APPENDIX 10

MEDIUM TERM FINANCIAL STRATEGY 2015/16 to 2019/20

Contents

1 INTRODUCTION

1.1 Aims and Purpose of the Medium Term Financial Strategy

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

The MTFS focuses on determining the financial position for the next five years and takes into account major issues affecting the Council's finance's, including international and national economic influences as well as local factors and priorities.

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

The Council's Medium Term Financial Strategy has been developed in order to secure a forward looking approach and long term sustainability in service provision. 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 financial objective 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 objectives and service priorities'**

In addition to its key objective further objectives of the MTFS are to:

- Provide the 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;
- Ensure that the Council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;
- To plan the level of local 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;
- Ensure that the Council's long term financial health and viability remain sound.

The MTFS therefore aims to move the Council on from the historical position of setting annual budgets in isolation to future years, to integrated service and financial planning over the medium term

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

The MTFS does not however represent a committed budget, but 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 considered by the Council on an annual basis.

1.2 Key Influencing Strategies And Plans

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 main items are detailed below along with the elements which impact on the MTFS

1.2.1 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 vision is 'Southampton – City of opportunity where everyone thrives'. This goal is to achieve prosperity for all. We want to build on Southampton's unique sea city location with exceptional transport links, its strong position nationally for economic growth, excellent reputation for teaching and learning, strong business community, good regional specialist hospital, varied retail offer, night time economy, vibrant voluntary and student communities, and rich diversity and cultural mix.

The City Strategy identifies three key priorities:

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

It also includes 4 cross cutting themes:

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

Southampton Connect will work closely with the key city partnerships to deliver against the vision, priorities and themes: Future Southampton, Employment, Skills and Learning Partnership, Health and Wellbeing Board and Safe City Partnership.

1.2.2 Southampton City Council Strategy 2014-17

The City Strategy is a long term document, setting out priorities and themes which all partners will work together to achieve. Southampton City Council will have a key role to play in this. In the shorter term, the council has also set out its priorities for the next three years in the Council Strategy 2014-17.

The Council has agreed 7 main priorities within the Council Strategy. These are:

- Jobs for Local People
- Prevention and Early Intervention
- Protecting Vulnerable People
- Good Quality and Affordable Housing
- Services for all
- City Pride
- A Sustainable Council

We expect the shape of the Council, including the types of services we deliver and how we will deliver them, will be very different by 2017. The Council Strategy sets out that by 2017 we expect changes in terms of:

- Commissioning Services
- Community Ownership
- Better Customer Experiences
- More flexible ways of working
- A wide range of service delivery models
- Listen and improve learning from our mistakes
- Increased focus on digital capabilities of customers

Transformation Programme and New Operating Model

Published alongside this strategy is an update paper on the Transformation Programme and the New Operating Model. This sets out the how the Council will need to operate going forward to address the gap and meet agreed priorities, and statutory responsibilities thereby making the Council sustainable in the medium term.

The priorities of the Transformation programme are:

- Implementation a new operating model by 2017 which is focussed on delivering outcomes and priorities
- Reduce year on year overspends as well as reducing the costs and demand for social care services for our vulnerable children and adults
- Develop a list of council services that will have to be stopped or reduced
- Reduce the level of resources in our front and back office functions
- Further reduce our procurement spend on external supplies and services and a review of all contracts
- Significantly reduce our management layers and widen our spans of control
- Become more commercially focussed in how we do business and use innovation to reduce costs and generate more income.

Further detail on how this helps address the gap is contained within Section 3.10.

1.2.3 **Other Major Strategies and Policies**

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

The two other key financial strategies are detailed below:

1.2.3.1 **Capital Strategy**

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

Section 3.8 reflects this strategy. Further detail on individual projects and how they will be managed can be seen in the General Fund Capital Programme 2014/15 to 2017/18 Report

1.2.3.2 **Treasury Management Strategy**

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Chief Financial Officer 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 2015/16 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 in to 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.
- To maintain borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries

Annual Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £66M and £125M, and are expected to be maintained between £70M and £100M in the forthcoming year, which is lower than previous years due to falling balances

Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2015/16. This is especially the case for the estimated £35M that is available for longer-term investment. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, and money market funds. This diversification will therefore represent a substantial change in strategy over the coming years.

In order to limit exposure to risk the TMS puts in place a series of investment limits which are detailed in Table 1. In setting these limits the authority needs to be mindful of the level of reserves available to cover investment losses. The level of useable reserves available at the 31 March 2015 are forecast to be £40M

Table 1 – Investment Limits

	Cash limit or %
Any single organisation, except the UK Central Government	£10M each
UK Central Government	unlimited
Any group of organisations under the same ownership	£10M per group
Any group of pooled funds under the same management	£10M per manager
Negotiable instruments held in a broker's nominee account	£50M per broker
Foreign countries	£10M per country
Registered Providers	£5M in total
Loans to unrated corporates	£0.5M in total
Money Market Funds	£10M per fund and no more than 50% of investments in total

<u>Borrowing Strategy</u>

The Authority currently holds £256M of loans, a decrease of £18M on the previous year (£274M), as part of its strategy for funding previous years' capital programmes. The balance sheet forecast identifies a need to borrow and the Authority expects to borrow up to £4M in 2014/15 and up to £77M between 2015/16 and 2017/18 to fund the capital programme (£54M) and to cover the expected fall in balances and cash flow requirements. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

The Authority's chief objective 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 a secondary objective.

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead

By doing so, the Authority is able to reduce net borrowing costs (despite reducing investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Our Advisors will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2015/16 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

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

- Public Works Loan Board (PWLB) and its successor body
- Local authorities
- Any institution approved for investments
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Hampshire County Council)
- Capital markets bond investors (stock issues, commercial paper and bills)
- Local Capital Finance Company and other special purpose companies created to enable joint local authority bond issues

Further detail is available within the Treasury Management Strategy and Prudential Limits 2015/16 to 2017/18.

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

- Solent Economic Plan 2014-20
- Solent Inward Investment Strategy 2014
- Housing Revenue Account Business Plan 2015/16 to 2044/45
- Joint Health and Wellbeing Strategy
- Better Care Plan
- Corporate Property Strategy and Asset Management Plan
- Human Resources Strategy
- Local Transport Plan and Transport Asset Management Plan
- Safe City Strategy
- Housing Strategy 2011 - 2015

It should be noted at this stage that an exercise is currently underway to review and rationalise the strategies and policies that are currently in place. Once this is complete the MTFS will need to be updated to reflect any new financial consequences of these.

1.3 **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.

The Government's austerity measures aimed at addressing the UK budget deficit have created significant financial pressures across the public sector. Local government has borne a higher proportion of government funding reductions than other public services and the National Audit Office (NAO) estimates that by 2016, government funding for local government will have dropped in real terms by 37% since 2010.

The future for public sector finances looks even more challenging. The Office for Budget Responsibility (OBR) points out that the UK is now in the fifth year of what is projected to be a 10-year fiscal consolidation. Around 40 per cent of the cuts projected for public services have been delivered during this Parliament, with about 60 per cent to come in the next Parliament.

Parliament approved an updated Charter for Budget Responsibility in January 2015. This Charter sets a number of financial targets for government spending up to 2017-18. The Treasury forecasts that to meet these targets a new government would have to make additional tax rises or spending cuts of around £30bn over the following two years, 2016-17 and 2017-18.

The political parties have begun to outline how they would meet the required budgetary targets if they formed the next government. Given the budget deficit and the commitment to protect the NHS, local government funding will, irrespective of the formation of the next government, continue to be reduced.

Spending plans beyond 2017/18 are not available but the Coalition Government have outlined targets to have an overall budget surplus of £23bn by 2019/20. Forecasters have indicated that to deliver this target the Chancellor would have to increase the level of cuts to at least £48bn a year by 2019/20. Non-protected government departments, such as the Department for Communities and Local Government would expect to bear the brunt of the implied cuts in public spending.

Comprehensive Spending Review and 2015/16 provisional settlement

At present there are no firm dates of when the next Comprehensive Spending Review will be undertaken, however the current Government has undertaken a spending review each year when determining the settlement figures for each authority.

The salient points from the provisional 2015/16 settlement announcement are:

- Local authorities increasing Council Tax by **2% or above** will be required to hold a local referendum. This applies to local authorities, fire authorities and police authorities.
- Local authorities freezing or lowering Council Tax level in 2015/16 will receive a Council Tax Freeze Grant equivalent to a 1% increase in Council Tax
- Council Tax Freeze Grant for 2014/15 is now included within the Settlement Funding Assessment for 2015/16.
- Rural funding has increased to £15.5m (previously £11.5m). This funding is now

all within Revenue Support Grant (RSG) – previously, £9.5m was in RSG and £2.0m was paid as Rural Services Delivery Grant.

- A deduction of £23.4m has been made from RSG to fund the Improvement and Development Agency.
- The £9.4m in Efficiency Support Grant payments for 2014/15 will be rolled into the Settlement Funding Assessment for 2015/16.
- Revenue Support Grant was identified as including £129.6m for Local Welfare Provision. **It is important to note that this is not new or additional funding.** The DCLG have decided to split out an element of RSG to reflect what it believes should reflect Local Welfare Provision. However, this amount was previously paid as a Specific Grant in 2014/15, with **no additional funding added to RSG for 2015/16**.
- The loss in funding as a result of the 2% cap on the 2015/16 Business Rates Multiplier (announced at Autumn Statement 2014) will be refunded to local authorities through a S31 grant payment (in the same way as the 2014/15 2% cap)
- The City Council's Revenue Support Grant was reduced by 28%

As can be seen from the points above whilst the Revenue Support Grant is reducing the ability to close any budget gap from council tax increases is also being restricted with the 2% referendum cap. Recently press and media coverage suggests this cap could be reduced going forward to 1%.

Combined Authorities

The Government has recently announced its intention to support an enhanced Greater Manchester Combined Authority, with an elected mayor model, and at the same time encouraging other authorities to look down this route

1.4 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 and so much of the information is not known until very late in the process.

Summary of Key Assumptions

Table 2 summarises the key assumptions made at arriving at the financial figures that are presented in Section 3. Figures in brackets represent a reduction.

Table 2 – Summary of Key Assumptions

Item	2015/16	2016/17	2017/18	2018/19	2019/20
Business Rates	Increase of 2% per annum				
Council Tax	Increase 1.99% per annum				
Revenue Support Grant	(28.5%)	(29.2%)	(36.1%)	(50.4%)	(52.55%)
Other Grants	(12.0%)	(12.0%)	(12.0%)	(12.0%)	(12.0%)
Consumer Price Index (CPI)	2.5%	2.0%	2.0%	2.0%	2.0%
Retail Price Index	2.9%	3.4%	3.7%	3.7%	3.7%
Pay Award	2.2%	2.0%	2.0%	2.0%	2.0%
Superannuation	13.1%	13.1%	13.1%	13.1%	13.1%

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 now 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.

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. This means the level of volatility off business rates in 2017 is at the moment even higher until the outcome of the reset exercise is known.

Businesses can appeal against the rateable value given, and under the new 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.

The current assumption built into the MTFS is fairly neutral, with a 2% increase per annum reflecting the uplift set by government. At this stage, no assumptions have been made about growth. This is not because there will be no growth, but because it is difficult to model real growth against downside reductions for displacement, reduced gross rateable value overall due to impact of appeals and business closure. As our evidence base builds on business rates, we anticipate that our modelling will become more sophisticated over time.

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 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 2 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.

Revenue Support Grant

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. As set out earlier in this document, the National Audit Office has calculated that in real terms RSG has reduced by 37% since 2010.The MTFS assumes that by 2019/20 there will be only a small contribution from this grant circa £5m. This assumption is based on LGA predictions and soft market intelligence regarding the likely level of Government funding that will be available to support council's by the 2020.

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 2015/16.

Confirmation has now been received from the Department for Work & Pensions (DWP) that this funding will continue into 2015/16 whilst the delivery plans for the introduction of the Universal Credit are reviewed. The funding will however exclude funding for the Single Fraud Investigation Service Project (SFIS) as this has now transferred to the DWP in 2014/15. It should be noted that there is no proposed change to the 2014/15 funding assumptions as a result of this transfer.

A further £1.4M of non-recurrent grant funding has therefore been assumed in setting the forecast position for 2015/16.

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 2015/16. The Southampton grant award has remained at the same level as 2014/15 with 0% growth. The current assumption is that there will continue to be 0% growth for the foreseeable future.

However for 2015/16, in addition to the Public Health responsibilities that transferred from April 2013, Local Authorities will take responsibility for commissioning children's public health services from pregnancy through to five years. The Council's responsibility for these services will commence from 1 October 2015. The funding will be included as an additional sum within the Public Health Grant. It has been assumed that the funding level agreed by the Council with NHS England and Solent NHS Trust as part of a baselining exercise conducted in September 2014 will be sufficient to fund these services, (Health Visiting Service and Family Nurse Partnership).

Care Act

The Care Act 2014 will come into force from 1 April 2015. The Act deals with the reform of adult social care and support legislation. The introduction of the Act will be phased over two years with changes including the rights of Carers, a national eligibility criteria and universal Deferred Payments coming into force on 1 April 2015. From 1 April 2016 the funding reforms will be introduced which will see the arrival of the Care Account and a new Capital limit threshold for client contributions.

The current assumption is for the cost of this new burden to be met by the funding allocation provided within the Better Care Fund and the new Carers and Care Act Implementation grant.

There has not been an announcement in respect of allocations of additional funding for the cost of implementing the funding reforms in 2016/17. It is however anticipated that additional funds will be allocated. The true cost of these reforms have been modelled but are very difficult to predict with any degree of accuracy. At this current time it is assumed that the additional pressure will be met, entirely from the Government Grant however an allowance has been within the budget due to the uncertainty involved.

New Homes Bonus

To encourage an increase in the number of homes available in the UK, the Government in 2011 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.

Recent advice from the LGA suggests this grant may be brought to an end earlier than originally anticipated and should therefore be removed from council's financial planning totals.

The MTFS does not assume any payment of this grant post 2015/16.

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 £1M

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 LGA and other authorities assumptions about the level of grant moving forward.

Pay Inflation

Assumptions have been made in the forecast about the likely level of pay inflation that will apply from April 2015. 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 award, approved in November 2014, has been incorporated in the 2015/16 and future years budget position. This is an increase of 1.2% on the previously assumed pay award of 1% giving an overall award of 2.2% increase effective from January 2015 covering the period to March 2016. In addition a 0.45% lump sum payment was given on all scale points in December 2014. This is not a cumulative payment and therefore only impacts on 2014/15. In 2015/16 this has given rise to an additional pressure of 0.19% over the cumulative inflation assumptions of 1% per annum for 2014/15 and 2015/16. This was managed within the existing provision for general inflation.

The forecast for pay inflation is for a 2% per annum increase from 2016/17 onwards.

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.

General Inflation

Assumptions have been made in the forecast about the likely level of general inflation that will apply from April 2015. 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.

However, 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 Directorates would be expected to absorb the difference.

Pension Fund Issues

Employer contributions to the Hampshire Local Government Pension have been reviewed as part of the triennial revaluation process. The outcome of the review undertaken by the Actuary resulted in rates for both past and future service being set which are lower than previously anticipated. The revised position has been included within the forecast for 2015/16 to 2016/17. Rates for the period 2017 onwards will be determined by the outcome of the next triannual valuation.

Investment and Debt Portfolio Position and Projections

The MTFS is based on the projections contained within the Treasury Management strategy around the councils net borrowing position, detailed in the following table 3:

Table 3 – Council Net Borrowing Position

	31-Mar-14 Actual £M		31-Mar-15 Approved £M	Current Portfolio £M		31-Mar-15 Current Estimate £M	31-Mar-16 Current Estimate £M	31-Mar-17 Current Estimate £M	31-Mar-18 Current Estimate £M
External Borrowing:									
Fixed Rate – PWLB Maturity	139		148	139		143	192	207	220
Fixed Rate – PWLB EIP	81		81	73		70	58	46	35
Variable Rate – PWLB	35		35	35		35	35	35	35
Variable Rate – Market	9		9	9		9	9	9	9
Long Term Borrowing	**264**		**273**	**256**		**257**	**294**	**297**	**299**
Short Term Borrowing									
Fixed Rate – Market	10		10	0		20	30	30	30
Other Long Term Liabilities									
PFI / Finance leases	62		61	62		67	65	62	60
Deferred Debt Charges	16		17	16		16	15	14	14
Total Gross External Debt	352		361	334		360	404	403	403
Investments:									
Managed In-House									
Deposits and monies on call and Money Market Funds	(66)		(40)	(53)		(35)	(25)	(25)	(25)
Financial Instruments	(3)		(3)	(18)		(30)	(30)	(30)	(30)
Managed Externally									
Pooled Funds				(5)		(5)	(5)	(5)	(5)
Total Investments	(69)		(43)	(76)		(70)	(60)	(60)	(60)
Net Borrowing Position	**283**		**318**	**258**		**290**	**344**	**343**	**343**

KEY RISKS

1.5 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.

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

- The lack of certainty in future years' government support;
- Changes in function;
- Changes in how services are funded;
- Changes in the economy;
- Changes in members priorities;
- Unmanaged service pressures;
- Council tax policy;
- Changes in legislation;

- Level of future pay awards;
- Adequacy of the Risk Fund in any one period; and
- Business Rate Volatility

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 of these assumptions are inaccurate.
2. **Political Risk** – with the forthcoming election there is a risk the national picture and policies could change. This could impact on all aspects of this strategy in particular to the funding available
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.
4. **Transformational Change** – It is essential that the council undergoes transformational change to ensure the organisation 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

2 Key issues affecting council services and finances. Detailed below are the key issues which are currently having a major impact on the Council's budget in the short and medium term, whilst Annex C provides further context of the demographic and system wide social-economic factors which undoubtedly impact the residents of Southampton and have an impact on the services which the City Council and its partners deliver across the city. Table 6 sets out the financial resources included in the Medium Term Financial Forecast in Annex A 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.

2.1 **Demographics**

Looking at population forecasts, in Southampton as nationally, average life expectancy is increasing and as a consequence more people are living longer. The fastest growing sector of the population is that aged 65 years and over. Forecasts made using known residential development plans predict the over 65s will rise by 11% between 2011 and 2018 whilst the number of people over 85 years is forecast to grow from 5,300 to 6,000, an increase of 13%. Longer term projections, based on past trends, predict a 42%

increase in over 65's in Southampton between 2010 and 2035 with the number of residents in the city aged over 85 reaching 10,000 by 2035.

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 are meaning people who previously might have died at a young age are living longer, often into adulthood, but 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 population of working age is steadily declining and this may impact on availability of informal and community care.

In 2011/12, 213 older people per 1,000 were in receipt of social services in Southampton compared to a national average of just 113.5 per 1,000. 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 2011/12 there were 1,439 Southampton residents recorded on GP registers as having dementia; this has increased from 1,022 in 2006/07. This increase represents increasing prevalence and the ageing of the population as well as increased diagnosis and recording by GPs.

2.2 **National and Local Policy**

Welfare reforms and introduction of Universal Credit

Southampton with be in the first tranche of the national roll out of Universal Credit (currently planned or March 2015 and focusing on new claims only). 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 local authority and other key services in the city can provide for individuals and household in crisis and for crisis prevention.

Better Care Fund

The Better Care Fund will commence from 1 April 2015. The purpose of this fund is to ensure closer integration between health and social care. Locally Councils and Clinical

Commissioning Groups are required to set a pooled budget under S75 of the National Health Service Act 2006 to achieve this aim.

The Southampton Better Care Plan has been approved following the Nationally Consistent Assurance Review which identified no areas of high risk within the plan and means that Southampton can now progress its plan with establishment of a Better Care pooled fund by 1 April 2015.

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. Furthermore, there is an ambition to further increase the pool and the services provided in future years.

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. After the initial set up and development of the plan it is intended that further opportunities for efficiencies will be generated.

2.3 **Socio- Economic Factors**

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 2009 to 2013 the rate of children in care increased by 58% in Southampton compared to an 11% increase nationally. In the year ending March 2013, Southampton City Council carried out 285.7 Section 47 Child Protection investigations for every 10,000 children (compared with 111.5 per 10,000 nationally) and the city had 91.6 per 10,000 children subject to an initial child protection conference compared with 52.7 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 transformation programme was initiated in September 2013. 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 and to date there has not been a decline. The number of Children looked after in the City, for which the Council make a financial contribution for the cost of their care has increased by 44% since April 2011. Significantly within this increase the number of fostering placements made with independent fostering agencies, (IFA) has increased by 169% whilst the number of placements made within the Council's own fostering service has increased by 21%. The cost of an IFA is, on average three times more expensive than an internal placement. This has created and continues to create a significant pressure on the Children Services budget.

The growth in overall looked after children has slowed marginally in the last two years. However the number of IFA placements as increased by 61% over the same period and now represents a more significantly larger proportion of all looked after children.

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 2015/16 the planned trajectory of fostering placement numbers is shown in the table 4 below.

Table 4 - LAC trajectory 2015/16

	Actual	Projected		Change		
	Nov-14	Apr-15	Mar-16	Nov 14 - Apr 15	Apr 15 - Mar 16	Nov 14 - Mar 16
Fostering up to 18	300	285	254	-15	-31	-46
Independent Fostering Agencies	148	134	109	-14	-25	-39
Independent Fostering Agencies Parent and Baby	6	6	6	0	0	0
Total Under 18 Fostering				**-29**	**-56**	**-85**
Staying Put	35	32	56	-3	24	21

Should this projection or an equivalent not be achieved there will be an additional pressure that is not currently allowed for within the councils medium term financial forecast.

2.4 **Physical-environmental factors**

Housing. There are many issues in respect of housing. In Southampton 25% of households live in privately rented housing compared with 17% nationally. Over 7,000 are HMOs. Around 38% or 28,000 private owned or rented homes do not meet the decent homes standard. Nearly a quarter of all homes are in the social rented sector with 17,000 managed by the Council. But it has 14,000 households on its housing waiting list. The cost of housing has increased significantly and there is an affordability issue (house cost-to-average pay ratio). The number of new affordable homes available needs to be increased.

2.5 **Political Environment**

Key known events impacting on the political environment during 2015:

- Final Budget before the General Election delivered by the Chancellor - March 2015
- Publication of election manifestos – Late March or early April 2015
- General and local elections - 7 May 2015
- Queens Speech setting out the government's legislative programme for 2015/16 - May or June 2015
- Comprehensive Spending Review (Coalition Government has committed to giving local authorities and CCGs indicative multi-year budgets after the next Spending Review) – Likely to be between July and September 2015
- Autumn Statement – December 2015
- Local government settlement for 2015-16 and beyond – December 2015

2.6 **Wider Partnership Working**

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.

<u>One Public Estate</u>

Southampton has been involved in the One Public Estate programme that looks to reduce accommodation and work with our public sector partners through the One Public Estate programme. Key achievements have been:

- The 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 Marland House.

3 THE FINANCIAL CHALLENGE

3.1 <u>Forecast Financial Position 2015/16 – 2019/20</u>

The Councils financial position is detailed below and will need to be updated following the next Comprehensive Spending Review, each settlement, implementation of the transformation agenda 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.

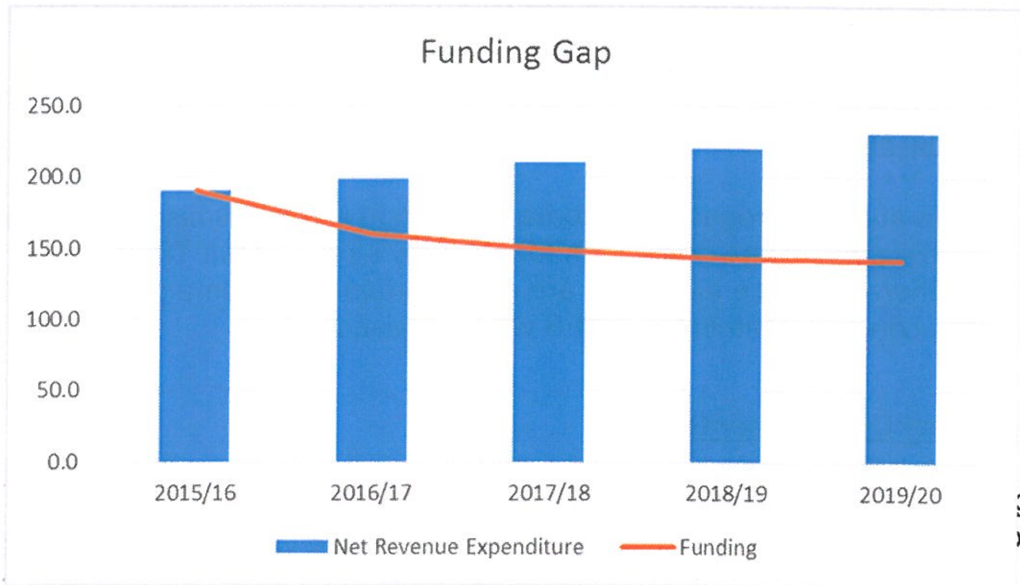

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Table 5 – Summary of Savings Requirements

	2015/16	2016/17	2017/18	2018/19	2019/20
	£M	£M	£M	£M	£M

Net Expenditure	201.1	210.1	221.6	232.3	243.1
Baseline Funding	(191.1)	(159.8)	(149.6)	(143.2)	(141.6)
Savings	(10.0)	(11.2)	(11.4)	(11.4)	(11.4)
GAP	0	39.1	60.7	77.7	90.1

3.2 **Pressures**

Table 6 below summarises the pressures included in the forecast 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 6 – Summary of Pressures

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£M	**£M**	**£M**	**£M**	**£M**
Demographic	3.6	4.0	4.4	4.4	4.4
National/Policy	1.4	1.6	1.3	1.3	1.3
Socio- Economic	3.8	3.8	3.8	3.8	3.8
Physical-Environment	0.3	0.3	0.4	0.4	0.4
Total	**9.1**	**9.7**	**9.9**	**9.9**	**9.9**

3.3 **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.

£3M has been set aside to deliver the Transformation Agenda within the 2015/16 budget

3.4 **Income Generation**

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

3.5 **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 are 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 £6.372M supported by an income stream (PFI credits from Government) of £3.856M. The DfE are supporting the Council in reviewing the PFI contracts with the aim of driving out savings.

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 contract is for a 25 year period and runs until 2025, this has recently been extended to 2030. The Council will deliver savings in the contract from 2015/16 onwards due to an 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, Property, Information Technology, Printing, Health and Safety and Human Resources 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 current cost to the Council is circa £32M p.a. made up of fixed and variable 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 £13m 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 and asset investment and routine repairs.

The annual Lump sum payment for the services is currently £850k.

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 £1.1m.

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 £242k p.a. which consists of a management fee or subsidy of £483k less service and energy charges.

J) Sports Development
Sports Development services are provided under contract by Southampton Solent University (SSU) under the banner of Sport Solent. The service promotes and increases sport and physical activity across the City. The contract commenced on 5 December 2011 with a ten year term. The Management Fee is £125k p.a.

3.6 **Collection Fund**

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

Following from the assumptions detailed in Section 1.4, the forecast position for the Collection Fund is shown in table 7 below along with the Southampton City Council share.

Table 7 – Collection Fund Assumptions

	2015/16	2016/17	2017/18	2018/19	2019/20
	£M	£M	£M	£M	£M
Southampton City Council, council tax Precept	77.3	78.8	80.4	81.9	83.6
Business Rates Draw	50.1	51.1	52.0	53.0	54.0

3.7 **Housing Revenue Account**

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

The main points to note are:

- All HRA debt can be repaid over the 30 year life of the plan.
- The capital spending plans include provision to maintain and improve all existing dwellings and feature an increase in the level of planned expenditure in the early years.
- This investment can be achieved within the Government's borrowing limit of £199.6M, also known as the 'debt cap'. Additionally, a reserve of at least £6M borrowing headroom is retained throughout.
- 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 and the proposed updated plan for 2015/16 onwards shows that by year 30 the projected revenue balance will be £80.6M. However, predicted revenue surpluses do not begin to significantly exceed minimum levels until 2022/23 and the main risk to the long term plan is that, if building inflation was to exceed general inflation over a prolonged period, this would have a significant adverse impact on HRA balances. Therefore the surpluses are liable to change annually, either favourably or not, and will reflect the annual review of stock investment needs and estimated unit rates.

3.8 **Capital**

The Capital Programme report details the capital programme for 2014/15 to 2017/18. A high level summary is included in Annex B. All the revenue implications of the capital projects have been built into both the General Fund estimates and the Housing Revenue Account plans.

3.9 **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. Annex A 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 £9.6M at the end of the medium term financial forecast period.

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. 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

1. Medium term financial risk reserve – Following on from the compilation of the MTFS, the risks that 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 it would be financial sound to set aside monies to mitigate these risks on a non-recurrent basis. This will help to ensure the Council can deal with any pressures whilst it reviews its practices and the medium term financial forecast.
2. Taxation Reserve – due to the volatile nature of business rates and also as the predicted recession in 2019/20 it is suggested the authority looks at setting aside monies to mitigate against any loss if income from both this and council tax, to enable a smoothing of the impact.
3. Transformation Reserve – to ensure the Council can continue to evolve

transform and innovate a reserve is set aside to pump prime this transformation.

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.

3.10 **Addressing the Gap**

The report explores how the Council will need to change the way it operates in order to meet the challenges it faces over the coming years. This new model of operating will ensure the Council focuses service delivery on meeting the outcomes really needed by local residents, communities and businesses.

The financial challenge facing the Council is obviously a major driver for this change, and we need to review the way we set budgets to align budgets with an outcome and commissioning based approach..

The initial work that has been carried out has identified a potential recurrent savings of £15M from Transformation towards addressing the £61M budget gap. These potential savings also come with potential one off investment requirements of a maximum £4.5M revenue over the 2 year period, and £10M capital. The capital investment requirements will need to be built into the Capital Programme review detailed in the Capital Strategy

At this stage the proposals referenced in the Transformation Report are high level, and the potential savings, as set out below, are therefore indicative. However, the Chief Executive and Management Team will aggressively drive forward the identified savings opportunities and themes to deliver the maximum level of savings possible to contribute towards closing the Council's overall budget shortfall.

A key part of this approach will be to deliver the identified savings opportunities as early as possible during 2015/16, and work is already underway to achieve that objective. As work progresses the potential level of savings will be confirmed, and further reports will be brought forward during the year to agree new savings and update on the budget gap remaining

As the proposals are still in development, for financial planning purposes and for inclusion in the Council's Medium Term Financial Strategy, a prudent assessment has made of the likely level of savings which can be delivered across the identified themes. However, as referenced above, the aim will be to aggressively pursue these savings to deliver the maximum financial benefit which is possible.

The following table presents a summary of the high level savings identified to date across the 4 themes. For presentation purposes, the savings are shown on a full year basis from 2016/17 onwards, although the clear intention is to progress the individual strands of work underpinning each theme at the earliest opportunity.

	2016/17	2017/18
	£M	£M

New Service Delivery Model	1.7	5.7
Services Stopped or reduced	0.6	0.6
Restructure and Streamline Existing Services	1.9	3.1
Cross Cutting	4.9	5.9
Total	**9.0**	**15.2**

On the basis of the high level work to date, the current proposals which are being worked up have the potential to contribute £15M towards the Council's overall medium term budget position by 2017/18.

It should be noted that at this time the £15M does not include any savings from the delivery of procurement efficiencies. The Council's Management Team are looking to drive out significant savings from third party contracts and is working with Capita to initially identify those contracts which may offer the largest scope for savings

The next steps in the transformation programme are to go to detailed design which should be complete by October 2015, at this stage the programme should have gone some way to addressing the £61M 2 year budget gap and the identifying the necessary costs for 2016/17.

The organisation will move to an outcomes based commissioning approach to determine the best way of delivering a service, and sitting alongside this it is anticipated the budgeting process will follow suit to deliver an outcomes based budget. The Council will review its current expenditure on an outcomes basis and from this baseline point will determine 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 than that taken previously whereby individual services came up with savings proposals and presented these to senior management and Cabinet, similarly to what you see in the 2015/16 budget report. It is felt that the sheer scale of the challenge ahead would make this incremental method of finding efficiencies unlikely to identify the level of savings required.

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 budgeting and commissioning 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.

3.11 Governance Framework for Updating and Monitoring the MTFS

The Medium Term Financial Strategy and associated model is a dynamic strategy and as such will be changing constantly. It is anticipated this model will be updated on a quarterly basis via the Quarterly Financial Monitoring Reports. A major review will be undertaken each year to coincide with the revised Council Strategy, 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.

3.12 Managing Budgets and Forecasting

In setting the annual budget and the MTFS the Council will ensure potential risks are assessed and that they are 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 Directorate Management Teams, Cabinet, and Chief Officers 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.

If the budget holder cannot resolve issues within their own service area budgets these should be dealt with on a directorate level via discussions with the Executive Director.

CONCLUSION

The current forecast position for the Council is challenging to say the least with constantly increasing demand for services and funding reducing at an unprecedented rate. This does however produce some opportunities to reshape how we currently operate and interact with our customers and this is being explored as part of the Transformation programme that is already in place.

If the Council is to achieve a £90M saving by the end of the period of this Medium Term Financial Strategy it will need to stop carrying out some functions, provide less of others and completely reshape the Council and service delivery through implementation of the proposed New Operating Model.

Annex A

MEDIUM TERM FINANCIAL FORECAST

Portfolios	2015/16 Forecast £M	Base Changes £M	2016/17 Forecast £M	Base Changes £M	2017/18 Forecast £M	Base Changes £M	2018/19 Forecast £M	Base Changes £M	2019/20 Forecast £M
Children's Services	55.1		55.1		55.1		55.1		55.1
Communities	2.1		2.1		2.1		2.1		2.1
Environment & Transport	36.2		36.2		36.2		36.2		36.2
Health & Adult Social Care	67.5		67.5		67.5		67.5		67.5
Housing & Sustainability	2.8		2.8		2.8		2.8		2.8
Leader's Portfolio	5.1		5.1		5.1		5.1		5.1
Resources & Leisure	29.9		29.9	1.4	31.3		31.3		31.3
Add Pressure - Future Years (Known)	6.6		6.6	(0.4)	6.2		6.2		6.2
Add Pressures - Future Years (Unknown)	0.0	1.0	1.0	1.0	2.0	1.0	3.0	1.0	4.0
Base Changes & Inflation	0.0	8.1	8.1	8.8	16.9	9.3	26.2	9.5	35.8
Sub-total for Portfolios	**205.3**	**9.1**	**214.4**	**10.8**	**225.2**	**10.3**	**235.5**	**10.5**	**246.1**
Levies & Contributions	0.6	0.0	0.6	0.0	0.6	0.0	0.6	0.0	0.6
Capital Asset Management	(11.2)	1.5	(9.7)	0.2	(9.5)	0.0	(9.5)	0.0	(9.5)
Other Expenditure & Income									
Direct Revenue Financing of Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trading Areas (Surplus) / Deficit	(0.0)	0.0	(0.0)	0.0	(0.0)	0.0	(0.0)	0.0	(0.0)
Net Housing Benefit Payments	(0.8)	0.0	(0.8)	0.0	(0.8)	0.0	(0.8)	0.0	(0.8)
Open Spaces and HRA	0.4	0.0	0.4	0.0	0.4	0.0	0.4	0.0	0.4
Risk Fund	4.5	0.3	4.8	0.6	5.3	0.3	5.6	0.3	5.9
Contingencies	0.3	0.0	0.3	0.0	0.3	0.0	0.3	0.0	0.3
Addition to / (Draw From) Reserves	1.9	(1.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sub-total for Other Expenditure & Income	**6.3**	**(1.6)**	**4.7**	**0.6**	**5.3**	**0.3**	**5.6**	**0.3**	**5.9**
Net Revenue Expenditure	**201.1**	**9.0**	**210.1**	**11.6**	**221.6**	**10.6**	**232.3**	**10.8**	**243.1**
Draw from Balances:									
Addition to / (Draw From) Balances	(7.1)	9.6	2.5	1.5	4.0	(1.0)	3.0	(1.0)	2.0
Council Tax	(77.3)	(1.5)	(78.8)	(1.6)	(80.4)	(1.6)	(81.9)	(1.6)	(83.6)
Non-Specific Government Grants & Other Funding	(51.0)	18.6	(32.4)	11.3	(21.2)	9.9	(11.3)	5.3	(6.0)
Business Rates	(50.1)	(0.9)	(51.1)	(1.0)	(52.0)	(1.0)	(53.0)	(1.0)	(54.0)
Council Tax Collection Fund (Surplus) / Deficit	(3.2)	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Business Rates Collection Fund (Surplus)/Deficit	(2.4)	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	**(191.1)**	**31.4**	**(159.8)**	**10.2**	**(149.6)**	**6.4**	**(143.2)**	**1.6**	**(141.6)**
Savings proposals Feb 15	(10.0)	(1.2)	(11.2)	(0.2)	(11.4)	0.0	(11.4)	0.0	(11.4)
DRAFT BUDGET GAP	**0.0**	**39.1**	**39.1**	**21.6**	**60.7**	**17.0**	**77.7**	**12.4**	**90.1**
POTENTIAL TRANSFORMATION SAVINGS			**9.0**		**15.0**		**15.0**		**15.0**

General Fund Balance	2015/16 Forecast £M	2016/17 Forecast £M	2017/18 Forecast £M	2018/19 Forecast £M	2019/20 Forecast £M
Opening Balance	**(23.4)**	**(11.9)**	**(10.0)**	**(9.6)**	**(9.6)**
Draw From Balances	7.1	0.0	0.0	0.0	0.0
Draw from Balances - Capital	1.0	0.1	0.0	0.0	0.0
Draw from Balances for Strategic Schemes	3.4	4.3	4.4	3.0	2.0
Contribution to Balances	0.0	(2.5)	(4.0)	(3.0)	(2.0)
Closing Balance	**(11.9)**	**(10.0)**	**(9.6)**	**(9.6)**	**(9.6)**

ANNEX B

CAPITAL PROGRAMME 2014/15 ONWARDS

Portfolio	Estimate 2014/15 £M	Estimate 2015/16 £M	Estimate 2016/17 £M	Estimate 2017/18 £M	Estimate Later Yrs £M	**Total £000**
CHILDRENS SERVICES	9.2	6.7	1.6	0.0	0.0	**17.5**
ENVIRONMENT & TRANSPORT (E&T)	25.5	16.1	0.0	0.0	0.0	**41.6**
ENVIRONMENT & TRANSPORT (CITY SERVICES)	0.7	0.3	0.0	0.0	0.0	**1.0**
HEALTH & ADULT SOCIAL CARE	0.5	0.5	0.0	0.0	0.0	**1.0**
HOUSING AND SUSTAINABILITY	2.5	2.8	0.3	0.0	0.0	**5.5**
LEADERS	6.1	16.8	3.3	0.2	0.1	**26.4**
RESOURCES & LEISURE (RESOURCES)	2.0	2.3	0.3	0.3	0.0	**4.9**
RESOURCES & LEISURE (LEISURE)	2.6	1.3	0.1	0.0	0.0	**4.0**
TOTAL GENERAL FUND CAPITAL PROGRAMME	**49.0**	**46.8**	**5.6**	**0.5**	**0.1**	**102.0**
HRA	34.9	65.5	46.6	34.5	51.2	232.7
TOTAL CAPITAL PROGRAMME	**83.9**	**112.3**	**52.2**	**35.0**	**51.3**	**334.7**
Funded By:						
UNSUPPORTED BORROWING	5.4	36.2	13.8	0.0	0.9	**56.3**
CAPITAL RECEIPTS	13.2	13.1	3.6	3.2	2.4	**35.5**
CONTRIBUTIONS	4.2	5.3	0.3	1.3	0.0	**11.1**
CAPITAL GRANTS	30.9	26.7	4.3	0.0	0.0	**61.9**
DRF FROM BALANCES	1.5	1.0	0.1	0.0	0.0	**2.6**
DRF FROM PORTFOLIOS	10.8	11.0	10.7	10.8	7.2	**50.5**
DEPRECIATION RESERVE	17.9	19.0	19.4	19.7	40.8	**116.8**
TOTAL FINANCING	**83.9**	**112.3**	**52.2**	**35.0**	**51.3**	**334.7**
POTENTIAL TRANSFORMATION COSTS		**5.8**	**4.4**			

ANNEX C

CONTEXTUAL FACTORS IMPACTING ON THE MEDIUM TERM FINANCIAL STRATEGY

A Demographics

In 2011 the Census recorded the resident population of Southampton to be 236,900, with 268,200 people registered with GP practices as of January 2013. The profile of the City's population differs from the national average because of the large number of students; 20% of Southampton's population is aged between 15 and 24 years compared to just 13% nationally.

In terms of household composition, the 2011 Census revealed that the city has a higher proportion of single (never married) residents than nationally (33.3% compared with 25.8%), as might be expected from the large student population. Southampton also has 10,249 widowed residents and 17,184 who are single through separation or divorce. There are 11,283 households in the city consisting of older people living alone. In 2011 there were 6,918 lone parent families in Southampton with dependent children; of these, 46.8% were not in employment (compared to 40.5% nationally) and the vast majority were female (over 91%).

Southampton is a diverse City: in the 2011 Census 77.7% of residents recorded their ethnicity as white-British, a sharp decrease from 2001 when 88.7% of residents put themselves in this category. The biggest change has been in the 'Other white" population, which includes migrants from Europe, as this has increased in last 10 years by over 200%, from 5,519 to 17,461.

Southampton also has a higher proportion of households where no-one has English has their main language (7.7% compared to 4.4% nationally). There are 7,522 households in the city that fall into this category. The school Census in 2012 found that 14.1% of school pupils had a first language other than English; a rise from 8.4% in 2007. In 2007 there were 427 pupils whose first language was Polish but by 2012 this had risen to 1,282.

The older population living in Southampton are faced with substantial poverty:

- There are 7 areas in the city where Income Deprivation Affecting Older People is in the worst 10% for England, they are mainly clustered in the central areas of the city with the exception of Weston.
- According to Mosaic, 3.77% (3,863 household) are deprived, very elderly single pensioners living in council owned, purpose built accommodation.
- In Southampton, 46% of homeowners over 85 live in non-decent housing, compared to an England average of over 50%.
- Men living in deprived areas of the city can expect to live 8 years less than those in the least deprived areas
- Over the 2004-11 period, an average of 104 people died each year in Southampton because of cold weather. Around 56 of these people were aged 85+. In the UK, frail, elderly women are the most vulnerable group and rates of excess winter mortality are highest amongst people with circulatory or respiratory disease.

In 2011/12, 213 older people per 1,000 were in receipt of social services in Southampton compared to a national average of just 113.5 per 1,000. 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 2011/12 there were 1,439 Southampton residents recorded on GP registers as having dementia; this has increased from 1,022 in 2006/07. This increase represents increasing prevalence and the ageing of the population as well as increased diagnosis and recording by GPs.

B **National and Local Policy**

Localism Act

The Localism Act 2011 set out a series of measures designed to achieve a shift in power away from central government and towards local people. They include: new freedoms and flexibilities for local government; new rights and powers for communities and individuals, and reform of the planning system.

The Act includes a 'general power of competence' giving local authorities the legal capacity to do anything that an individual can do that is not specifically prohibited and gives councils more freedom to offer business rate discounts - to help attract firms, investment and jobs.

This Act passes rights direct to communities and individuals, such as: The Community right to challenge that gives voluntary and community groups, parish councils and local authority employees the right to express an interest in taking over the running of a local authority service; The Community right to bid giving communities the right to buy community assets; The Community right to build; Neighbourhood planning, that introduced a new right for communities to draw up a neighbourhood plan, and the right to approve or veto excessive council tax rises.

In Southampton the Act has resulted in a number of communities developing and considering neighbourhood plans to influence the development of their local area; A number of public houses are now listed on the council's Asset of Community Value register and the voluntary and community sector continues to play a key role delivering services in the city.

Welfare reforms and introduction of Universal Credit

The Welfare Reform Act (2012) represents the biggest change to the welfare benefit system in 60 years. A number of welfare reforms have been implemented since 2011; these have included out-of work and in-work benefits such as Tax Credits.

2013/14 brought significant changes to Council Tax Benefit, the abolition of Social Fund Community Care Grants and Crisis Loans and its transitional replacement with Local Welfare Provision, changes to Disability Living Allowance, the Benefit Cap and Housing Benefit Under-occupancy in social housing and changes to the way welfare benefits are 'up-rated'.

The Local Government Association commissioned analysis of the cumulative impact of the major welfare reforms. As the timetable of reforms is ongoing, with changes continuing to be introduced, the financial year 2015/16 was chosen as the comparison point. For Southampton it estimates that 34,157 households are impacted, with an average loss of £1,551 per year.

In general, welfare reform has impacted most on households with working age people on benefits, including people on low incomes who are in work. However, the loss of welfare benefit income has impacts beyond the household and individual, effecting local economies and businesses, and potentially widening the gap for deprived areas in the city. It also has implictions in terms of increased demand on services, increased numbers of cases of rent and council tax arrears, increased levels of debt, homelessness, mental health issues, safeguarding etc.

C **<u>Socio- Economic Factors</u>**

Child Poverty

Benefits data for 2010 indicates that 26.8% of children were living in poverty in Southampton, equating to approximately 10,790 children. This rate is significantly higher than the national average of 21.1% and also higher than many of the City's local authority peers. Southampton has second highest rate of child poverty in South East region - only Hastings is higher.

Mental health

There are 2,758 people registered with their GP as having a severe and enduring mental illness (schizophrenia, bipolar disorder and other psychoses) and 13,800 people diagnosed with depression since 2006. Not all mental illness has been diagnosed by a GP so the true population prevalence is likely to be higher. Indeed it is estimated that one in four people will have a mental illness at some time in their lives. Over the 2010-12 period there were an average of 28 suicides per year among Southampton residents.

Children's outcomes

The past few years have seen some positive changes in terms of children's outcomes. For example, smoking in pregnancy has reduced from 25.1% in 2003/04 to 19.4% in 2011/12 whilst breastfeeding has increased over the same period from 69.4% to 76.5%. The inequalities gap for these indicators has also reduced. However, there remain some key issues in terms of educational attainment: for example in terms of school absence and exclusions. The rate of teenage pregnancy remains another significant issue for the city, with 170 under 18 year old girls becoming pregnant in 2011, giving a higher rate than amongst the city's statistical peers.

Lifestyle Issues

Smoking prevalence has been reducing at a rate of about 0.4% a year since 2000. In 2011/12, prevalence was estimated to be 23%; however, this remains higher than the national average, which is 20%. Smoking remains the biggest cause of premature mortality, accounting for around 340 deaths a year in the city and an estimated 2,100 hospital admissions. Alcohol harm is also an issue in the city, with 100 deaths of Southampton residents from 2009-2011 from liver disease. Overall, alcohol consumption is estimated to cost the health service in Southampton about £12 million per year.

Long Term Conditions

Around 86,000 people in Southampton (32% of the population) are estimated to be living with a *long term condition* such as asthma, diabetes or heart disease. Over time there have been significant improvements in mortality from some of these conditions but the recorded prevalence of certain conditions continues to rise. For instance there were 7,563 people on GP's diabetes registers in 2004/05 but this had grown to 11,545 in 2012/13 (although this is partly as a result of increased recording rates).

Nationally there is a '*dementia* gap' between the numbers diagnosed and the true prevalence; in Southampton there were 1,376 people recorded on GP dementia registers in 2012/13 but the true numbers are estimated to be nearer to 2,400.

Community Safety and Crime

The Community Safety Strategic Assessment 2014 provides an evidence base around crime, anti-social behaviour, substance and alcohol misuse and offending behaviour. It highlights that:

- Southampton remains a safe city where 93% of people feel safe in their area during the day and 63% feel safe in their area after dark
- 62% of people agree that the police and other local public services are successfully dealing with crime in their areas
- There has been a reduction in some crime types of including:
    - 1.8% reduction in all crimes
    - 17% reduction in ASB incidents
    - 9.9% reduction in criminal damage incidents
    - 22% reduction in alcohol related and public place violence
    - 26.8% reduction in Drug Related Violence
    - 6% reduction in dwelling burglary
    - 18% reduction in robbery
    - 18.85% reduction in the actual rate of re-offending (cohort size – 3,537)
    - 7% reduction in the no of First Time Entrants into the Youth Justice System
    - Reduction in the rate per 100,000 10 – 17 year olds from 1,001 to 925/ 826

However, there were significant issues to consider, including an increase in reports of incidents and crimes and reports of crimes relating to sexual violence (rose by 33%), domestic violence and abuse (rose by 5%), thefts from and of motor vehicles (rose by 13% and 12% respectively).

It is also important to note that Southampton's comparative position in relation to the 15 most similar group (of cities) as defined by the ONS has either worsened or not improved for the major categories of crimes. The ranking shows that the city's comparative position has:

- Worsened from 11 to 12 for all crime rates
- Has not improved for criminal damage where the city's rank remains 15/15
- Has not improved for violence with injury where the city's rank remains 14/15
- The city's ranking has worsened for rape (from 10/15 to 11/15), Burglary (non-dwelling) (from 12/15 to 14/15), possession of drugs (from 9/15 to 11/15) and vehicle offences (from 7/15 to 9/15).

Of particular concern is the significant negative impact of domestic violence and abuse in the city. The exceptionally high volume of cases identified at highest risk in Southampton continued with an upward trend in 2013/14, as domestic violence increased by 5%. The percentage of repeat referrals (returning to MARAC in 12 months) is the primary performance indicator for Domestic Violence and Abuse, as it effectively measures the percentage of violence ceasing after intervention. Here, in spite of increasing volumes of cases, Southampton matches the national, Most Similar Group and Hampshire averages showing a drop in performance results of 4.5% in 2013/14.

The strategic assessment and residents feedback has been used to develop the priorities for the next 3 years, reflected in the Community Safety Strategy. These are to:

- Reduce crime and anti-social behaviour
- Reduce the harm caused by drugs and alcohol
- Protect vulnerable people
- Reduce youth crime

The performance of youth offending services show improvement but comparison with others shows the need for continued improvement:

- The re-offending rate by prolific young offenders has reduced by 2% but the overall re-offending rate remains higher than both national and regional averages.
- First time entrants into the criminal justice system rates have reduced but remain higher than both national and regional average figures.
- Despite consistent improvements in custody rates in Southampton improvements need to continue to align with national performance.

The Local Government Association (LGA) were invited to undertake a Peer Review of community safety in the city completed this in February 2014. They made recommendations on new ways of working strategically with partners across the city, to learn from best practice and to implement changes. The scope for the review was set against the challenges of continuing to sustain effective partnership working in a climate of reduced resources and significant change. Combined with this, expectations on the Partnership's services is increasing to levels that has the potential to impact on services delivered by each of the partners if expenditure is diverted to meet the level of demand.

The financial challenges are combined with resulting structural changes. The local police restructure and the nationally led changes to the Probation Service will both alter the partnership landscape over the next year. Whilst the continuing reductions in council funding mean the co-ordinating role the council have played over and above that of other partners may need to be scaled back. It will be important to maintain commitment from all partners to joint working through these changes.

A Partnership Action Plan has been developed and is being implemented to put in place the changes the report recommended under the five headings of:

- Strategic priorities, governance and leadership
- Improve performance
- Youth Offending
- Section 17
- Golden thread
- Reduce custody rates in South

Through the City Deal and Growth Deal processes, the city has worked strategically with Portsmouth and the Solent LEP to negotiate devolved funding and powers to unlock key infrastructure, business support, employment and skills opportunities, and set the city and its partners in a prominent position to enter discussions regarding arrangements for future devolved arrangements.

Despite substantial economic growth, wage differentials between city residents and workers persist. In 2010 the average weekly gross earnings for a full-time employee in Southampton were estimated at £452.20. This compares poorly to Portsmouth and Hampshire, where the average earnings are £480.20, and £540.70 respectively.
Moreover, productivity (GVA) is also relatively low, at 18,820 per head against 21,030 nationally.

Skills shortages are reported, particularly for managerial, professional and technical levels (23%) and skilled trades (12%), particularly in construction, financial, marine, health, hospitality and logistics sectors. Science, Technology, Engineering and Maths qualifications are increasingly in demand.

Solent LEP Skills Strategy (2013) identified that, across the Solent, 46,000 new jobs will have been created by 2020, with the urban centres leading this growth. Additionally, across the Solent, 347,000 jobs will be created through retiring workers during this period. Falling numbers of young people, and skills mis-matches, are likely to impact on the ability of employers to grow, and concerted work is required in this area to sustain the progress Southampton has seen.

Business births rates are lower per 1,000 population in Southampton than for the national average, and a number of initiatives are in place, increase access to advice and RGF funds, to increase business start-ups and growth..

Educational Attainment and Unemployment

Claimant rates in Southampton are relatively low, with all claimants in Jan 2014 totalling 2,560 of which 570 were young people aged 18-24 (less than 2%). This compares favourably, for example, to Portsmouth with a lower population but claimant count of 2,720 at the same period. However, there are challenges in addressing persistent long term unemployment for those with health conditions claiming ESA. Southampton also has higher levels of unemployed people who are aged 55 and over than the national average, and higher levels of unemployed lone parents. Additionally, unemployment is disproportionately concentrated in areas of high deprivation.

The percentage of NEET young people, at a 5.6% average for 13/14, has remained the lowest of statistical neighbours and core cities for more than two years. The most recent, November 2014 figure was the lowest on record at 4.4%. Within this figure, 'unknowns' have increased nationally since the reduction of the Connexions service, and Southampton has a figure of 11% (Dec 14), in line with the national figure, and below the South East region at 15.0%. Within the NEET cohort, vulnerable young people are particularly high and, whilst it is measured differently, care leavers are nearly twice as likely to be NEET in Southampton as nationally.

In terms of formal education, in the academic year 2013/14, young people aged 5 performed above the national average for Early Years Foundation Stage (62% achieving 'a good level of development' against a national average of 60%). At Key Stage 1 (age 7), Reading, Writing and Maths, Southampton pupils are in line with national figures with 90% achieving above Level 2, and at Key Stage 2 (aged 11), for the second year running Southampton pupils out-performed the national level at 81% above level 4, against 79%. However, at Key Stage 4, age 16, Southampton school results were 49.8% A*-C inc English and Maths against a national level of 56.1% and statistical neighbours 53%. This achievement gap has a potential impact for young people gaining the shills needed by local employers, and for inward investment to the City.

At age 16 in academic year 13/14, 93.5% of young people progressed into further learning or an apprenticeship, at a similar level to the previous year. However, Southampton is a 'net exporter' of young people to Hampshire colleges, with some 500 young people, particularly those from higher socio-economic backgrounds, choosing Hampshire Colleges, with a resultant impact on educational attainment for Southampton college viability and attainment.

At A level, Southampton's Average Point Score per student in 2013/14 was 43.1 below the Statistical Neighbours, and 99.6% below the national average, affecting their ability to gain a university place. Indeed, HE progression for Southampton residents, at 31%, is below the national average.

In terms of Apprenticeships, Southampton had 3360 apprentices in 2013/14 compared to 3608 in 12/13. There were 1810 new apprenticeship starts, representing a reduction of 12.6% on the previous year (however statistical neighbours reduced by 17.4%, and core cities by 14.2%) The majority of the reduction (24%) was amongst the over 25 age group, due to changes in national funding. The Council's Apprenticeship Scrutiny Inquiry, 2013, made a series of recommendations and identified a £300,000 budget to increase the availability and take up of apprenticeships in the city, and this work commenced in Sept 2014.

Engineering and Technology subjects (as required by Southampton employers) are studied by more students at the two Southampton Universities than the average for UK universities (12.9% at UoS and 14.8% at SSU, compared to 6.5% nationally).

Retention of graduates within the city remains significantly below the national average.

D **Physical-environmental factors**

- Quality of urban environment and range of factors like air quality and pollution, parks and open spaces, streetscape.
- Climate change and the impact on infrastructure of adverse weather conditions, especially risk of flooding.