



Southampton City Council
MEDIUM TERM FINANCIAL STRATEGY

2018/19 – 2021/22

MEDIUM TERM FINANCIAL STRATEGY 2018/19 – 2021/22

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SECTION 1. Introduction

1.1 Background

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

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

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

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

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

1.2 Aims and Purpose of the Medium Term Financial Strategy

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

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

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

The key overriding aim of the MTFS is therefore:

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

The 6 key objectives of the MTFS are to:

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

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

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

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

1.3 Strategic context

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



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1.4 Setting the context: key strategies and plans

1.4.1 SOUTHAMPTON CITY STRATEGY 2015-2025

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

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

It also includes four cross cutting themes:

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

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

1.4.2 SOUTHAMPTON CITY COUNCIL STRATEGY 2016-2020

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



Children and young people get a good start in life



Strong and sustainable economic growth



People in Southampton live safe, healthy, independent lives



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



A modern, sustainable council

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

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

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

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

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

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1.4.3 WORKFORCE STRATEGY 2016-2020

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

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

1.4.4 CUSTOMER STRATEGY 2018-2022

The Council's vision is:

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

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

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

1.4.5 DIGITAL STRATEGY 2018-2022

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

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

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

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

1.4.6 OTHER MAJOR STRATEGIES AND POLICIES

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

The two other key financial strategies are detailed below:

1.4.7 CAPITAL STRATEGY

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

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

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

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

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

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

1.4.8 TREASURY MANAGEMENT STRATEGY 2018/19 TO 2021/22

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

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

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

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

1.4.9 INVESTMENT STRATEGY

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

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

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

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

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1.4.10 BORROWING STRATEGY

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

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

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

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

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

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

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

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

1.4.12 NATIONAL AND EXTERNAL FACTORS

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

DEVOLUTION – SOLENT MAYORAL COMBINED AUTHORITY

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

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

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

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

SOLENT REGION - BUSINESS RATE RETENTION PILOT

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

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

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

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

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

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

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

Based on the information that has been provided for each local authority for forecast 2018/19 Business

Rates Income, the pool is expected to be in a growth position, with each individual authority having growth.

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

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

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

SOUTHAMPTON BUSINESS IMPROVEMENT DISTRICT

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

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

1.4.13 AUTUMN BUDGET 2017

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

Environment and Air Pollution

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

Education and Skills

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

Universal Credit

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

Housing

- A comprehensive package of new policy intended to raise housing supply by the end of this Parliament to its highest level since 1970, on track to reach 300,000 per year, through:
 - o Making available £15.3 billion of new financial support for housing over the next five years, bringing total support for housing to at least £44 billion over this period;

- o Introducing planning reforms that will ensure more land is available for housing, and that better use is made of underused land in cities and towns; and
- o £204M of funding for innovation and skills in the construction sector, including to train a workforce to build new homes.
- The Budget also announced plans to increase housing density in urban areas. To ensure that brownfield land and scarce urban land is used as efficiently as possible, the Government will consult on introducing:
 - o Minimum densities for housing development in city centres and around transport hubs, with greater support for the use of compulsory purchase powers for site assembly;
 - o Policy changes to support the conversion of empty space above high street shops;
 - o Policy changes to make it easier to convert retail and employment land into housing; and
 - o A permitted development right to allow commercial buildings to be demolished and replaced with homes.

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

Affordable Housing

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

Homelessness

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

Business Rates

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

1.4.14 PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2018/19

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

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

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

- Possibility to increase planning fees by 20% (although conditions apply);
- The capital receipts flexibilities given as part of the LGFS 2017 will continue for another 3 years;
- A review of remaining negative revenue support grant allocations will be consulted on in Spring 2018;

- A Green Paper on future challenges in Adult Social Care will be published in the Summer of 2018;
- Powers to give an additional 1% on the referendum limit for general Council Tax increases has been detailed (i.e. the referendum limit is now 2.99%);
- No action on referendum limit for Town and Parish Councils; and
- A £12 Council Tax flexibility for Police and Crime Commissioner.

It should be noted that due to the roll out of Universal Credit the MTFS assumed the Council would not be receiving Housing Benefit Subsidy Admin Grant going

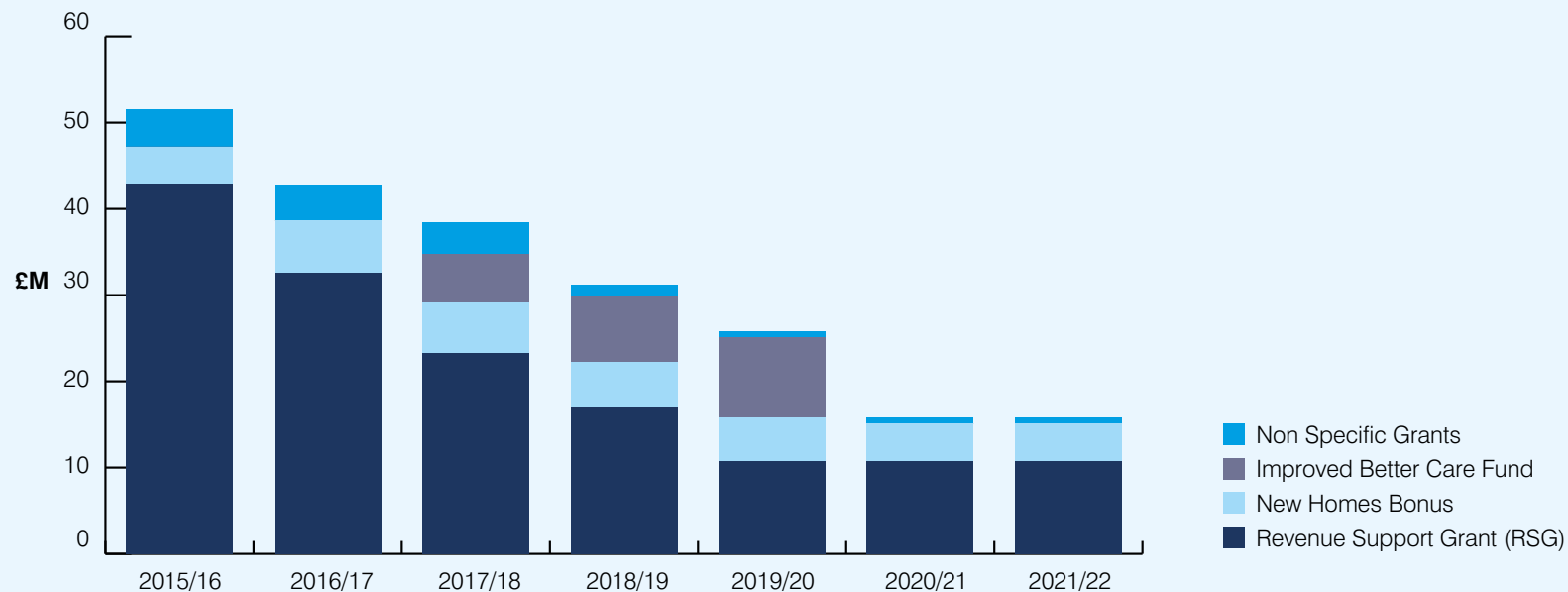
forward. However the information provided following the settlement suggests this will continue into 2018/19.

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

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

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

Current Central Government Funding Position compared to 2015/16



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TABLE 1 SUMMARY OF KEY ASSUMPTIONS

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

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

1.5 Key Assumptions

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

1.5.1 Summary of Key Assumptions

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

1.5.2 Business Rate Retention Scheme

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

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

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

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

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

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

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

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The main points to note are:

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

- Through further engagement and consultation, will aim to keep LA's informed of progress of the review and also to determine what transitional arrangement are needed.

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

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

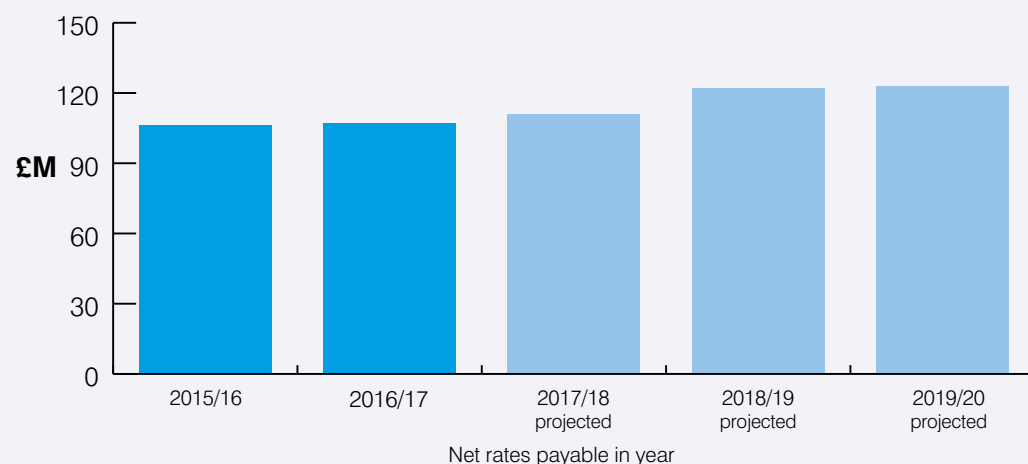
1.5.3 Council Tax

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

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

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

Net rates payable in year



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

1.5.4 Adult Social Care Precept

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

1.5.5 Revenue Support Grant Update Post Settlement

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

1.5.6 Housing Benefit Administration Subsidy

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

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

1.5.7 Public Health Grant

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

TABLE 2 PUBLIC HEALTH GRANT REDUCTIONS

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

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

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

1.5.8 Care Act

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

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1.5.9 New Homes Bonus

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

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

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

TABLE 3 NEW HOMES BONUS ALLOCATIONS

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

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

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

1.5.10 Education Services Grant

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

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

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

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

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

1.5.11 National Fairer Funding Schools

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

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

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

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

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

1.5.12 Other Grants

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

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

1.5.13 Pay Inflation

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

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

1.5.14 National Living Wage

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

The Council has adopted the National Living Wage Foundation’s recommended living wage, which is currently £8.75 (set in November 2017 but implemented by the Council from 1st April 2018), for

payment of SCC employees, and this rate is presently higher than the initial NLW (£7.83 from April 2018).

1.5.15 Ending of Contracted out Pensions Schemes

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

1.5.16 General Inflation

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

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

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

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

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

1.5.18 Public Sector Employment – Restrictions on Exit Payments

The Enterprise Bill for 2015 set up new restrictions on public sector exit payments through the introduction of a £95,000 cap on such payments. The Government's response to the consultation paper was published on 26th September 2016 and set out an expectation that Government departments would put forward proposals for reform within three months, with consultation on proposals to follow the normal process of discussions and negotiations with Trade Unions and other workforce representatives in order to seek agreement to their

reform proposals. The Government originally expected discussions to be concluded, agreement reached and the necessary changes made to compensation schemes and other arrangements within nine months. Although the original timetable has slipped, the Government's plans are still expected to progress as planned in due course.

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

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

In addition to the above, new regulations came into force from April 2016 on the requirement to repay exit payments for up to 12 months after payment if further employment is undertaken within the public sector during

that time for employees earning over £100,000 per annum. The necessary changes to the leavers' process and paperwork have been introduced and have been communicated as necessary to affected employees.

1.6 Key Risks

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

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

SECTION 1. Introduction

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

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

- Level of provision for insurances;
- New burdens;
- Welfare reforms;
- Demographic changes; and
- Impact of Brexit, both nationally and locally.

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

1. **Financial Risk** – the majority of the future years' strategy and model is based on a series of assumptions, the further into the future you look the higher the risk that these assumptions are inaccurate.
2. **Political Risk** – The Government are providing more certainty and transparency over central government funding levels for the term to 2019/20. Whilst further clarity has been given with regards to the next steps in the move towards 100% Business Rates Retention there are still some uncertainties on how the scheme will operate and from when. The impact of any new burdens that will be imposed on the local authority as a result of that will need to be considered in due course.

3. **Treasury Risk** – the MTFs is based on a reasonably stable global financial position going forward, taking into consideration that there are unknowns at this stage with regards to the impact that Brexit may have on the council's finances. If the assumptions change it may have a major impact on the financial position of the Council particularly around business rate income, and interest payments. The Treasury Management Strategy sets the parameters in which borrowing is undertaken and along with longer term forecasts for low interest rates the potential risk of having to undertake a major restructuring of debt seems less likely and is currently viewed as less significant than other risks faced by the council. A taxation reserve of £3.7M is held to meet one off shortfall in business rate income as the Council's funding position becomes more reliant on this source of funding.
4. **Transformational Change** – It is essential that the Council continues to further its major change programmes to ensure the organisation is fit for the future and is sustainable. There is a degree of risk associated with this type of change, particularly as the management capacity to drive this change through reduces, and as we seek to deliver significant change against a backdrop of constrained funding.

SECTION 2. Horizon scanning

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

2.1 Demographics

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

The increasing proportion of older people creates challenges for individuals and policy makers alike, and it increases pressures on social care resources and other public services. Medical advances mean that

people who previously might have died at a young age are living longer, often into adulthood, but do so frequently with long-term conditions and needs which require support to help them live as independently as possible. Likewise, with old age being extended, demands for social care and support are increasing. At the same time, the proportion of the working age population (aged 16-64 years) is only due to increase by about 12% between 2014 and 2039, and this may affect availability of informal and community care.

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

2.2 National and Local Policy

2.2.1 DEVOLUTION

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

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

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

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

2.2.2 BREXIT

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

SECTION 2. Horizon scanning

The government has confirmed its intentions to achieve:

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

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

- The Repeal Bill (the European Withdrawal Bill) will:
 - o repeal the European Communities Act 1972 which currently provides legal authority for EU law to have effect as national law in the UK;
 - o convert existing EU law into domestic law; and

- o give ministers powers to make secondary legislation.
- Customs Bill will:
 - o legislate for the UK's departure of the EU and the EU Customs Union; and
 - o allow the government to create a standalone customs regime and amend the VAT and excise regimes.
- Trade Bill will:
 - o create powers to assist in transition of existing trade agreements;
 - o establish the Trade Remedies Authority to defend UK businesses; and
 - o enable UK to become a member of the Agreement on Government Procurement.

2.2.3 WELFARE REFORMS AND INTRODUCTION OF UNIVERSAL CREDIT (UC)

In May 2016 the Universal Credit full service began to roll out nationally and was rolled out in Southampton in February 2017. Rollout of the Universal Credit full service is due to complete in December 2018. After the rollout process has completed, DWP will then begin moving all remaining existing benefit claimants to the Universal Credit full service starting in 2019. Once Universal Credit is fully implemented, Local

Authorities will be asked to provide 3 main services, mainly to the most vulnerable claimants who have complex support needs. These are:

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

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

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

SECTION 2. Horizon scanning

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

Further changes made from April 2017 included:

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

- Universal Credit (Housing Support): Reform to housing and housing support proposed- including removing the entitlement to housing support in Universal Credit for those aged 21 or under.

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

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

2.2.4 BETTER CARE FUND

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

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

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

SECTION 2. Horizon scanning

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

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

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

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

SECTION 2. Horizon scanning

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

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

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

2.2.5 FORTHCOMING PARLIAMENTARY BILLS

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

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

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

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

- Industrial Strategy;
- Housing - the Chancellor made several announcements in the Autumn 2017 Budget including increasing the number of new homes built annually by 300,000 by the middle of the next decade;
- Devolution deals; and
- European Union (Withdrawal) Bill.

SECTION 2. Horizon scanning

2.3 Socio- Economic Factors

CHILDREN LOOKED AFTER

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

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

Year	Southampton CC	National Averages
2015	1318.8	548.3
2017	610.0	548.2

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

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

initial child protection conference compared with 64.4 per 10,000 nationally.

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

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

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

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

TABLE 6 LAC TRAJECTORY 2016/17 TO 2019/20

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

SECTION 2. Horizon scanning

2.4 Physical-environmental factors

HOUSING

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

2.5 Wider Partnership Working

2.5.1 COMMUNITY BUDGETING

Southampton has trialled a Community Budgeting approach across skills, employment and criminal justice agencies to meet defined collective outcomes on a 'Performance by Results' (PBR) basis, and the mechanism is still in place to respond to

opportunities. The City Deal employment programmes will also be delivered through this route, and recent commissioning of Not in Education, Employment or Training (NEET) support through transfer of grants to commissioning is also funded by PBR. There is an opportunity to further develop Community Budgets in relation to joint strategic objectives, but this would require a human resource to identify priorities, funds and processes.

2.5.2 SOCIAL IMPACT BONDS

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

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

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

2.5.3 ONE PUBLIC ESTATE

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

SECTION 3. The financial challenge

3.1 Forecast Financial Position 2017/18 – 2021/22

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

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

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

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

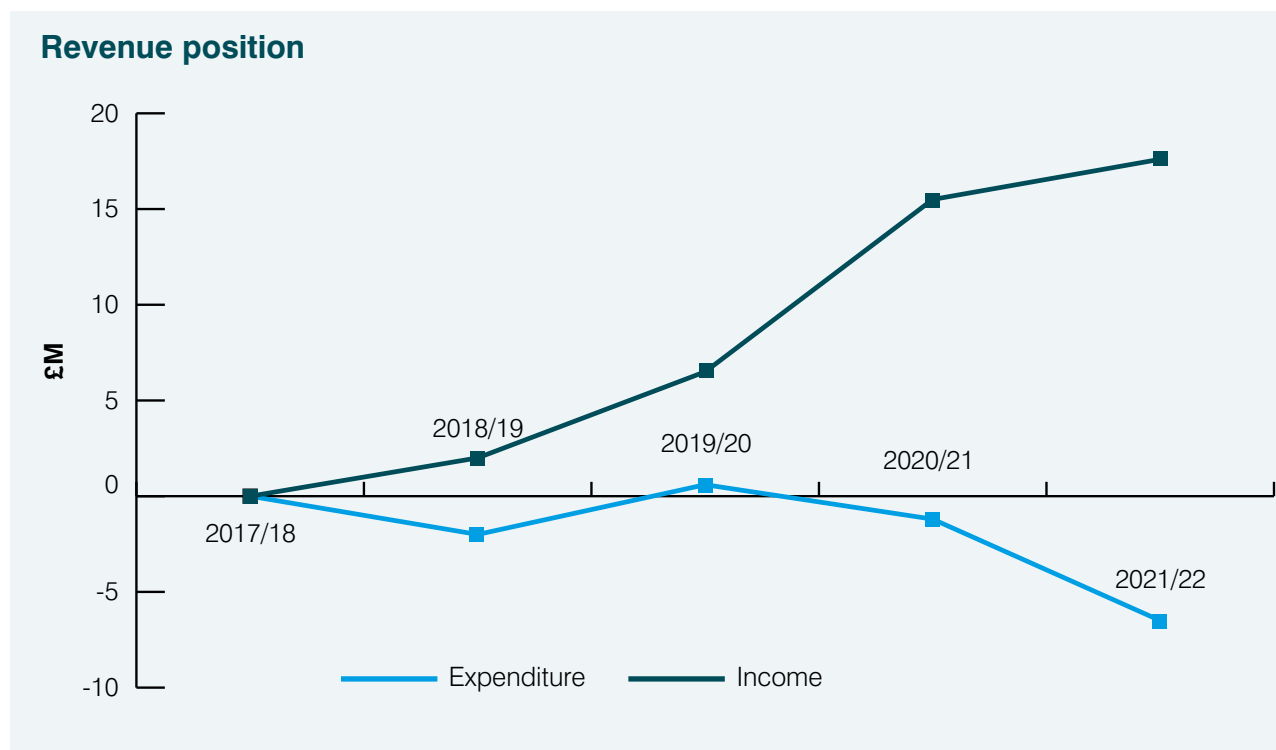


TABLE 7 SUMMARY OF SAVINGS REQUIREMENTS

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

SECTION 3. The financial challenge

3.2 Pressures

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

TABLE 8 SUMMARY OF PRESSURES

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

3.3 New Initiatives & Investments

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

TABLE 9 NEW INITIATIVES

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

3.4 Income Generation

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

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

3.5 Key Financial Commitments

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

The current commitments are:

A) PFI Schools

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

SECTION 3. The financial challenge

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

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

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

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

B) Hampshire Waste Contract

In 1996 the Council entered into a tri-partite arrangement with Hampshire County Council

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

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

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

D) Strategic Services Partnership (SSP)

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

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

E) Highways Service Partnership (HSP)

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

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

F) City Watch

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

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

SECTION 3. The financial challenge

G) Street Lighting PFI

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

H) Leisure Services

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

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

I) Southampton Guildhall

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

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

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

3.7 Housing Revenue Account

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

The main points to note are:

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

3.6 Collection Fund

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

TABLE 10 COLLECTION FUND ASSUMPTIONS

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

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

SECTION 3. The financial challenge

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

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

Tower disaster which have increased the cost of the capital programme.

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

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

3.8 Capital

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

following major commitments:

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

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

3.9 General Fund Balance

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

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

SECTION 3. The financial challenge

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

3.10 Earmarked Reserves

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

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

In light of the increasing level of risk and uncertainty identified within the MTFS and the increased probability of resources being required to support its delivery, a full review of useable reserves and provisions has been undertaken. Each year as part of closing the accounts a view is taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the

highest areas of risk resulting in the rationalisation of reserves and provisions where possible and in some cases additional funding being set aside. The most significant risk reserves are listed below:

Medium Term Financial Risk Reserve

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

Taxation Reserve

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

Capital Funding Risk Reserve

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

Transformation Reserve

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

Organisational Design Reserve

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

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

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

3.11 Efficiency Plan

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

SECTION 3. The financial challenge

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

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

3.11.1 EFFICIENCY STRATEGY

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

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

Operating Model

A new operating model has been introduced and included the implementation of a new organisation structure to support outcome based budgeting and reduce budget envelopes. This was achieved by

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

Digital

A fundamental review of the Council's use of technology, with the objective of positioning this not merely as an essential tool for the delivery of services, but rather an intrinsic part of the Council's future 'DNA'. The Council aims for its customers to have an increased and better ability to self-serve, online, at a time that suits them, while ensuring that the requisite support is available for customers who do not have the skills or means to interact with us digitally. The 'Digital' programme comprises two elements. The first focused on 'digitising' high volume, high cost services in order to drive efficiencies through the automation of process and enhanced levels of integrated workflow solutions. The second element will build on this fundamental step to position the Council as a 'digital' organisation by facilitating better integration of services across

departments, ensuring better and more seamless customer journeys. These initiatives will enable the Council to operate a leaner structure, whilst also delivering savings in third party spend (with contractors and suppliers) and assets (such as property and office accommodation). These will be through enabled reductions in facility requirements, customer contact structures, consolidation of back office and corporate service functions and retirement of old IT legacy. This is currently being progressed through the implementation of an Enterprise Resource Planning System.

Service Excellence & Prioritisation

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

HR policies and procedures

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

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Procurement & Contract Management

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

Commercialisation

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

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

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

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

Council Companies & Partnership Arrangements

As part of the review of the partnership arrangement with the Council's strategic partner Capita, a new company has been set up to provide the majority of services delivered previously by Capita as part of a fixed charging mechanism. The purpose of this is to provide greater transparency of costs and benefits to the Council for the services received.

The new company was incorporated on 31st May 2016 and became operational on 1st October 2016. Southampton City Council holds 20% of the equity shares in the company;

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

- Overall to be a facilitating organisation and development partner for the Council enabling it to better realise the efficient management of its assets by unlocking value and reducing liabilities in

relation to the Council's operation properties and investment properties;

- To undertake specific regeneration opportunities by entering into land transactions that achieve the success Criteria in a way that maximises the commercial benefits of the Sites;
- To act as a facilitating organisation giving the Council choice as to how it pursues its asset management plans; and
- To assist in achieving broader social, economic and environmental outcomes.

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

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

Prevention and Early Intervention Approach

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

SECTION 3. The financial challenge

3.12 Outcomes Based Planning and Budgeting

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

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

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

3.13 Addressing the Budget Gap

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

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

3.14 Managing Budgets and Forecasting

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

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

Accountability and Responsibility

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

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

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

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

Finance Business Partnering

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

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

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

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

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

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

Conclusion

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

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

ANNEX 1. GENERAL FUND REVENUE ACCOUNT

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

ANNEX 1

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

Housing Revenue Account

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

Reserves and Balances

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

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

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

*CR - Council Resources

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

Background

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

The four key outcomes for the Council are:

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

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

Medium Term Financial Strategy

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

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

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

Addressing the Budget Gap

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

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

Efficiency Strategy

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

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

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

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

Operating Model

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

Digital

A fundamental review of the Council's use of technology, with the objective of positioning this not merely as an essential tool for the delivery of services, but rather an intrinsic part of the Council's future 'DNA'. The Council aims for its customers

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

Service Excellence and Prioritisation

A Service Excellence review has enabled an 'organisational development' programme that looks to address the need for efficiencies through the deployment of performance management and improvement processes aimed at freeing up staffing capacity as well as addressing service standards,

through a planned and better focus on service objective setting, KPI management and measurement, workflow, and agile team based working.

HR Policies and Procedures

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

Procurement & Contract Management

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

Commercialisation

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

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

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

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

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

Council Companies & Partnership Arrangements

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

Southampton City Council holds 20% of the equity shares in the company;

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

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

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

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

Prevention and Early Intervention Approach

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

Outcomes Based Budgeting

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

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

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

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

Earmarked Reserves

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

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

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

Medium Term Financial Risk Reserve

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

Organisational Design Reserve

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

Taxation Reserve

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

Capital Funding Risk Reserve

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

Transformation Reserve

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

Organisational Design Reserve

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

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

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