology, has been included per the allocations provided for within the PLGFS. These are shown in Table 3 below:

Table 3 – New Homes Bonus Allocations

	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M
New Homes Bonus Assumption	5.96	5.96	3.80	3.70
Returned Funding	0.14	0.00	0.00	0.00
Total	**6.10**	**5.96**	**3.80**	**3.70**

28. Education Services Grant

The Education Services Grant (ESG) is paid to local authorities and academies according to 2 national per pupil rates. The general funding rate (£77 per pupil in 2016-17) is paid to both academies and local authorities to fund duties that academies are responsible for delivering for their pupils, and that local authorities deliver for maintained school pupils. The retained duties rate (£15 per pupil in 2016-17) is paid only to local authorities to fund the duties that local authorities deliver for all pupils.

The 2015 Spending Review announced a £600 million cut in the Education Services Grant (ESG) and the Government's intention to end the statutory council role in school improvement. The paragraphs below reflect current understanding of the proposals outlined in Stage 1 of Fair Funding consultation and may change when we have further clarity about the future of the ESG in stage 2 of consultation.

ESG grant allocation for SCC is £2.2M (£1.7M general funding and £0.5M for retained duties) in 2016/17. DfE have proposed that the general funding rate will be removed from 2017/18 and the retained element will be combined into DSG Central Schools Block. This means DSG central block will include centrally retained DSG and council statutory duties from the ESG.

DfE expects that local authorities will use the 2016-17 financial year to plan for reforming their services, alongside the manageable efficiencies that council's need to make in that year. DfE have proposed to pay a reduced ESG general funding rate for the first 5 months of the 2017-18 financial year to maximise the time that local authorities have to plan. The general funding rate would then be removed completely for both academies and maintained schools from September 2017.

In SCC response to consultation we raised concerns that the proposals breach the principle of fairness by giving academies preferential treatment with tapering protection until 2020, while cutting off local authority ESG by summer 2017. This is too short a timescale to expect local authorities to restructure their services. The impact of this would be in the region of £0.5M per annum.

29. National Fairer Funding Schools

In March 2016, the Department for Education (DfE) opened the first of two major consultations on further funding reform, proposing a National School Funding Formula to include a basic per-pupil amount and factors reflecting pupil characteristics, school and areas costs. The precise composition of the formula and weighting given to the different factors is expected to be the subject of a further consultation later in 2016. The response to the first stage of the consultation on the formula is expected in the autumn and a second consultation on the proposed detail of the policy would be launched later in the year. The implementation of the new national funding formula has been pushed back to 2018-19. The government is no longer intending to put the policy in place in 2017-18. For the 2017-18 academic year, schools will still be funded through the local formula set by their local authority. Councils have been reassured that they won't see a reduction in the schools or high needs block of the dedicated schools grant next year, and that the current minimum funding guarantee for schools will be retained in 2017-18.The final allocations for schools and high needs blocks would follow in December on the basis of pupil numbers recorded in the October census.

DfE published a national review on the cost of providing childcare in November 2015. A new national funding formula for early years funding will be implemented from April 2017. DfE is planning to introduce 30 hours of free early education and childcare to working parents from September 2017.

A consultation on the national funding formula started in August. The consultation outlined changes to the way local authorities fund early years providers in their area and how children with special educational needs or disabilities receive the extra funding they need.The new funding formula will apply to the current 15 hour early education entitlement from April 2017 and it will apply to all 30 hours in September 2017 when the extended entitlement is rolled out.

The new formula proposes that councils pay all early years providers regardless of the type of setting the same hourly base rate calculated using a national formula and LAs will be duty bound to pass on 95% of funding directly to providers.

There is a significant impact of the EYNFF is the impact nationally on maintained nursery schools because the new formula has set one rate for all early years providers the impact on maintained nursery schools will be greater. This is because they are currently funded at a higher rate that acknowledges the higher running costs of a maintained nursery school. The new EYNFF does not allow local authorities to retain and cover any additional costs for maintained nursery schools.

30. Other grants

The Council receives a variety of other grants from Government and the MTFS assumes these will decline over the life of the forecast to circa £0.3M, as per the PLGFS.

The result of these assumptions is that the Council will receive minimal levels of funding from Central Government by the end of the term of the MTFS. This is in line with the PLGFS and the Government's Autumn Statement.

31. Pay Inflation

Assumptions have been made in the forecast about the likely level of pay inflation that will apply from April 2016. As a large proportion of the Council's expenditure is pay related, this can have a significant impact if actual rates are much higher than predicated.

The previous MTFS model was based on a pay award of 2% per annum, however following the Government's announcement in the summer budget to cap public sector pay awards at 1% this assumption has now been amended to 1% over the medium term.

32. National Living Wage

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

The Council has adopted the National Living Wage Foundation's recommended living wage, which is currently £8.25 (set in November 2015 but implemented by the Council from 1st April 2016), for payment of SCC employees, and this rate is presently higher than the initial NLW.

The Council is mindful of the impact of the NLW on its suppliers, in particular on social care providers, but at present does not intend to alter any of its existing contracts to take account of NLW.

33. Ending of Contracted out Pensions Schemes

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

34. General Inflation

Assumptions have been made in the forecast about the likely level of general inflation that will apply from April 2016. If inflation were to increase at a higher rate than anticipated then this would have an impact on the Council, not least because the Council's major outsourced/partnership contracts are uplifted by indexation linked to inflation on an annual basis.

Current indications are that in the short term an increase is unlikely. However, the risk has been mitigated by the inclusion of amounts in the Risk Fund to cover key elements of inflation, for example in relation to fuel and energy costs, which can be volatile.

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

35. Pension Fund – Past Service Pension Cost and Compulsory Added Years

Employer contributions to the Hampshire Local Government Pension scheme have been reviewed as part of the 2017 triennial revaluation process, with any resulting change in rates applying from April 2017. This is likely to give rise to an additional cost of £1.8M by 2019/20. It has been confirmed that the position for past service costs and compulsory added years has not changed and has been included within the forecast for 2017/18 to 2019/20, the using the current valuation from Hampshire County Council an 8.8% per annum increase for the six year period 2014/15 to 2019/20 is assumed within the MTFS Model.

36. Public Sector Employment – Restrictions on Exit Payments

The Enterprise Bill for 2015 sets up new restrictions on public sector exit payments through the introduction of a £95,000 cap on such payments. The Government's response to the consultation paper was published on 26th September 2016 and sets out the expectation that Government departments will put forward proposals for reform within three months of this date, with consultation on proposals to follow the normal process of discussions and negotiations with Trade Unions and other workforce representatives in order to seek agreement to their reform proposals. The government expects this discussion process to be concluded, agreement reached and the necessary changes made to compensation schemes and other arrangements within nine months.

Within the overall cap / package to limit exit payments the government will consider proposals appropriate to each workforce to include:

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

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

The financial impact of these changes will be considered in due course and built into future updates of the medium term financial forecast.

KEY RISKS

37. There is a significant degree of risk and uncertainty, arising from both internal and external factors, which could have a significant impact on the key assumptions made within the MTFS. The macro financial systems within which the Council operates is complex and highly sensitive to a range of variables. It is therefore important that those key risks, that could have a material effect on the financial position of the Council, are identified and understood in terms of the potential impact (positive or negative) and the likelihood of occurrence. The foregoing recognises that it is vital to have adequate mechanisms to manage risks if financial stability is to be achieved. These risks are reflected in the assessment and adequacy of detailed estimates and reserves.

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

- The lack of certainty in Government funding for future years including grants;
- Changes in function;
- Changes in how services are funded;
- Changes in the economy;
- Changes in Members' priorities;
- Unmanaged service pressures and increases in demand;
- Council tax policy;
- Changes in legislation;
- Level of future pay awards and general inflation assumptions;
- Adequacy of the Risk Fund in any one period;
- Business Rate Volatility and Business Rate Retention;
- Treasury Management and interest rate changes;

- Projected income levels from fees & charges;
- Non achievement of savings;
- Impact of National Living Wage;
- Level of provision for insurances;
- New burdens;
- Welfare reforms;
- Demographic changes; and
- Impact of Brexit, both nationally and locally.

Risks to the MTFS can clearly therefore arise from both external and internal factors, and it is therefore vital to have adequate mechanisms to manage risks if financial stability is to be achieved.

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

1. **Financial Risk** – the majority of the future years' strategy and model is based on a series of assumptions, the further into the future you look the higher the risk that these assumptions are inaccurate.
2. **Political Risk** – The Government are providing more certainty and transparency over central government funding levels for the term to 2019/20. Details to move to 100% Business Rate Retention and the impact of any new burdens that will be imposed on the local authority as a result off that will need to be considered in due course once further clarity and guidance is given.
3. **Treasury Risk**- the MTFS is based on a stable global financial position going forward with early indications of a recession in the last year of the strategy being taken into account. If this changes it may have a major impact on the financial position of the Council particularly around business rate income, and interest payments. Whilst the Treasury Management Strategy sets the parameters in which borrowing is undertaken a treasury risk reserve of £2M was established to address any transitional costs if it were necessary to undertake a major debt restructuring exercise. However, with longer term forecasts for low interest rates this risk is currently viewed as less significant than other risks faced by the council. Therefore the reserve has been closed with funds transferred to those reserves specifically earmarked to support the highest areas of risk. Further, a taxation reserve of £2M is held to meet one off shortfall in business rate income as this funding position becomes more reliant on this source of funding.
4. **Transformational Change** – It is essential that the Council undergoes radical transformation to ensure the organisation is fit for future and is sustainable. There is a degree of risk associated with this type of change, particularly as the management capacity to drive this change through reduces, and as we seek to deliver significant change against a backdrop of constrained funding.

HORIZON SCANNING

38. Key issues affecting council services and finances are detailed below as they can have a major impact on the Council's budget in the short and medium term. There are demographic and system

wide social-economic factors which undoubtedly impact the residents of Southampton and have an impact on the services which the council and its partners deliver across the city. Table 6 sets out the financial resources included in the Medium Term Financial Forecast to address the factors detailed below, where it has been possible to make a financial assessment at this time. The financial consequences of these items will be reassessed during the MTFS update in September 2017.

39. **Demographics**

Population forecasts for Southampton and nationally show that more people are living longer and as a consequence average life expectancy is increasing. The fastest growing sector of the population is that aged 75 years and over. Forecasts made using known residential development plans predict the over 75s will rise by 20.3% between 2015 and 2022 whilst the number of people over 85 years is forecast to grow from 5,100 to 6,000, an increase of 17.6%. Longer term projections, based on past trends, predict a 45% increase in over 65s in Southampton between 2014 and 2039 with the number of residents in the city aged over 90 reaching 4,300 by 2019.

The increasing proportion of older people creates challenges for individuals and policy makers alike, and it increases pressures on social care resources and other public services. Medical advances mean that people who previously might have died at a young age are living longer, often into adulthood, but do so frequently with long-term conditions and needs which require support to help them live as independently as possible. Likewise, with old age being extended, demands for social care and support are increasing. At the same time, the proportion of the working age population is only due to increase by about 11% between 2014 and 2039, and this may affect availability of informal and community care.

As more people live longer the number of people living with dementia will continue to rise. It is anticipated that as techniques for diagnosing dementia improve, this will add to the total number of individuals requiring support. In 2014/15, there were 1,697 Southampton residents recorded on GP registers as having dementia; this has increased from 1,451 in 2013/14. This increase represents increasing prevalence and the ageing of the population as well as increased diagnosis and recording by GPs.

National and Local Policy

40. Devolution

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

41 Brexit

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

Whilst the details of how the UK will leave the EU are still unknown, the government have released the following information:

- Article 50 of the Lisbon Treaty will be triggered by the end of March 2017, which will lead to formal negotiations regarding the departure of the UK from the EU and how their new relationship will work.
- Details around the negotiating strategy will not necessarily be made public ahead of the event.

- The rights of EU citizens here will be respected, so long as Britons in Europe are treated the same way, evidenced by the EU Citizens Resident in the UK (Right to Stay) Bill, which is currently going through Parliament; this is due to have its second reading on 21 October 2016.
- The government is clear that the UK must be able to control immigration, although detail about how this is to be achieved has not yet been released.
- The government is currently reviewing the options for trading with Europe, maintaining the freest possible trade between the UK and the EU.
- There will be wide consultation on the plans with Parliament and the devolved administrations
- The Great Repeal Bill will be introduced to repeal the European Communities Act of 1972, which places European law above UK law. To ensure continuity, EU law will be transposed into domestic law, wherever practical, on the day we leave the EU. Elected politicians will then make the changes which reflect the outcome of our negotiation and exit.
- Workers' rights will be protected –The Workers' Rights (Maintenance of EU Standards) Bill is going through Parliament now and is due its second reading on 18 November 2016.
- Other related bills currently going through the parliamentary process include the Terms of Withdrawal from the EU Bill and the European Environmental Protection (Maintenance of EU Standards).

43. <u>Welfare Reforms and introduction of Universal Credit (UC)</u>

Southampton will be in the first tranche of the national roll out of Universal Credit. Once Universal Credit is fully implemented, Local Authorities will be asked to provide 3 main services, mainly to the most vulnerable claimants who have complex support needs. These are:

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

'Universal Services – Delivered Locally' will provide the 'partnership framework agreement' for this. Although there have been a range of pilots and projects linked to Universal Credit, it is difficult to predict the direct and indirect impacts locally at this time.

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

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

Further proposed changes from April 2017 include:

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

The Government also has plans to require social tenants on higher incomes (over £40,000 in London and over £30,000 outside London) to pay higher (market rate or near market rate) rents.

44. Better Care Fund

The Better Care Fund commenced 1 April 2015 and is framed within a formal contract with Southampton City Clinical Commissioning Group for a pooled budget under S75 of the National Health Service Act 2006. The purpose of this Fund is to ensure closer integration between health and social care.

The Southampton Better Care Fund pools funding for a significantly greater number of services than the minimum required which is consistent with the ambition locally to integrate and pool resources at a scale to significantly transform its health and care services. To further meet this aim, plans are being developed to increase the pool and the services provided during 2016/17.

In 2016/17 the combined Better Care Fund budget is £100.6M and is broken down as follows:

	NHS Southampton City CCG	Southampton City Council	Total
	£M	£M	£M
Carers	1.24	0.13	1.37
Clusters	32.67	1.43	34.09
Rehab & Reablement	23.46	5.72	29.18
Telecare	0	0.26	0.26
Learning Disability Packages	10.13	18.64	28.77
Prevention & Early Intervention	0	6.95	6.95
Total	**67.49**	**33.12**	**100.61**

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

In addition to the flexibility given to local authorities to raise Council Tax by 2% above the referendum threshold the government have also provided £1.5 billion additional funding for local authorities to spend on adult social care by 2019-20, to be included in an improved Better Care Fund. Taken together, it is estimated that this will provide £3.5BN by 2019/20 to address the demographic pressures facing the social care system. The impact on Southampton of the additional funding through the improved Better Care Fund is shown in the Table 4 below:

The allocation of the additional funding is currently out to consultation. The proposal is to base the amounts paid to each Local Authority on a calculation taking into account the amount that they can achieve in raising Council Tax by 2%, and then shared out using the 2013 adult social care relative needs formula.

Table 4 Additional Better Care funding to be received by Southampton 2016/17 to 2019/20.

2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M
0.00	0.60	4.40	7.70

45. Forthcoming Parliamentary bills

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

- Air Quality (Diesel emissions in Urban centres)
- Children and Social Work
- Homelessness Reduction
- Neighbourhood and Planning

In addition, there were a number of bills that were mentioned in the Queen's Speech in May 2016 but have not yet gone to Parliament. These include bills on education and local growth and jobs. There are also a range of White Papers that are yet to be published by the Government. Once more details become available, council officers will keep the Executive informed.

Socio- Economic Factors

46. Children Looked After

There has been an on-going increase in the referrals of children and young people at risk of abuse or neglect over the past few years. Over the period 2010 to 2015, the rate of Children looked after (per 10,000 children aged under 18) has increased by 42.9% in Southampton compared to a 5.3% increase nationally (England average). In the year ending March 2016, the council carried out 287.9 Section 47 Child Protection investigations for every 10,000 children compared with 138.2 per 10,000 nationally [1] and the city had 96.8 children subject to an initial child protection conference compared with 61.6 per 10,000 nationally.

These high rates in Southampton reflect both the level of need in the city and children's service provision. To ensure that children's needs are met at the earliest stage, a children's services

[1] Please note national comparator figures are for 2014/15.

transformation programme is underway. Historically, economic hardship has been linked to pressure on families and increased demand for safeguarding services so there is a very real risk of a worsening situation as the global economic recession and national welfare reforms start to impact.

The financial implications for the city of the number of children in care has continued to be an issue. Since April 2015, the average monthly number of children looked after in the city has been 612, when over 2014-15, the figure was 558 on average. The number peaked at 636 in August 2015, although dipped to 591 and 592 in March and April 2016. Over the last 6 months the average number has been 606 with the latest published figure for September 2016 also being 606. This continues to present significant financial challenges. The percentage of fostering placements made with independent fostering agencies, (IFA) from April 2014 to December 2015 is approx. 30% (average). The cost of an IFA is, on average two to three times more expensive than an internal placement. This has created and continues to create a significant pressure on the Children Services budget.

In order to address this we are reviewing our contracts with commissioned IFAs to standardise service provision and pricing structures, allowing us to better predict and manage the future costs of IFA placements. We are also increasing the numbers of 'in-house' foster carers through targeted recruitment, providing more options for in-house placements where appropriate.

The medium term financial forecast incorporates the impact of a reduction in cost of the number of looked after children over the next three years. For 2016/17 the planned trajectory of fostering placement numbers is shown in the Table 5 below.

Table 5 - LAC trajectory 2016/17

Placement/Allowance Type	April 2016	April 2017
In-house Fostering	298	297
IFA	183	166
Residential	26	24
New Independent Living Provision	9	9

Physical-environmental factors

47. Housing

In Southampton 25% of residents live in privately rented accommodation, which is higher than the average for comparator cities at 18% and the England average of 17%. There are around 7,000 are HMOs in the city. Nearly a quarter of all homes are in the social rented sector with 16,500 managed by the Council with 14,000 households on its housing waiting list. The council has a responsibility to ensure that its properties meet minimum decency standards. In April 2019, the council reported that just under 8% of stock was non decent as a result of the aging profile of stock and the deteriorating condition of components. The cost of housing has increased significantly and there is an affordability issue (house cost-to-average pay ratio). The council recognises that the number of new affordable homes available needs to be increased, and the Executive has made a commitment to build 365 new homes per year.

Wider Partnership Working

48. Community Budgeting

Southampton has trialled a Community Budgeting approach across skills, employment and criminal justice agencies to meet defined collective outcomes on a PBR basis, and the mechanism is still in place to respond to opportunities. The City Deal employment programmes will also be delivered through this route. However, Combined Authority/devolution outcomes are more likely to provide the governance and processes for Community Budgeting in the future.

49. Social Impact Bonds

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

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

Children's & Families have investigated the potential for developing a service to provide a rapid and intensive service to prevent children and young people coming into care, receiving a development grant from the Big Lottery to look at options of a SIB for 'Edgy of Care'.

Following a tendering process, a consultancy firm ATQ were appointed to develop the feasibility study of having an Edge of Care SIB. This was finalised in May 2016.

A successful bid was then made for Big Lottery funding in July 2016. The agreement is in principle at this stage and are offering to meet up to 17% of payments to the provider up to a maximum of £0.77M over the 5 year programme. Tenders will be sought from the 28th October 2016 with a view to the provider being in place in the Spring of 2017. The Edge of Care SIB is expected to assist as an extension of the Councils early intervention offer.

50. One Public Estate

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

Other key achievements in relation to property rationalisation and partnership working included:

- The partial vacation of the One Guildhall Square building and leasing it to Southampton University from January 2015 which provides an annual income of £0.9M,
- Saving of £0.1M per year from Castle Way,
- A capital receipt of £1.8M from Marlands House.

THE FINANCIAL CHALLENGE

51 Forecast Financial Position 2016/17 – 2020/21

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

Where possible factors described in the preceding sections have been built into the financial modelling to ascertain the forecast financial position. The graph below demonstrates the funding gap to 2019/20.

The current model shows the Council is required to make £42.3M savings over the period to 2019/20. Table 6 below shows the summary position, with the detail being included in Appendix 2

Table 6 – Summary of Savings Requirements

	2016/17	2017/18	2018/19	2019/20	2020/21
	£M	£M	£M	£M	£M
Net Expenditure	180.9	190.4	192.4	200.4	200.4
Baseline Funding	(180.9)	(165.8)	(161.1)	(158.1)	(158.1)
Savings Requirement	**0**	**24.6**	**31.3**	**42.3**	**42.3**

52. Pressures

Table 7 summarises the pressures included in the forecast approved by Council February 2016 from the issues described in the preceding sections as well as pressures that have been identified via the individual service areas through regular financial monitoring and budget setting.

Table 7 – Summary of Pressures

	2016/17	2017/18	2018/19	2019/20
	£M	£M	£M	£M
Demographic	6.3	3.4	2.2	2.4
National/Policy/Local	6.6	7.1	5.3	5.3
Socio- Economic	12.5	2.4	1.4	1.4
Physical-Environment	2.7	0.3	0.3	0.3
Total	**28.1**	**13.2**	**9.2**	**9.4**

53. **New Pressures**

Additional pressures have been identified and included in the latest medium term financial forecast as set in in annex 1. These total £9.5M in 2017/18 and £7.5 in 2018/19.

54. **New Initiatives**

As well as experiencing pressures the Council have also identified a number of new initiatives that it wishes to undertake to help stimulate the economy. In the main these are being achieved by capital and third party investment in the city for example Cultural Quarter and Watermark.

55 **Income Generation**

The Council's approach regarding income generation is to maximise opportunities where possible and income generation forms a key strand of the Transformation programme therefore once proposals are more certain the income generation assumptions contained within the Medium Term Financial Model will be revised.

56. **Key Financial Commitments**

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

The current commitments are

A) PFI Schools

A PFI contract was approved by the Government to significantly improve the quality of the buildings in three of the City's secondary schools and to provide additional places in two of them. The contract with Pyramid Schools (Southampton) Ltd started on the 29 October 2001 and will terminate on 31 August 2031. The annual fee (Unitary Charge) is £6.426M supported by an income stream (PFI credits from Government) of £3.856M. The DfE have supported the Council in reviewing the PFI contracts with the aim of driving out savings. A significant amount of savings have already been achieved for both the benefit of the schools and the council. A tranche of further savings have been identified and are currently subject to negotiations with Pyramid Schools (Southampton). It is envisaged that these will be finalised during 2016/17, with further savings opportunities being explored in partnership with schools for potential implementation in 2017-18.

B) Hampshire Waste Contract

In 1996 the Council entered into a tri-partite arrangement with Hampshire County Council and Portsmouth City Council, in respect of Waste Management Services from Veolia Environment Services. The contract involved the building and running of three Energy Recovery Facilities, two Material Recycling Facilities and the provision of waste management services. The original contract was for a 25 year period until 2025, but it has recently been extended to 2030. The Council is delivering savings in the contract, which has a net value of £7.6M per annum, from 2015/16 onwards due to the agreed contract extension.

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

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

D) Strategic Services Partnership (SSP)

The Council has outsourced Customer Services, Local Taxation and Benefits, Procurement, Information Technology, Printing, Health and Safety and Human Resources operations to Capita via the SSP, which commenced on 1 October 2007. The SSP is scheduled to run until 30 September 2022, following an exercise in December 2013 of an option to extend it by five years. The contract has been reset during 2016/17 to drive out further efficiencies and financial savings to the Council. The current cost to the Council is circa £20M p.a. for the core fixed contract charges.

E) Highways Service Partnership (HSP)

The HSP with Balfour Beatty commenced on 4 October 2010 and is due to run until 3 October 2020 with options to extend by up to five further years subject to Service Provider performance against Key Strategic Indicators and at the Council's sole discretion. The services covered include highway maintenance, scheme delivery, network management, and winter gritting and asset management.

The annual Lump Sum is currently £2.7M. Current capital and miscellaneous variable spend through the contract is around £10M p.a.

F) Citywatch

The Citywatch contract commenced on 1 October 2012 for a duration of ten years, with extension options of up to five further years at the Council's discretion. The services provided include public safety CCTV cameras and their monitoring, Intelligent Traffic Systems, asset management, Housing

Concierge and asset investment and routine repairs.

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

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

H) Leisure Services
Sports and recreation services are outsourced to Places for People who sub contract operational and day-to-day management to Active Nation. The contract commenced on 1 September 2010 and the term is fifteen years. There is a three year extension option built into the contract. The scope of the contract covers the management of leisure facilities including Bitterne Leisure Centre, The Quays, Chamberlayne Leisure Centre, Woodmill, Southampton Water Activities Centre, the Outdoor Sports Centre, Ski Centre and seven outlying sports pitches. The contract includes provision for the Provider to invest £4.5M of capital expenditure over the contract term through a lifecycle budget. The current annual expenditure for the Management Fee is £1.2M.

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

J) Sports Development
Sports Development services have been provided under contract by Southampton Solent University (SSU) under the banner of Sport Solent. The contract commenced on 5 December 2011 with a ten year term and is being terminated on 31st March 2017

57. **Collection Fund**

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

Following from the assumptions detailed in Key Assumptions, the forecast position for the Collection Fund is shown in Table 8 below along with the Southampton City Council share.

Table 8 – Collection Fund Assumptions

	2016/17	2017/18	2018/19	2019/20	2020/21
	£M	£M	£M	£M	£M
Southampton City Council, Council tax Precept	79.43	84.20	86.15	87.78	89.49
Council Tax Adult Social Care Precept	1.58	3.22	4.99	6.82	8.72
Business Rates Draw	47.48	50.60	54.57	55.05	105.22

58. **Housing Revenue Account**

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

The main points to note are:

- All HRA debt can be repaid over the 30 year life of the Plan.
- The capital spending plans include provision to maintain and improve all existing dwellings and feature an increase in the level of planned expenditure in the early years.
- This investment can be achieved within the Government's borrowing limit of £199.6M, also known as the 'debt cap'. Additionally, a reserve of at least £6M borrowing headroom is retained throughout.
- A provision of £130M is set aside for stock replacement, which will support the renewal of any of the existing dwellings that may be required over the next 30 years. This provision has been phased between year 9 and year 30 of the Plan.
- The revenue budget meets the minimum balances of £2M over the life of the Plan.

The HRA Business Plan has consistently shown revenue balances that increase above minimum levels within the 30 year period. This remains the case, although in the proposed updated plan for 2016/17 onwards the year 30 projected revenue balance will be reduced to £18.8M compared to the equivalent figure of £80.6M in the previous approved Plan. The change is principally due to the impact of a 1% per annum reduction in rents charged to tenants for a 4 year period from 2016 to 2020. This rent reduction is to be imposed by Government in proposals contained within the

Welfare Reform and Work Bill 2015/16. The predicted revenue surpluses do not now begin to significantly exceed minimum levels until 2026/27, rather than 2022/23 in the previous plan.

The following table shows the impact on the HRA position on the 1% reduction per annum in rents.

	Income Loss				
	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	£M	**£M**	**£M**	**£M**	**£M**
Rental Income Reduction	3.26	6.56	9.86	13.45	13.59
Savings proposals & ongoing budget changes	(4.27)	(5.56)	(6.28)	(6.02)	(5.98)
Budget gap	**(1.01)**	**1.00**	**3.58**	**7.43**	**7.61**

For 2018/19, there is a budget gap of £3.57M and increasing to £7.43M (a further £3.86M) in 2019/20. Savings proposals were agreed b Council in Feb 2016 to close the gap in 2016/17 and 2017/18. Further work is being undertaken to identify further proposals to address the budget gap from 2018/19.

The main risk to the long term plan remains that, if building inflation was to exceed general inflation over a prolonged period, this would have a significant adverse impact on HRA balances. Therefore the surpluses are liable to change annually, either favourably or not, and will reflect the annual review of stock investment needs and estimated unit rates.

In addition, the Housing and Planning Bill 2015/16 sets out a number of proposed changes to Housing legislation which will impact on the current delivery of services to tenants and the resources required to do so. In summary, the main proposals likely to affect the
HRA Business Plan are as follows:

- Extension of the Right To Buy Scheme for Housing Association Tenants (Voluntary Basis);
- Sale of Higher Value Vacant Council Homes;
- High Income Social Tenants; Mandatory Rents (Pay to Stay);
- Lifetime Tenancies; and
- The roll out of Universal Credit.

It has not yet been possible to quantify the impact of the Sale of Higher Value Vacant Council Homes and the Pay to Stay issues. As further guidance is released this will be factored into the HRA Business Plan.

60. **Capital**

Planned Capital Expenditure and the associated financing is detailed within he Capital Programme report that was approved by Council in February 2016. The impact of the detailed revenue saving proposals for 2017/18 and 2018/19 and the Executive Commitments on the Capital Programme are currently being considered by the Council's Capital Board and will be an integral element of setting the Capital Programme for future years to be reported to Council in February 2017. It will consider the most appropriate use of Capital Resources in supporting the programme and meeting the Executive Commitments and the desired Outcomes for the City. All the revenue implications of the capital projects are built into both the General Fund Estimates and Housing Revenue Account Business Plan.

61. **Reserves and Balances**

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

The CFO recommends that the minimum level of the General Fund Balances should be £5.5M. This is derived by taking a risk-based approach to assessing the overall General Fund Revenue Account, including reviewing income volatility, interest rate exposure, new contracts, potential overspends in demand led areas such as social care and safeguarding for both adults and children and any other potential issues which may need to be taken into consideration.

Balances should only be used to fund one-off revenue expenditure; any one–off draw from balances should be prudent, and subject to agreement by the Chief Financial officer. Appendix 2 details the expected level of General Fund Balance going forward after contributions have been made to fund the capital programme and to support the revenue programme. The balance is forecast to be £8.9M at the end of the medium term financial forecast period.

62. **EARMARKED RESERVES**

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

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

In light of the increasing level of risk and uncertainty identified with the MTFS and the increased probability of resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. In closing the accounts for 2015/16 a view was taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk resulting in the rationalisation of reserves and provisions where possible and in some cases additional funding being set aside. The most significant risk reserves are listed below:

Organisational Design Reserve

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

Medium Term Financial Risk Reserve

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

Taxation Reserve

Due to the volatile nature of business rates, the predicted recession in 2019/20 and the intended move to 100% Business Rate Retention by 2019/20, monies have been set to mitigate against any loss of income from both this and council tax, to enable a smoothing of the impact.

Capital Funding Risk Reserve

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

Transformation Reserve

To ensure the Council can continue to transform and innovate in order to reduce costs whilst improving outcomes, a reserve is set aside to pump prime this transformation.

Bearing in mind the current pressures detailed in the report the following reserves prioritisation is recommended should any underspends or additional monies become available during each financial year they are applied to the key risk reserves identified in paragraph 88 in the order listed.

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

63. **Efficiency Plan**

As part of the Local Government Finance Settlement announced in December 2015 the Government gave local authorities the offer of a 4 year settlement and additional flexibility regarding the use of capital receipts, providing the Council publish an Efficiency Plan. Full Council gave approval to the Efficiency Plan and to accept the 4 year funding settlement at its meeting in September 2016. The DLCG was informed of the acceptance of this offer on the 14th October 2016. It should be noted that this is a minimum funding guarantee.

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

Efficiency Strategy

Considering the continued financial challenge facing the Council there is an increased need for fundamental, transformational change across the organisation, in both the services it delivers and how it delivers them. This programme is the main driver to ensuring the council has a balanced and sustainable set of services.

The Efficiency Strategy has been developed into a number of streams:

Operating Model

The concept of which was presented to and approved by Council in February 2015 and involved the implementation of a new organisation structure to support outcome based budgeting and reduce budget envelopes. This will be achieved by reducing the top layers of the Council so the Council's structure reflects a smaller number of management layers with broader spans of control. As the Council, is in main, a people driven organisation, a large proportion of our expenditure is linked to staff costs. As such, it is inevitable that the restructuring in support of the new operating model will need to extend beyond the management tiers mentioned above. Further phases of staff consultation will need to be rolled out in the next financial year and beyond. These will be informed by other transformation initiatives such as those described below and further joined up working and integration of services with partner organisations.

Digital

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

Service Excellence

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

HR policies and procedures

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

Activity Analysis

Reviewing the various service activity to ensure efficient and effective delivery of services.

Service Cost Recovery

Cost reduction, minimisation or avoidance activities whose main focus is ensuring that discretionary services provided by the Council are delivered on a basis that either enables the relevant service to recover all of the fixed and variable costs and overheads incurred in the provision of those services, and/or generate the appropriate level of income that is commensurate with the market value of the service being delivered.

Procurement & Contract Management

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

Commercialisation

Investigating all opportunities for generating income to the council to replace reducing Government funding.

Prevention and Early Intervention Approach

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

This programme will not be without cost and where it is financially sound to do so the Council will be looking to utilise the new flexibility around capital receipts (Further information regarding this flexibility is contained within the Capital Strategy 2015/16 to 2019/20).

64. **Outcomes Based Planning and Budgeting**

The Council is in the process of moving to an outcomes based planning and budgeting approach to determine the best way of delivering services. The Council has reviewed its current expenditure on an outcomes basis and from this baseline point is now determining what the appropriate level of spend needs to be to deliver on its agreed priorities, within the financial envelope available.

This is a very different approach to the previous one whereby individual services develop savings proposals for consideration by Cabinet and the Council's Management Team, as reflected in the 2015/16 budget report. The sheer scale of the financial challenge ahead will make the current incremental method of finding efficiencies unlikely to identify the level of savings required. Nor will it target resources allocation to the priority outcomes in the most effective way.

Implementing an outcome based budgeting approach will not be a quick process, The timing and approach taken to implement this fundamental review of services will be critical. The outcome based planning and budgeting needs to:

- Frame the right commissioning question regarding outcomes to determine the service design principals;
- Be integrated with the service design gateway process, so that the options appraisals and business cases prepared for services as part of the service design process are consistent with the objectives of this bottom-up review and the commissioning approach (i.e. the fundamental needs and outcomes for the services must be reviewed in addition to scope and delivery model options);
- Not be constrained by the current scope of services and the way things are traditionally done;
- Not be constrained by pre-determined views from within the Council or from models elsewhere;
- Be open to innovation, new ideas and technology and to challenging thinking in relation to how services are scoped, structured and delivered;
- Have political buy-in and be owned at the top level of the Council; and embed the new Operating Model's commissioning principles and approach within the organisation.

65. **Addressing the Budget Gap**

For the first time the Council is aiming to set a two year budget for 2017/18 and 2018/19.

The focus has been on the following areas to target savings:

- Business as usual operational efficiencies;

- Procurement savings – third party spend (General Fund) accounts for 65% of our total expenditure;
- Digital programme to change, transform and improve how we deliver services both within the Council and to citizens; and
- Service deliver changes including organisational redesign, new delivery models, shared services, stopping, reducing and changing services.

Additionally the Council has a number of 'emerging' ideas to address the remaining budget gap from 2019/20 onwards. These will need to be fully worked up over the coming year. and are based around increasing income where possible; utilising partner contracts to further drive efficiencies; reducing demand for services by further and better use of IT and digital.

66. **Managing Budgets and Forecasting**

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

Risk Based Budget Monitoring

In year, the Council will monitor its revenue and capital budgets (including the HRA) on a monthly basis and report on a quarterly basis. Budgets will be monitored using a Risk Based approach to budget monitoring using the following principles.

- The focus of Risk Based Budget Monitoring will be on the forecast outturn i.e. forward looking, focused on large high risk or volatile budgets, and will be reported to Cabinet and the Council's Management Team.
- If the in-year budget monitoring gives rise to significant forecast under or overspends, the underlying issues will be considered in terms of likely impact on future year's budgets, and the future year forecasts will be adjusted accordingly as appropriate. The operation of the Risk Fund itself is of course a key factor in monitoring and managing the finances of the Council.

Accountability and Responsibility

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

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

If the budget holder cannot resolve issues within their own service area budgets these should be dealt by Service Directors and Chief Officers. Action plans have been agreed and implemented in 2016/17 which look to address in year pressures and identify ongoing pressures that may need to be addressed as part of setting the budgets over the medium term.

Finance Business Partnering

In order to support Service Directors and Managers in the financial management of their services the Finance Service is undertaking a review of the way in which it provides its services with a view to moving to a Finance Business Partnering model. It is expected that by the beginning of

2017/18 the model will have been developed and substantially implemented. The main focus of the Finance Business partner in supporting services is to:

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

67. <u>**Governance Framework for Updating and Monitoring the Medium Term Financial Model**</u>

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

Both revisions will need to be agreed by Full Council.

<u>**CONCLUSION**</u>

68. This MTFS marks a significant change in the way the Council operates the financial processes with a move to a two year budget and a strong focus on the medium term. The current forecast position is still very challenging The Council will have seen a reduction in its grant funding of 55% between 2015/16 and 2019/20 alongside increasing demand for services and funding reducing at an unprecedented rate. This has, however, given the opportunity for the Council to reshape how it currently operates and interact with its customers and to develop the Outcomes and Priorities for the Council in the provision of services to the City.

MEDIUM TERM FINANCIAL MODEL Annex 1

GENERAL FUND REVENUE ACCOUNT

	2016/17 Budget £M	Forecast Changes £M	2017/18 Budget £M	Forecast Changes £M	2018/19 Budget £M	Forecast Changes £M	2019/20 Budget £M	Forecast Changes £M	2020/21 Budget £M
Southampton is a city with Strong Sustainable Growth	12.67	(4.00)	8.67	(1.03)	7.64	(0.58)	7.06	0.00	7.06
Children and Young People in Southampton Get a Good Start In Life	45.64	(2.45)	43.19	(4.85)	38.33	(3.32)	35.01	0.00	35.01
People in Southampton live safe, healthy, independent lifes	58.93	(5.04)	53.89	(3.28)	50.61	(4.62)	45.99	0.00	45.99
Southampton is an attractive modern city where people are proud to live and work	26.65	(2.26)	24.38	(0.57)	23.81	0.00	23.81	0.00	23.81
A Modern Sustainable Council	24.32	(3.75)	20.57	(4.59)	15.98	(1.03)	14.95	(1.30)	13.65
Other Inflationary Pressures	0.00	6.80	6.80	6.80	13.60	6.80	20.40	6.80	27.20
Outcome Expenditure	**168.20**	**(10.71)**	**157.50**	**(7.53)**	**149.97**	**(2.74)**	**147.23**	**5.50**	**152.73**
Capital Asset Management	4.84	4.25	9.09	6.30	15.39	2.30	17.69	2.30	19.99
Levies & Contributions	0.63		0.63		0.63		0.63		0.63
Other Expenditure & Income & Centrally Held Allocations	7.31	(1.05)	6.26	(1.41)	4.85	4.36	9.21	2.76	11.97
Transfer to Reserves	0.00	0.00	0.00		0.00		0.00		0.00
New Responsibilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	43.24	43.24
Net Revenue Expenditure	**180.98**	**(7.51)**	**173.48**	**(2.64)**	**170.84**	**3.92**	**174.76**	**53.80**	**228.55**
Funding									
Draw From Balances	(3.89)	3.89	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Government Grants	(2.92)	1.05	(1.87)	0.22	(1.65)	0.61	(1.04)	0.00	(1.04)
Revenue Support Grant	(32.55)	9.30	(23.25)	6.19	(17.06)	6.27	(10.79)	0.00	(10.79)
New Homes Bonus	(5.96)	0.00	(5.96)	2.16	(3.80)	0.10	(3.70)	0.00	(3.70)
New Homes Bonus Returned Funding	(0.14)	0.14	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Top Up Grant	(1.62)	(0.03)	(1.65)	(0.05)	(1.70)	(0.06)	(1.76)	0.00	(1.76)
S31 Business Rates Grants	(0.88)	0.68	(0.20)	0.00	(0.20)	0.00	(0.20)	0.00	(0.20)
Other Business Rates Relief Grants	(0.74)	0.01	(0.73)	0.00	(0.73)	0.00	(0.73)	0.00	(0.73)

Collection Fund Account									
Business Rates	(47.48)	(0.77)	(48.24)	(0.47)	(48.72)	(0.48)	(49.19)	(50.18)	(99.37)
Southampton is a city with Strong Sustainable Growth - Business Rates Growth		(2.35)	(2.35)	(3.50)	(5.86)	0.00	(5.86)	0.00	(5.86)
Council Tax	(79.43)	(3.57)	(83.00)	(1.55)	(84.55)	(1.63)	(86.18)	(1.71)	(87.89)
Adult Social Care Council Tax Levy	(1.58)	(1.64)	(3.22)	(1.76)	(4.99)	(1.83)	(6.82)	(1.90)	(8.72)
Southampton is a city with Strong Sustainable Growth - Council Tax Growth		(1.20)	(1.20)	(0.40)	(1.60)	0.00	(1.60)	0.00	(1.60)
Collection Fund Surplus	(3.80)	3.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Collection Fund Additional Surplus		(1.80)	(1.80)	1.80	0.00		0.00		0.00
Total Funding	**(180.98)**	**7.51**	**(173.47)**	**2.63**	**(170.84)**	**2.98**	**(167.86)**	**(53.79)**	**(221.65)**
Savings Requirement	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**6.90**	**6.90**	**0.00**	**6.90**

HOUSING REVENUE ACCOUNT	**2016/17 Budget £M**	**2017/18 Budget £M**	**2018/19 Budget £M**	**2019/20 Budget £M**
Net rent Income	(72.19)	(71.47)	(70.95)	(71.70)
Service charges & other income	(3.00)	(3.14)	(3.22)	(3.30)
Misc. Adjustments	(0.21)	(0.21)	(0.21)	0.02
RTB Admin	(0.13)	(0.13)	(0.13)	(0.10)
Total Income	**(75.53)**	**(74.95)**	**(74.51)**	**(75.08)**
Management	20.02	20.53	21.05	21.59
Contribution to Depreciation Reserve	19.89	20.33	20.71	21.29
Responsive & Cyclical Repairs	12.99	13.39	13.78	14.16
Other Revenue spend	0.10	0.41	0.43	0.44
HRA Cost of Rent Rebates	-	-	-	-
Total service expenses	**53.00**	**54.66**	**55.98**	**57.48**
Capital Charges	6.72	7.07	7.02	7.00
Repayment of loans	5.42	5.42	5.42	16.53
Revenue Contribution to capital spending	9.38	8.80	9.66	1.50
Total Expenditure	**74.52**	**75.95**	**78.08**	**82.51**
Savings Requirement	-	-	(3.6)	(7.43)
(Surplus) /Deficit for the Year	**(1.01)**	**1.00**	**(0.00)**	**(0.00)**

RESERVES AND BALANCES

	2016/17 Budget £M	Forecast Changes £M	2017/18 Budget £M	Forecast Changes £M	2018/19 Budget £M	Forecast Changes £M	2019/20 Budget £M	Forecast Changes £M	2020/21 Budget £M
General Fund Balance	(12.8)	3.9	(8.9)	0.0	(8.9)	0.0	(8.9)	0.0	(8.9)
HRA Balance	(2.0)	(1.0)	(3.1)	1.0	(2.1)	(0.0)	(2.1)	0.0	(2.1)
Earmarked Reserves - School Balances	(7.7)	0.0	(7.7)	0.0	(7.7)	0.0	(7.7)	0.0	(7.7)
Earmarked Reserves - Revenue Grants	(9.5)	0.0	(9.5)	0.0	(9.5)	0.0	(9.5)	0.0	(9.5)
Earmarked Reserves - Revenue Account	(55.2)	(5.0)	(60.2)	(5.0)	(65.2)	(5.0)	(70.2)	(5.0)	(75.2)
Earmarked Reserves - Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Reserves & Balances	(87.2)	(2.1)	(89.3)	(4.0)	(93.3)	(5.0)	(98.3)	(5.0)	(103.3)

CAPITAL PROGRAMME - 2016/17 TO 2020/21

Programme	Estimate 2016/17 £M	Forecast 2017/18 £M	Forecast 2018/19 £M	Forecast 2019/20 £M	Forecast 2020/21 £M	Total £M
City Services	1.71	1.07	0.00	0.00	0.00	2.78
Communities, Culture & Leisue	1.12	0.09	0.00	0.00	0.00	1.21
Education & Children's Social Care	13.13	17.37	1.17	0.00	0.00	31.67
Finance	0.89	0.38	0.03	0.27	0.30	1.87
Health & Adult Social Care	0.63	0.00	0.00	0.00	0.00	0.63
Housing & Sustainabiity	4.47	1.09	0.00	0.00	0.00	5.56
Leaders	56.55	26.88	0.10	0.00	0.00	83.53
Transformation	3.71	0.00	0.00	0.00	0.00	3.71
Transport	16.62	3.89	0.17	0.10	0.00	20.78
Total General Fund Programme	**98.83**	**50.77**	**1.47**	**0.37**	**0.30**	**151.74**
Housing Revenue Account	81.76	38.84	25.43	27.13	40.78	213.94
TOTAL CAPITAL PROGRAMME	**180.59**	**89.61**	**26.90**	**27.50**	**41.08**	**365.68**
Capital Programme Financing						
Council Resources	114.95	44.61	4.02	4.44	10.16	178.18
Contributions	6.09	2.47	1.38	0.00	0.00	9.94
Capital Grants	29.35	12.26	0.00	0.00	0.00	41.61
MRA	19.89	20.29	16.24	21.29	19.39	97.10
Direct Revenue Financing (Portfolios)	10.31	9.98	5.26	1.77	11.54	38.86
TOTAL PROGRAMME FINANCING	**180.59**	**89.61**	**26.90**	**27.50**	**41.08**	**365.68**

SOUTHAMPTON CITY COUNCIL
EFFICIENCY PLAN 2017/18 TO 2020/21

Background

The Council's City Efficiency Plan for the period 2017/18 to 2020/21 incorporates the detail contained within the Medium Term Financial Strategy (MTFS) and its Capital Strategy. These are framed by the overarching City Vision and Council Strategy.

The four key outcomes for the Council are:

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

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

Medium Term Financial Strategy

The MTFS focuses on determining the financial position for the period up to and including 2019/20 and takes into account major issues affecting the Council's finances, including international, national and regional economic influences as well as local factors and priorities. It identifies risks and looks to mitigate those risks through provisions within reserves and balances to ensure the council has adequate resources to cover the uncertainty and risk.

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

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

Addressing the Budget Gap

The Council has a current budget gap of £42.3M up to the end of 2019/20. The approach to addressing this gap can be broadly seen within three work programmes;

- Business as usual monitoring and budget reviews throughout the year;

- Progressing the Transformation Programme providing regular updates to members; and
- The implementation of outcome based budgeting to clearly link business planning and budgeting and focus on service outcomes.

Efficiency Strategy

Considering the continued financial challenge facing the Council there is an increased need for fundamental, transformational change across the organisation, in both the services it delivers and how it delivers them. This programme is the main driver to ensuring the council has a balanced and sustainable set of services.
The Efficiency Strategy has been developed into a number of streams:

Operating Model

The concept of which was presented to and approved by Council in February 2015 and involved the implementation of a new organisation structure to support outcome based budgeting and reduce budget envelopes. This will be achieved by reducing the top layers of the Council so the Council's structure reflects a smaller number of management layers with broader spans of control. As the Council, is in main, a people driven organisation, a large proportion of our expenditure is linked to staff costs. As such, it is inevitable that the restructuring in support of the new operating model will need to extend beyond the management tiers mentioned above. Further phases of staff consultation will need to be rolled out in the next financial year and beyond. These will be informed by other transformation initiatives such as those described below and further joined up working and integration of services with partner organisations.

Digital

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

Service Excellence

An ‘organisational development’ programme’ that looks to address the need for efficiencies through the deployment of performance management and improvement processes aimed at freeing up staffing capacity as well as service standards, through a planned and better focus on service objective setting, KPI management and measurement, workflow, and agile team based working.

HR policies and procedures

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

Activity Analysis

Reviewing the various service activity to ensure efficient and effective delivery of services.

Service Cost Recovery

Cost reduction, minimisation or avoidance activities whose main focus is ensuring that discretionary services provided by the Council are delivered on a basis that either enables the relevant service to recover all of the fixed and variable costs and overheads incurred in the provision of those services, and/or generate the appropriate level of income that is commensurate with the market value of the service being delivered.

Procurement & Contract Management

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

Commercialisation

Investigating all opportunities for generating income to the council to replace reducing Government funding.

Prevention and Early Intervention Approach

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

This programme will not be without cost and where it is financially sound to do so the Council will be looking to utilise the new flexibility around capital receipts (Further information regarding this flexibility is contained within the Capital Strategy 2015/16 to 2019/20).

Outcomes Based Budgeting

The Council is in the process of moving to an outcomes based planning and budgeting approach to determine the best way of delivering services. The Council has reviewed its current expenditure on an outcomes basis and from this baseline point is now determining what the appropriate level of spend needs to be to deliver on its agreed priorities, within the financial envelope available.

This is a very different approach to the previous one whereby individual services develop savings proposals for consideration by Cabinet and the Council's Management Team, as reflected in the 2015/16 budget report. The sheer scale of the financial challenge ahead will make the current incremental method of finding efficiencies unlikely to identify the level of savings required. Nor will it target resources allocation to the priority outcomes in the most effective way.

Implementing an outcome based budgeting approach will not be a quick process, The timing and approach taken to implement this fundamental review of services will be critical. The outcome based planning and budgeting needs to:

- Frame the right commissioning question regarding outcomes to determine the service design principals;
- Be integrated with the service design gateway process, so that the options appraisals and business cases prepared for services as part of the service design process are consistent with the objectives of this bottom-up review and the commissioning approach (i.e. the fundamental needs and outcomes for the services must be reviewed in addition to scope and delivery model options);
- Not be constrained by the current scope of services and the way things are traditionally done;
- Not be constrained by pre-determined views from within the Council or from models elsewhere;
- Be open to innovation, new ideas and technology and to challenging thinking in relation to how services are scoped, structured and delivered;
- Have political buy-in and be owned at the top level of the Council; and embed the new Operating Model's commissioning principles and approach within the organisation.

Earmarked Reserves

We aim to identify, within the MTFS, the financial risks facing the Council in the medium term. This includes assessing the risk of continuing reductions in Central Government Funding. The subsequent budget shortfalls that the Council then faces and overall local and national economic factors which can affect the financial stability of the council.

In light of the increasing level of risk and uncertainty identified with the MTFS and the increased probability of resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. In closing the accounts for 2015/16 a view was been taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk resulting in the rationalisation of reserves and provisions where possible and in some cases additional funding being set aside. The most significant risk reserves are listed below:

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

<u>Organisational Design Reserve</u>
The reserve holds monies to meet the financial cost of redundancies as a result of organisation design changes for the period of the MTFS.

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

<u>Taxation Reserve</u>
Due to the volatile nature of business rates, the predicted recession in 2019/20 and the intended move to 100% Business Rate Retention by 2019/20, monies have been set to mitigate against any loss of income from both this and council tax, to enable a smoothing of the impact.

<u>Transformation Reserve</u>
To ensure the Council can continue to transform and innovate in order to reduce costs whilst improving outcomes, a reserve is set aside to pump prime this transformation.