Southampton City Council

MEDIUM TERM FINANCIAL STRATEGY

2019/20 – 2022/23

SOUTHAMPTON CITY COUNCIL

MEDIUM TERM FINANCIAL STRATEGY 2019/20 – 2022/23

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SECTION 1. Introduction

1.1 Background

The Medium Term Financial Strategy published in 2017/18 was a step change in the Council's transformation journey being the first time a two year budget was set. This enabled the Council to set a budget in 2018/19 without the need to consult on further savings proposals. For 2019/20 a single year budget is being set to allow any implications from a new Comprehensive Spending Review for 2020/21 onwards to be factored in.

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;

- 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 2020/21 and future years, ready for the expected start of the new funding regime for local government, and the move towards further 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.

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;
- Income generation - as part of the commercial agenda, looking to identify income generating opportunities In order to protect frontline services; and
- Service delivery and redesign - reducing or changing services

1.4.3 WORKFORCE STRATEGY

The Council's Workforce Strategy sets out a high level vision, priorities and outcomes to develop and nurture a motivated and effective workforce who will deliver the Council's priorities. The priority outcomes delivered by the Workforce Strategy will be:

- Recognised as an employer of choice;
- A high performing workforce;
- Good management across the Council;
- Evidenced based decision making, planning and delivery;
- A highly motivated and engage workforce;
- Staff empowered to make decisions;
- An effective Member Development programme for councillors; and
- Demonstrable valuing of diversity and equality.

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 is 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:

- £84M for Schools Review and Expansion;
- Plans to purchase electric vehicles for the SCC fleet and new refuse collection vehicles to replace

those which fall below Euro 6 emissions ratings, to improve air quality within the City;

- Investment in solar compactor bins, with a view to generate potential efficiencies through reduced collections and smarter ways of working;
- Further expansion of the Roads Programme; and
- Removal of the Hampshire Community Bank from the capital programme as a banking license has not been granted.

1.4.8 TREASURY MANAGEMENT STRATEGY 2019/20 TO 2022/23

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 2019/20 Treasury Management strategy are:

- To continue to make use of short term variable rate debt in 2019/20 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's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested, however it should be noted that a lower rate is an acceptable offset for higher credit and less risk, for example a covered bond.

Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to continue to diversify into more secure and/or higher yielding asset classes during 2019/20. This is especially the case for the estimated £40M that is available for longer-term investment. The majority of cash used for cash flow purposes is invested in money market funds.

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 investment rates assumed in the MTFS are included in section 1.5 Key Assumptions.

The Council is also able to make non-treasury investments such as service investments (loans/shares) and commercial property investments. Further details of non-treasury investments can be found in the Prudential Limits and Treasury Management Strategy 2019/20 to 2022/23.

1.4.10 BORROWING STRATEGY

The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

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

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Details of borrowing options are included in full within the Prudential Limits and Treasury Management Strategy 2019/20 to 2022/23.

The Council currently holds £235M of loans a decrease of £16M since 31st March 2018 as part of its strategy for funding previous years' capital programmes. The balance sheet forecast shows that the Council expects the underlying need to borrow to increase by £33M in 2018/19 and a further £21M in 2019/20 bringing the estimated loans Capital Financing Requirement (CFR) to £460M.

The committed borrowing at the end of 2020 is £170M, a reduction of £103M from the forecast position at 31st March 2019. This is due to maturing debt, £36M long Term and £66M short term, which would be unsustainable without further borrowing and there is a borrowing requirement of £70M by 31st March 2020.

The borrowing rates assumed in the MTFS are included in section 1.5 Key Assumptions.

If it was cost effective the Council could also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

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 2017-2025;
- Southampton Better Care Plan 2017-2019;
- Safe City Strategy 2017-2020;
- Local Plan;
- Local Transport Plan and Transport Asset Management Plan; and
- Housing Revenue Account Business Plan 2018/19 to 2047/48.

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.

SOLENT REGION - BUSINESS RATE RETENTION PILOT

Whilst primary legislation for the implementation of 100% business rate retention has halted, the Ministry of Housing, Communities & Local Government (MHCLG) have confirmed that the Government are still committed to progressing towards this aim. In light of this work is continuing to establish the mechanism for how the system will operate including a review of a fairer funding system for need; appeals; growth incentives mechanisms; and potential reset periods.

As part of this process, applications were sought from local authorities to apply to be a 'pilot' for 100% business rate retention in 2018/19. Southampton City Council were part of a successful bid application with Portsmouth City Council and the Isle of Wight Council, known as the Solent Pilot.

The Government again requested pilot bids for 2019/20 but to now run on a 75% retention basis as it is expected that due to the legislative changes required, the most that will be achieved until that point is 75%. A bid was submitted, again for the Solent Region, on the 25th September 2018.

The MHCLG confirmed on the 13th December 2018 that the bid had been successful.

The new pilot covers the financial year 2019/20. It allows the pool to retain half the element of growth that would have been paid over to the Government under the original 50% retention model, 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 was before pooling. Half of what would have been the 50% Government share will be retained by the pool for future allocation.

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 not receive Revenue Support Grant (RSG) and will in the case of Southampton & Portsmouth be 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 2019/20 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 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).

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 2018

The Chancellor of the Exchequer presented the 2018 Budget to Parliament on 29th October 2018. The key themes relevant to Southampton City Council were as follows:

Social Care

- The budget provides an additional £650M social care funding in 2019/20 - £240M for adult social care winter pressures and a further £410M for adults and children's social care. Local councils are to use this funding to ensure that adult social care pressures do not create additional demand on the NHS. Local councils can also use it to improve their social care offer for older people, people with disabilities and children.
- There is an additional £45M in 2018/19 for the Disabled Facilities Grant for English councils to provide home aids and adaptations for disable children and adults on low incomes.
- The Budget provides for £84M of funding over 5 years for up to 20 local authorities, to help more children to stay at home safely with their families.

Housing and Planning

- The Housing Revenue Account borrowing cap has been abolished from 29th October 2018, enabling councils to increase house building in England to around 10,000 homes per year.

- The Housing Infrastructure Fund will increase by £500M to a total £5.5BN, unlocking up to 650,000 new homes.
- The government will make £10M of capacity funding available to support ambitious housing deals with authorities in areas of high housing demand to deliver above their Local Housing Need.
- A simpler system for developer contributions will be introduced enabling local areas to capture a greater share of uplift in land values for infrastructure and affordable housing.
- The government has launched a consultation on new permitted development rights to allow upwards extensions above commercial premises and residential properties, including blocks of flats, and to allow commercial buildings to be demolished and replaced with homes.

Roads and Transport

- The government will allocate £420M to local authorities in 2018/19 to tackle potholes, repair damaged roads, and invest in keeping bridges open and safe.
- To ease congestion on local routes, the government will also make £150M of the National Productivity Investment Fund available to local authorities for small improvement projects such as roundabouts and road junctions.
- Southampton has been shortlisted for a share of £440M of competitive funding of the Transforming Cities Fund.
- £90M will be allocated to the Transforming Cities Fund to create Future Mobility Zones. This will trial new transport modes, services and digital payments and ticketing.

Waste and Recycling

- £20M is being provided to support measures to tackle plastics and boost recycling. Of this £10M will pioneer innovative approaches to boosting recycling and reducing litter, such as smart bins.
- Should wider policies not deliver the government's ambition to maximise the amount of waste sent to recycling instead of incineration and landfill, in the future it will consider the introduction of a tax on the incineration of waste, in conjunction with landfill tax, taking account of the possible impacts on local authorities.

Business Rates

- The government is cutting bills by one-third for retail properties with a rateable value below £51,000, benefitting up to 90% of retail properties, for 2 years from April 2019, subject to state aid limits.
- 100% business rates relief will be provided for all public lavatories.
- The £1,500 business rate discount for office space occupied by local newspapers will continue in 2019/20.
- Local authorities will be fully compensated for the loss of income as a result of these business rates measures.

Schools, Children and Young People

- £400M will be provided to schools in 2018/19 to spend on equipment and facilities. This equates to on average £10k per primary school and £50k per secondary school.
- The Budget provides £200M for a Youth Endowment Fund to help young people avoid a life of violence.

Other Measures

- In addition to the business rates measures for small retailers, the government will launch a £675M new Future High Streets Fund to support local areas to develop and fund plans to make their high streets and town centres fit for the future.
- £20M additional funding will be allocated to support more local authorities to meet their air quality obligations.
- The government is implementing a package of additional measures worth £1BN over 5 years

as part of the transition to Universal Credit. The amount that households with children, and people with disabilities can earn before their UC award begins to be withdrawn - the Work Allowance - will be increased by £1,000 from April 2019, benefitting households by £630 per year.

- The National Living Wage will be increased by 4.9% from £7.83 to £8.21 from April 2019.
- The government will introduce a package of reforms to strengthen the role of employers in the apprenticeship programme, including making up to £240M available to halve the co-investment rate for apprenticeship training to 5 per cent.

1.4.14 PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2019/20

The Provisional Local Government Finance Settlement (PLGFS) for 2019/20 was published on the 13th December 2018, which has led to an update of the Council's financial position. This settlement marks the final year of the 4 year settlement that was accepted by Southampton City Council (SCC) along with 97% of local authorities. The main points were:

- Consultation documents have been published on the next stage of the implementation of further business rates retention and the Fair Funding review, for implementation In April 2020.This takes into account the outcome of the consultation on relative needs which took place in early 2018. The deadline for consultation responses is the 21st February 2019;
- Southampton has been accepted as a 75% business rate retention pilot in a pooling arrangement with Portsmouth and the Isle of Wight (The Solent Region Pool), alongside 14 other new pilots. It has also been agreed that London authorities will pilot 75% business rates retention in 2019/20. Authorities that piloted 100% business rates retention in 2017/18 and 2018/19 will continue doing so in 2019/20;
- £180M of business rates levies surplus will be distributed to authorities on a needs basis - payment will be made in 2018/19 (£0.84M for SCC);
- Social Care funding announced in the Autumn Budget 2018 was confirmed;
- Rural Services Delivery Grant has increased by £16M to £81M (no impact on SCC);
- There has been no change in the New Homes Bonus baseline growth position of 0.4% in the 2019/20 settlement;
- Following a consultation in Spring 2018, a grant will be paid to authorities to eliminate negative revenue support grant allocations (no impact for SCC);
- LGFS 2018 announced that a Green Paper on future challenges in Adult Social Care would be published in the Summer of 2018. The paper is still awaited and is expected to be published before the end of 2018/19;
- The Council Tax referendum limit has been set at 3% for 2019/20 (the same as the limit for 2018/19); and
- A £24 Council Tax flexibility has been afforded to the Police and Crime Commissioner.

It should be noted that due to the roll out of Universal Credit the previous MTFS assumed the Council would not be receiving Housing Benefit Subsidy Admin Grant going forward. However it has now been confirmed that the grant will continue into 2019/20.

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, 2091/20 and future years still contains the RSG the council would have received without the Business Rates Retention Pilot. It should also be noted that the MTFS makes the assumption that Better Care Fund monies will be replaced by alternative central government funding.

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

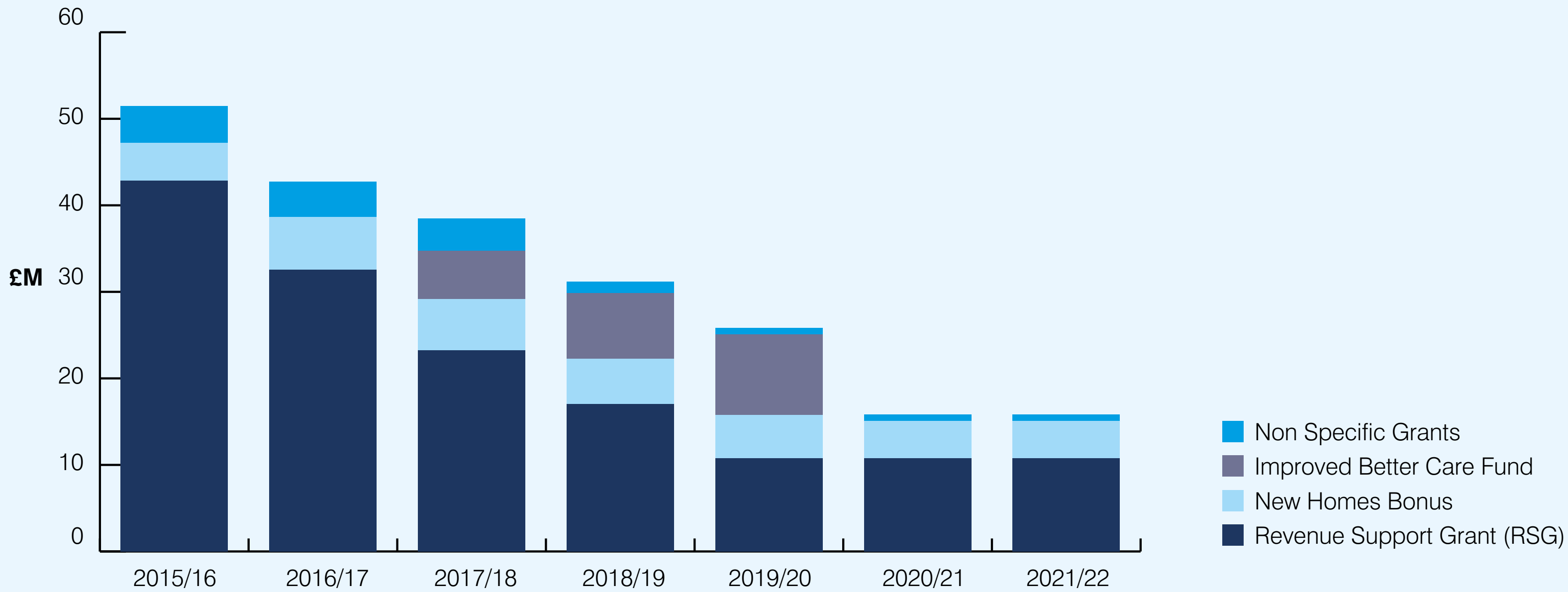


TABLE 1 SUMMARY OF KEY ASSUMPTIONS

Item	2019/20	2020/21	2021/22	2022/23
Business Rates Multiplier	2.40%	2.10%	2.00%	2.00%
Council Tax	2.99%	1.99%	1.99%	1.99%
Social Care Precept	0.00%	0.00%	0.00%	0.00%
Council Tax Base (No of Band D Equivalents)	64,959	65,234	65,273	65,273
Revenue Support Grant *	(36.70%)	-	-	-
New Homes Bonus	(9.44%)	(19.14%)	(25.94%)	(2.45%)
Other Grants	(43.78%)	(36.56%)	0.0%	0.0%
Consumer Price Index (CPI)	2.1%	2.0%	2.0%	2.1%
Retail Price Index (RPI)	3.2%	3.1%	3.3%	3.3%
Pay Award	2.0%	2.0%	2.0%	2.0%
Superannuation	16.1%	16.1%	16.1%	16.1%
Past Service Costs and Compulsory Added Years	8.8%	8.8%	8.8%	8.8%
Investment Rates (ave)	3.36%	3.64%	3.52%	3.50%
Borrowing Rates (Long Term - GF) (ave)	3.42%	3.84%	3.60%	3.59%
Borrowing Rates (Long Term HRA) (ave)	3.47%	3.63%	3.54%	3.54%
Borrowing Rates (Long Term - consolidated) (ave)	3.45%	3.70%	3.57%	3.56%
Housing Revenue Account Housing Rent Increases	(1.00%)	3.00%	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. In the absence of short-term opportunities to bring forward primary legislation, the Government has been considering options for reform within the existing legislative framework, with the aim of introducing 75% business rate retention in 2020/21.

A consultation was launched at PLGFS 2019 on reform of the business rates retention system. The consultation covers two broad areas:

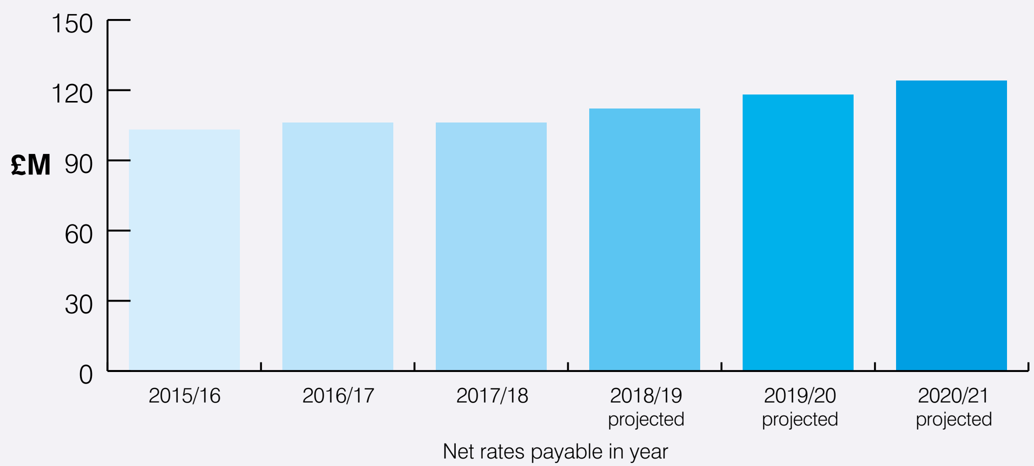
- The balance of risk and reward in the business rates retention system; and
- Mitigating volatility in income and the impact of appeal losses and valuation changes on local authorities.

A consultation is also being undertaken on the approach to measuring the relative needs and resources of local authorities. The main points to note are:

- The methodology for the needs assessment has not been updated since 2013/14 and has not kept up with demographic changes and other spending pressures;

- The Government launched a Fair Funding Review in 2017 with three strands: relative needs, relative resources and transitional arrangements;
- A consultation on relative needs, looking at ways to reduce the number of formulas involved and identifying the most important factors which drive costs of services was completed in early 2018;
- This latest consultation marks the next step in developing a new distribution methodology and seeks views on the approach to measuring the relative needs and resources of local authorities, with the aim of determining new baseline funding allocations for 2020/21;
- The consultation proposes to simplify the assessment of local authorities' relative needs by introducing a simple Foundation Formula, alongside several service-specific formulas;
- It looks at what adjustment might be made to formulas to reflect differences in costs between different geographic areas and the impact of accessibility and remoteness on costs;
- It considers how other sources of income available to local authorities, such as council tax and sales, fees and charges, will be taken into account in determining funding baselines; and
- The consultation proposes a set of principles to be used to design transitional arrangements.

Net rates payable in year



The deadline for responses to both consultations is the 21st February 2019.

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 2019/20 and 1.99 % in future years (see also section 1.5.4 Adult Social Care Precept).

The tax base that has been assumed for each financial year is 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. It also incorporates growth in the tax base arising from new developments.

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 forecast position includes a grant for LCTS administration grant.

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 and again in 2018/19. The PLGFS 2019 did not provide for any further increase beyond the 8%, therefore the MTFS assumes no increase in 2019/20 or future years.

1.5.5 Revenue Support Grant

Historically a major source of funding for the Council has been the Revenue Support Grant (RSG), however since the austerity measures were introduced this grant has been reduced drastically with the Council suffering an 85% reduction between 2013/14 (when the Business Rates Retention scheme came in) and 2019/20. The MTFS reflects the allocation given in the PLGFS. It should be noted however, that RSG will not be received whilst in a Business Rates Pilot Pool or in the event of 75% Business Rate Retention being implemented in 2020/21.

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 2019/20 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. The DWP has also applied a new methodology for allocating the subsidy in 2019/20 which has resulted in a further reduction for the Council, mitigated by transitional protection. Under the new methodology the subsidy is more closely aligned with the latest HB caseload figures. A further year's grant has been confirmed for 2019/20.

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 2019/20. The final allocation of Public Health Grant for 2019/20 is £16.45M. The Public Health Grant has reduced each year, 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 2019/20 is £0.45M, as well as inflation and pay awards needing to be contained within expenditure. The Public Health Grant may be one of the grants foregone under further Business Rate Retention.

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.

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.

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 2019 confirmed that there will be no changes to the current assumptions.

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

TABLE 3 NEW HOMES BONUS ALLOCATIONS

	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
New Homes Bonus Assumption	4.77	3.86	2.89	2.82

1.5.10 National Fairer Funding Schools

The Dedicated Support Grant (DSG) is allocated to the Local Authority (LA) through four separate funding blocks to support expenditure on early years, mainstream schools, pupils with high needs and central school services. The financial year 2019/20 is particularly important because it represents a major step towards a national funding formula for mainstream schools. Schools' funding for 2019/20 aligns the Southampton Local Formula with the National Funding Formula, (NFF) as agreed by Schools Forum.

A national formula to replace LA historic funding levels for early years was introduced for 2017/18 with funding levels announced for the three years up to 2019/20. The local arrangements were determined in 2017 for the same period with factors and unit values in the Early Years Single Funding Formula (EYSFF) set to reflect the new funding level and national policy changes.

It remains the Government's aspiration to fund all mainstream schools in the same manner and the factors and methods within the National Funding Formula (NFF) introduced for 2018/19 and 2019/20 are expected to prevail now for some years. Unit values of the factors within the NFF will change over time and there is likely to be some evolution and refinement to reflect changing government policy.

Southampton City Council consulted the Schools Forum on local arrangements. The Schools Forum were presented with various funding options for discussion and agreement was reached on the preferred model.

1.5.11 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 £0.6M.

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.

1.5.12 Pay Inflation

Assumptions have been made in the forecast about the likely level of pay inflation that will apply from April 2019. 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.

A two year pay deal was agreed for the period 2018 to 2020, with a headline flat-rate increase of 2.0%

in 2018/19 and 2019/20. A 2% pay award has been assumed from 2020/21 and future years.

1.5.13 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 £9.00 by 2020.

The Council has adopted the National Living Wage Foundation's recommended living wage, which is currently £9.00 (set in November 2018 but implemented by the Council from 1st April 2019), for payment of SCC employees, and this rate is presently higher than the initial NLW (£8.21 from April 2019).

1.5.14 General Inflation

Assumptions have been made in the forecast about the likely level of general inflation that will apply from April 2019. 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 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 be more or less static 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.

1.5.15 Pension Fund – Employer Costs

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 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 to 2022/23.

Cost management for the Local Government Pension Scheme is taking place in the context of a public service pension scheme wide cost cap review under HM Treasury directions. The Local Government Pension Scheme Advisory Board has proposed a number of reforms to the Scheme in respect of the cost management process. The implications for Southampton City Council once known will be taken into account in future updates of the MTFS.

1.5.16 Public Sector Employment – Restrictions on Exit Payments

The Enterprise Act 2016 gave powers to the Government to restrict public sector exit payments through the introduction of a £95,000 cap on such payments. The Government was expected to bring forward a consultation on implementing these changes in 2018. A private member's bill to force the government into bringing forward regulations to implement the cap is currently going through Parliament. Although the original timetable has slipped, the Government has reiterated its commitment to ending six figure pay outs in the public sector.

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.

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.

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, more frequent business rates revaluations and Business Rates 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;
- Provider failure;
- Demographic changes; and
- Impact of the exit from the European Union, 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 current Comprehensive

Spending Review (CSR) period and 4-year settlement comes to an end in 2019/20. A new CSR will take place in 2019 providing the resource envelope for local government over the medium term. Although the Government has signalled its intention to implement 75% Business Rates Retention from April 2020, there are still some uncertainties on how the scheme will operate. The impact of any new burdens that will be imposed on the local authority as a result of that or changes to grant entitlement 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 with regards to the impact that exiting the European Union 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 £5.7M 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 75 to 79 years and over. Forecasts made using known residential development plans predict the over 75 to 79 years and over group will rise by 35.5% between 2017 and 2024, whilst the number of people over 75 years is forecast to grow by 3,790, an increase of 23.1%. Longer term projections, based on past trends, predict a 43.4% increase in over 65s in Southampton between 2016 and 2041.

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 just over 3% between 2017 and 2024 , 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 2017/18, there were 1,592 Southampton residents recorded on GP registers as having dementia; this has increased from 1,573 in 2016/17. 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 EXITING THE EUROPEAN UNION

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

The UK started the process of leaving the EU by triggering Article 50 in March 2017, and will leave the European Union on the 29 March 2019.

The UK government has negotiated and published a Withdrawal Agreement and Political Declaration setting out the future framework for the future relationship between the UK and EU. It sets out the following:

- Britain's financial settlement of £39 billion with the EU to meet agreed commitments
- The post-Brexit rights of EU citizens in the UK and British citizens living in the EU
- A mechanism to prevent a 'hard border' on the island of Ireland (referred to as a 'backstop').
- Agreement of a transition period that will last until December 2020, allowing businesses time to adapt to a new relationship with the EU

The agreement also includes the non-binding Political Declaration outlining the UK and EU's ambitions for their desired future trading relationship, on which negotiations will begin after the UK leaves the EU.

The UK needs to adjust domestic legislation to ensure that it reflects the withdrawal agreement's rights and obligations. Therefore, the following Acts were passed in Parliament:

- The European Union (Withdrawal) Act

   - 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;
   - o give ministers powers to make secondary legislation; and
   - o enshrines March 29, 2019, as the day the UK leaves the European Union
- Taxation (Cross Border Trade) Act
   - 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.

As well as passing the above Acts, the Trade Bill 2017-19 is currently in the House of Lords Committee stage, due to be completed later in 2019.

- The 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.

2.2.2 WELFARE REFORMS AND INTRODUCTION OF UNIVERSAL CREDIT (UC)

In May 2016, Universal Credit (UC) full service began to roll out nationally and was introduced in Southampton in February 2017. The national roll-out was due to completed in December 2018. Once completed, the Government plans to migrate claimants still on legacy benefits, like Jobseekers Allowance and Tax Credits, onto Universal Credit full service by 2023.

The Government has introduced some changes to the design and process of UC to address concerns relating to claimant hardship. These included:

- Removing the 7 waiting days for new UC Claimants.
- UC Advances for new UC Claimants increased and the period of repayment extended from 6 to 12 months.
- Housing Benefit 'Run-on' for new UC Claimants. Those previously in receipt of HB will continue to receive it for a further 2 weeks.
- 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.

Further changes are planned for 2019. These include, increasing UC work allowances (the amount claimants are able to earn before it affects the amount the receive in benefit) for people with children or people with limited capability for work, and reducing the maximum rate at which deductions from UC to repay an advance payment, from 40% to 30% of the standard allowance.

From April 2019, the Government will provide funding to Citizens Advice to provide advice and support to help people to make and maintain their UC claim.

These changes build a wide programme of national welfare reforms affecting both in-work and out-of-work claimants. It is difficult to predict the direct and indirect impacts locally at this time.

2.2.3 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 2019/20 the combined Better Care Fund budget is £108.1M and is broken down in Table 4.

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	0.18	1.42
Clusters	48.50	1.17	49.67
Rehab & Reablement	11.91	4.26	16.17
Learning Disability Packages	10.47	16.11	26.59
Prevention & Early Intervention	0	7.95	7.95
Long-Term Care	0.43	0.00	0.43
BRS	0.66	0.47	1.13
SEND team (Jigsaw)	0.52	0.64	1.16
Capital DFG	0	2.05	2.05
TOTAL	**73.75**	**32.84**	**106.58**
JES (Joint Equipment Store)	0.76	0.76	1.51
OVERALL TOTAL	**74.50**	**33.59**	**108.09**

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. In the Spring Budget 2017 the Government announced an additional £2bn of funding over the three years 2017/18 to 2019/20. Table 5 sets out the position for Southampton and the proposed use of this funding.

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	0.26	0.22
Carers	0.00	0.04	0.01
Client Reviews	0.00	0.03	0.02
Care Technology	0.05	0.05	0.05
Short stay replacement care	0.25	0.23	0.22
Expanded 7 day social care operation in the hospital discharge team	0.13	0.12	0.08
Speeding up hospital discharges for people with complex needs	0.50	0.73	0.53
Enhanced social care out of hours service	0.10	0.00	0.00
Additional social work capacity in new community-based social wellbeing service	0.00	0.19	0.11
Additional social work capacity in new integrated learning disability service	0.00	0.17	0.20
Meeting increased demand and complexity	1.00	0.80	0.00
Stabilising the provider market	1.33	0.23	0.07
Additional social work capacity to review care needs in accordance with the Care Act 2014	0.00	0.15	0.00
Accelerating the extra care housing programme	0.08	0.08	0.00
Extra nursing home capacity for complex needs	1.27	0.08	0.05
	4.98	**3.16**	**1.57**

2.2.4 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 Housing Authority Debt Bill;
- Local Roads (Investment) Bill;
- Clean Air Bill;
- Gypsy and Traveller Communities (Housing, Planning and Education) Bill;
- Home Education (Duty of Local Authorities) Bill;
- Mobile Homes and Park Homes Bill;
- Youth (Services and Provisions) Bill; and
- Various bills related to withdrawing from the European Union.

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

- A green paper on the future of Social Care will be published 'soon'.

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;

- Local Digital Declaration - an initiative to help change the way councils invest in technology, share expertise and ensure members of the public are receiving the best quality digital services;
- Industrial Strategy - aimed at boosting productivity;
- Housing - in the Autumn Budget 2017 the Government announced a package of measures to increase the number of new homes built annually to 300,000 a year. In the 2018 Budget the Housing Revenue Account borrowing cap was removed, to enable councils to increase house building to around 10,000 per year.

2.3 Socio- Economic Factors

Southampton is ranked 67th on the overall Index of Multiple Deprivation (IMD) 2015 out of the 326 Local Authorities in England (1 equals the most deprived). Previously for IMD 2010 Southampton ranked 81st so has become relatively more deprived. 9 out of 15 wards have Lower Super Output areas which are within the 10% most deprived areas in the country.

However, in addition in terms of economic growth in the recently published 2018 Good Growth for Cities index, Southampton was ranked the 3rd highest city. The index takes into account jobs, income, health, work-life balance, new businesses, housing, transport, skills, environment and income distribution.

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 2018, there has been a significant decrease in the rate per 10,000 (0-17) children from 1,318.8 in 2015 to 519.4 in 2018. The latest rate of referrals is now lower than the England average (552.5).

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

Year	Southampton CC	National Averages
2015	1322.2	548.3
2016	839.1	532.2
2017	610.9	548.2
2018	519.4	552.5

Over the period from 2010 to 2015, 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 2018, there has now been a decrease of 13% in Southampton's rate of children looked after per 10,000 aged under 18 at 104. Although Southampton's rate is still higher than the national average, it has in the last three years shown an ongoing reducing trend, whereas England average rate has increased by 4%, from 60 in 2015 to 64 in 2018.

In the year ending March 2018, the council carried out 336.3 Section 47 Child Protection investigations for every 10,000 children compared with 166.9 per 10,000 nationally and the city had 102.2 children subject to an initial child protection conference, compared with an average of 67 per 10,000 In England.

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 2018, the average monthly number of children in care in the city was 512, when over 2017/18, the figure was 523 on average. In 2016/17, the monthly average was 593 and has, in 2018/19 continued to decrease month on month from June (534 children) to November (485 children).

The number has, from December 2016 onwards, 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 average percentage of fostering placements made with independent fostering agencies, (IFA) from April to November 2018 is approx. 26.3% (an average of 135 placements over the period of April-November 2018). 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. As at the end of November 2018, Southampton CC had 167 in-house foster carers, many of which can provide placements for more than one child.

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 2017/18 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 2018	April 2019	April 2020
In-house Fostering	244	247	243
IFA	141	146	145
Residential	34	21	11
New Independent Living Provision	6	4	3
Inter-Agency (adoption)	24	27	25
Unaccompanied Asylum Seeking Children	13	12	12
Living with Parents	57	38	36
Total	**519**	**495**	**475**

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 16,000 managed by the Council with 8,000 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 housing targets for Southampton are set out in the Southampton City Council Housing Strategy 2016-2025 and the Southampton Core Strategy 2006-2026. This currently states that there is a requirement for an additional 16,300 housing units for the city by 2026.

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. Following the removal of the Housing Revenue Account borrowing cap in October 2018, the Council is exploring the opportunity to build new council owned homes.

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. City Deal funded employment programmes to support long term unemployed people and young people Not in Education, Employment or Training (NEET) came to an end in December 2018. Some of this funding was delivered under contract using Payments by Results, and some new contracts using the previous City Council grant provision have been commissioned using this methodology. These programmes will be subject to evaluation to determine the effectiveness of the approach.

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 though a preferred option of payments by results.

The benefit of this is that revenue savings can be achieved for the local authority and the investor 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 continues to be involved in the national One Public Estate Programme which is delivered in partnership by the Local Government Association and the Office of Government Property (OGP) within the Cabinet Office. This programme seeks to bring about change through joint working with other public sector partners focusing on the delivery of jobs, homes, reducing running costs and income from property sales. The Southampton One Public Estate Board which includes regeneration from across the public sector in the city has been successful in securing funding from this programme for investigating a range of projects which have joint working opportunities.

SECTION 3. The financial challenge

3.1 Forecast Financial Position 2019/20 – 2022/23

The Council's current forecast financial position is detailed below and includes the implications of the PLGFS, 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 2022/23 as reported to Council in February 2019.

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

This shows the Council is required to make £11.6M savings over the period to 2022/23. There is an expected increase in expenditure of £9.8M and a reduction in income of £1.8M.

Revenue position

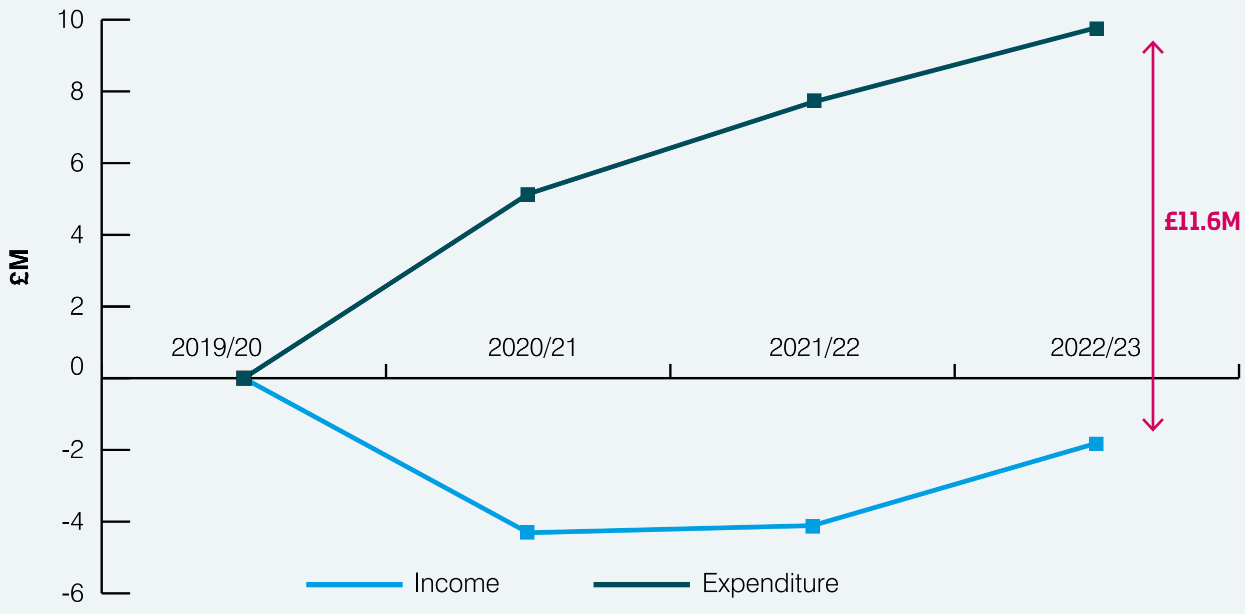


TABLE 7 SUMMARY OF SAVINGS REQUIREMENTS

	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Net Expenditure	190.60	195.74	198.30	200.38
Baseline Funding	(190.60)	(186.28)	(186.47)	(188.77)
SAVINGS REQUIREMENT	**0.00**	**9.46**	**11.83**	**11.60**

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	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Southampton is a city with Strong Sustainable Growth	1.77	1.77	1.77	1.77
Children & Young People get a Good Start in Life	4.88	4.10	3.50	3.26
People in Southampton live safe, healthy, independent lives	10.09	10.09	12.09	13.09
A sustainable modern council	0.10	0.10	0.10	0.10
Southampton is an attractive and modern city, where people are proud to live and work	0.86	0.46	0.36	0.36
TOTAL PRESSURES	**17.71**	**16.52**	**17.82**	**18.58**

3.3 New investments

Capital investments linked to Council Priorities have been included in the updated Capital Programme 2018/19 to 2022/23. In addition, a further investment is to be made in developing the Council's Green Strategy Charter. A sum of £0.03M has been allocated to help facilitate the creation of this charter, alongside partners. Further investment is expected once the plan has been developed. Any revenue implications will be built into the MTFS in due course as relevant.

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.

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 financial health of these major contractors is kept under review as part of the monitoring arrangements.

The current commitments are:

A) PFI Schools

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

The contract with Pyramid Schools (Southampton) Ltd started on the 29 October 2001 and will terminate on 31 December 2031. The annual fee (Unitary Charge) is £6.69M supported by an income stream (PFI credits from Government) of £3.86M.

The Department for Education (DfES) 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.

Based on current projections there is an expected shortfall in funding estimated at £3.5M by the end of the Agreement in 2031 mainly due to revised inflation factors as measured by the Retail Price Index (RPI) and reduced payback from a sinking fund set up in 2010 to generate funds to pay for Unitary Charges of the project. A review is in progress to determine how the shortfall can be addressed and it is anticipated that this review will be completed in 2019/20.An action plan is being developed. Additionally, negotiations with the three PFI schools are underway in order to agree a new Deed of Variation in order to mitigate this pressure.

Savings have already been made by 'mothballing' unused classroom facilities and further proposals are being investigated to find savings from other areas within the contract. The further options currently being reviewed include:

- 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 and has 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 is approximately £7.7M 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 outsourced Customer Services, Local Taxation and Benefits, Procurement, Information Technology, Printing, Health and Safety and Human Resources operations to Capita via the SSP in October 2007. In July 2018 the Council made the decision to terminate the contract and bring these services back in house by July 2019.

E) Highways Service Partnership (HSP)

The HSP with Balfour Beatty Living Places commenced on 4 October 2010 and has been extended to run until 3 October 2025 following agreement 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 £2.9M. 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 been extended to run until 3 October 2025. The services provided include public safety CCTV cameras and their monitoring, Intelligent Traffic Systems, asset management, Housing Concierge and asset investment and routine repairs.

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

G) Street Lighting PFI

The Street Lighting PFI 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) 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 variable but are around £0.7M p.a.

H) Leisure Services

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

The contract includes provision for the Provider to invest £4.5M of capital expenditure over the contract term through a lifecycle budget. The current annual expenditure for the Management Fee is £1.2M.

I) Southampton Guildhall

The Council entered into a contract on 10 February 2003 with Live Nation (formerly known as Clear Channel) to manage Southampton Guildhall. The contract expires in 2023 and is extendable by a further five years. The net cost of the contract is £0.5M p.a. which consists of a management fee or subsidy. Live Nation pay the Council £0.3M for service and energy charges.

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.

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

TABLE 10 COLLECTION FUND ASSUMPTIONS

	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Council Tax - General Precept	92.71	95.12	97.22	99.06
Council Tax - Adult Social Care Precept	7.04	7.04	7.04	7.04
Business Rates	78.06	55.90	58.27	59.36

*It should be noted that 2019/20 is a 75% business rate retention pool pilot year and that the one off benefit from the pool will be utilised in 2020/21.

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:

- Following the Chancellor’s announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing have been lifted. This means that the previous Southampton City Council HRA ‘debt cap’ of £199.6M has been removed, and there is now the emphasis for councils to plan their new build strategy and financing at a local level. The process for identifying priorities and sites for new build developments is now taking place and is expected to form the basis of a new delivery strategy in 2019.
- 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.
- Investment in existing properties can be achieved within the previous borrowing limit of £199.6M, also known as the ‘debt cap’. Additional borrowing provision above this amount has only been made for regeneration/stock replacement.

- A provision of £131M (including inflation adjustment) 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 4 and year 30 of the Plan.
- The revenue budget meets the minimum balances of £2M over the life of the Plan.

There has been an increased requirement for capital expenditure in 2019/20 to fund the additional costs of the identified remedial works following the Grenfell Tower disaster. There has also been an additional cost pressure for the capital programme in relation to further regeneration works required for the Townhill Park scheme. These pressures, alongside the additional savings requirement for a Reduction in Contribution to Capital Funding from revenue financing has meant that additional borrowing has been required in 2019/20, as well as a deferral in repayment of loans which have instead been refinanced over a longer period of time. The HRA 30 year Business Plan is still sustainable, and the cost pressures are all expected to be short term occurrences.

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 for the years 2016/17 to 2018/19 have been agreed at previous February Full Council budget setting meetings. For 2019/20, there is a budget gap of £3.15M and increasing to £6.57M (a further £3.42M) in 2019/20. A budget savings proposal was put to Cabinet for approval in February 2019 to take effect for the 2019/20 financial year.

The 2019/20 financial year contains a 53 week rent year, which takes place every 6 to 7 years, taking into account the 'spare' days that make up a regular 365 day, 52 week year. The Universal Credit arrangements for a 53 week rent year are currently still under review by Central Government, so an appropriate adjustment to the provision for bad debt has been taken into account for the residents in receipt of Universal Credit.

3.8 Capital

Planned Capital Expenditure and the associated financing is detailed within the Capital Programme report for approval by Council in February 2019. The impact of revenue saving proposals for 2019/20 and future years along with any 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 2022/23. The proposed Programme totals £406M and includes £184.1M for the General Fund and £221.6M for the HRA. The General Fund Capital Programme includes the following major commitments:

- £80.4M for the secondary schools review and expansion programme;
- £18.4M for integrated transport schemes; and
- £4.7M for electric vehicles and replacement refuse collection vehicles.

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 £10.0M. This is derived by taking a risk-based approach to assessing the overall General Fund Revenue Account, including reviewing income volatility and realism of income targets, interest rate exposure, third party provider risks, potential overspends in demand led areas such as social care and safeguarding for both adults and children and any other potential issues which may need to be taken into consideration.

Balances should only be used to fund one-off revenue expenditure; any one–off draw from balances should be prudent, and subject to agreement by the Chief Financial Officer.

Annex 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 £10.0M at the end of 2018/19.

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 75% Business Rate Retention in 2020/21, and the unknown consequences of exiting the European Union, 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.

Digital Strategy Reserve (Formerly 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 activity.

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 with a recommendation that at the end of 2018/19 the Taxation Reserve is given priority.

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.

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 been 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.

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.

Commercialisation

A Commercialisation Strategy has been developed. The principles of the strategy have been 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.

One option being considered is the use of a Local Authority Trading Company.

Council Companies & Partnership Arrangements

In July 2018 the Council made the decision to terminate its long term contract with its Strategic Partner and bring these services back in house by July 2019.

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 and extra care housing.

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.

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 determined what the appropriate level of spend needs to be to deliver on its agreed priorities, within the financial envelope available.

The outcome based budgeting process, along with the introduction of business academies, has been continued in setting the 2019/20 and future years budgets and will continue to be refined to ensure resources are directed towards the agreed priorities.

3.13 Addressing the Budget Gap

The Council has a current budget gap of £11.59M up to the end of 2022/23. 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;
- The implementation of outcome based budgeting to clearly link business planning and budgeting and focus on service outcomes;
- A review of major contracts;
- The progression of the Council's digitalisation agenda, with the introduction of an Enterprise Resource Programme; and
- The continued implementation of the commercialisation agenda.

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.

Intensive Care meetings have recommenced. It is expected that these meetings and the requirement for action plans will continue into 2019/20, with an overarching expectation that pressures arising must be accommodated within the overall service budgets.

Finance Business Partnering

A Finance Business Partnering service was created in the Finance Service restructure in 2017 in order to support Service Directors and Managers in the financial management of their services.

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 provides a robust framework for setting the budget for 2019/20 and ensuring the Council remains in a sustainable financial position over 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.

The 2019 Spending Review, implementation of the Fair Funding Review and changes to the Business Rate Retention Scheme are likely to present further challenges. However, participation in the 100% Business Rates Retention (BRR) pilot in 2018/19 and the opportunity to be part of the 75% BRR pilot in 2019/20 has afforded 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

Appoved budget as at Feb 2018	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	Approved 2022/23 budget £M	Forecast changes £M	Revised 2022/23 budget £M
Southampton is a city with Strong Sustainable Growth	9.56	3.35	12.92	9.00	1.75	10.75	8.79	0.47	9.25	8.79	1.69	10.48	8.79	1.69	10.48
Children and Young People In Southampton Get a Good Start In Life	40.96	1.03	41.99	37.25	2.64	39.88	37.25	0.34	37.58	37.25	0.12	37.37	37.25	(0.12)	37.12
People in Southampton live safe, healthy, independent lives	53.24	7.46	60.70	46.75	11.96	58.71	47.53	10.14	57.67	47.53	12.06	59.59	47.53	13.06	60.59
Southampton is an attractive, modern city where people are proud to live and work	29.55	(6.29)	23.26	28.44	(0.99)	27.46	28.44	(2.73)	25.71	28.44	(0.51)	27.93	28.44	(0.51)	27.93
A Modern Sustainable Council	23.33	4.90	28.23	20.47	(0.18)	20.29	19.03	(1.89)	17.14	19.03	(2.28)	16.75	19.03	(2.28)	16.76
Other Inflationary Pressures	5.25	(0.91)	4.34	13.16	(2.96)	10.20	19.41	0.96	20.37	19.51	(2.96)	16.55	19.51	(2.97)	16.54
Outcome Expenditure	**161.90**	**9.54**	**171.44**	**155.06**	**12.23**	**167.29**	**160.44**	**7.28**	**167.73**	**160.54**	**8.11**	**168.66**	**160.54**	**8.87**	**169.42**
Capital Asset Management	11.39	(0.44)	10.95	17.69	(1.36)	16.33	19.99	(2.63)	17.36	19.99	(1.32)	18.67	19.99	0.00	19.99
Levies & Contributions	0.63	0.00	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	6.94	(5.88)	1.07	11.88	(5.84)	6.03	15.12	(6.10)	9.02	15.12	(5.79)	9.33	15.12	(4.79)	10.33
Transfer to Reserves	(1.18)	1.18	0.00	0.00	0.31	0.31	0.00	1.00	1.00	0.00	1.00	1.00	0.00	0.00	0.00
NET REVENUE EXPENDITURE	**179.70**	**4.40**	**184.10**	**185.26**	**5.34**	**190.60**	**196.18**	**(0.45)**	**195.74**	**196.28**	**2.01**	**198.30**	**196.28**	**4.09**	**200.38**
Funding															
Other Government Grants	(1.51)	(4.40)	(5.91)	(0.70)	(4.07)	(4.77)	(0.70)	(0.60)	(1.30)	(0.70)	(0.55)	(1.25)	(0.70)	0.09	(0.61)
Revenue Support Grant	0.00	0.00	0.00	(10.79)	10.79	0.00	(10.79)	0.00	(10.79)	(10.79)	0.00	(10.79)	(10.79)	0.00	(10.79)
New Homes Bonus	(5.20)	0.00	(5.20)	(5.00)	0.23	(4.77)	(4.30)	0.44	(3.86)	(4.30)	1.41	(2.89)	(4.30)	1.49	(2.82)
New Homes Bonus Returned Funding	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
Adult Social Care Grant	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
Top Up Grant	28.29	0.00	28.29	(4.55)	14.67	10.12	(4.55)	0.00	(4.55)	(4.55)	0.00	(4.55)	(4.55)	0.00	(4.55)
S31 Business Rates Grants	(6.14)	0.00	(6.14)	(4.11)	(2.04)	(6.15)	(4.16)	(1.51)	(5.67)	(4.24)	(0.23)	(4.47)	(4.24)	(0.31)	(4.55)
Collection Fund Account															
Business Rates	(93.35)	0.00	(93.35)	(48.77)	(21.87)	(70.64)	(51.18)	2.80	(48.38)	(52.36)	1.65	(50.71)	(52.36)	0.56	(51.80)
Southampton is a city with Strong Sustainable Growth - Business Rates Growth	(5.86)	0.00	(5.86)	(5.91)	(1.50)	(7.42)	(5.97)	(1.55)	(7.52)	(5.97)	(1.58)	(7.56)	(5.97)	(1.58)	(7.56)
Business Rates Retention Pool Growth Funding					(3.23)	(3.23)		(2.05)	(2.05)						
Council Tax	(86.95)	0.00	(86.95)	(88.80)	(1.00)	(89.80)	(90.68)	(1.00)	(91.68)	(92.62)	(1.00)	(93.62)	(92.62)	(2.84)	(95.47)
Adult Social Care Council Tax Levy	(6.99)	0.00	(6.99)	(7.04)	0.00	(7.04)	(7.04)	0.00	(7.04)	(7.04)	0.00	(7.04)	(7.04)	0.00	(7.04)
Southampton is a city with Strong Sustainable Growth - Council Tax Growth	(2.00)	0.00	(2.00)	(2.63)	(0.28)	(2.91)	(2.71)	(0.73)	(3.44)	(2.76)	(0.83)	(3.59)	(2.76)	(0.83)	(3.59)
Collection Fund Surplus	0.00	0.00	0.00	0.00	(4.00)	(4.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL FUNDING	**(179.70)**	**(4.40)**	**(184.10)**	**(178.31)**	**(12.30)**	**(190.60)**	**(182.08)**	**(4.20)**	**(186.28)**	**(185.35)**	**(1.13)**	**(186.47)**	**(185.35)**	**(3.43)**	**(188.77)**
Savings Requirement	**(0.00)**	**(0.00)**	**(0.00)**	**6.95**	**(6.96)**	**(0.00)**	**14.10**	**(4.65)**	**9.46**	**10.94**	**0.88**	**11.83**	**10.94**	**0.66**	**11.60**

Housing Revenue Account

HOUSING REVENUE ACCOUNT	2018/19 budget £M	2019/20 budget £M	2020/21 budget £M	2021/22 budget £M	2022/23 budget £M
Net rent Income	(69.63)	(69.66)	(70.54)	(72.47)	(74.07)
Service charges & other income	(2.82)	(3.42)	(3.87)	(3.96)	(4.04)
RTB Admin	(0.13)	(0.10)	(0.10)	(0.10)	(0.10)
TOTAL INCOME	**(72.58)**	**(73.18)**	**(74.51)**	**(76.53)**	**(78.21)**
Management	21.57	21.12	21.89	22.58	23.07
Contribution to Depreciation Reserve	19.53	19.95	20.51	21.10	21.47
Responsive & Cyclical Repairs	14.79	15.03	15.33	15.52	15.63
Other Revenue spend	0.10	0.17	0.12	0.12	0.13
Total service expenses	**55.99**	**56.27**	**57.85**	**59.32**	**60.30**
Capital Charges	6.16	6.49	6.65	6.90	7.04
Repayment of loans	5.96	10.32	10.01	0.25	4.00
Revenue Contribution to capital spending	4.47	0.10	0.00	12.76	9.57
TOTAL EXPENDITURE	**72.58**	**73.18**	**74.51**	**79.23**	**80.91**
Savings Requirement	0.00	0.00	0.00	2.70	2.70
(Surplus) /Deficit for the Year	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

CAPITAL PROGRAMME - 2018/19 TO 2022/23

Programme	Forecast 2018/19 £M	Forecast 2019/20 £M	Forecast 2020/21 £M	Forecast 2021/22 £M	Forecast 2022/23 £M	Total £M
Adults	0.73	0.63	0.50	0.00	0.00	1.86
Aspiration, Schools and Lifelong Learning	12.92	23.92	28.27	11.96	18.63	95.70
Clean Growth & Development	10.56	1.81	0.00	0.00	0.00	12.37
Community Wellbeing	2.49	1.94	0.00	0.00	0.00	4.43
Finance and Customer Experience	5.74	1.98	0.00	0.00	0.00	7.72
Homes and Culture	0.60	1.82	0.00	0.00	0.00	2.42
Transport and Public Realm	38.37	18.22	3.01	0.00	0.00	59.61
TOTAL GENERAL FUND PROGRAMME	**71.41**	**50.32**	**31.78**	**11.96**	**18.63**	**184.11**
Housing Revenue Account	53.16	54.63	39.21	35.60	38.99	221.59
TOTAL CAPITAL PROGRAMME	**124.57**	**104.95**	**70.99**	**47.56**	**57.62**	**405.70**
Capital Programme Financing						
Council Resources - GF Borrowing	(24.47)	(16.50)	(11.63)	(11.96)	(18.59)	(83.15)
Council Resources - HRA Borrowing	(19.25)	(10.33)	(8.54)	(3.61)	(6.91)	(48.64)
Capital Receipts	(18.43)	(10.03)	(2.86)	(3.16)	(2.42)	(36.90)
Contributions	(12.95)	(11.16)	(7.23)	(7.79)	(8.13)	(47.26)
Capital Grants	(24.66)	(21.17)	(19.30)	0.00	(0.04)	(65.17)
Revenue Financing	(10.66)	(5.79)	(0.99)	0.00	0.00	(17.44)
HRA - MRA	(14.15)	(29.97)	(20.44)	(21.04)	(21.53)	(107.13)
TOTAL PROGRAMME FINANCING	**(124.57)**	**(104.95)**	**(70.99)**	**(47.56)**	**(57.62)**	**(405.70)**

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 2022/23 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 £11.60M up to the end of 2022/23. The approach to addressing this gap can be broadly seen within three work programmes;

- Business as usual monitoring and budget reviews throughout the year;
- The implementation of outcome based budgeting to clearly link business planning and budgeting and focus on service outcomes;
- A review of major contracts;
- The progression of the Council's digitalisation agenda, with the introduction of an Enterprise Resource Programme; and
- The continued 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.

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

The Efficiency Strategy can been 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 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.

Commercialisation

A Commercialisation Strategy has been developed. The principles of the strategy have been 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. One option being considered is the use of a Local Authority Trading Company.

Council Companies & Partnership Arrangements

In July 2018 the Council made the decision to terminate its long term contract with its Strategic Partner and bring these services back in house by July 2019.

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 and extra care housing.

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 determined what the appropriate level of spend needs to be to deliver on its agreed priorities, within the financial envelope available.

The outcome based budgeting process, along with the introduction of business academies, has been continued In setting the 2019/20 and future years budgets and will continue to be refined to ensure resources are directed towards the agreed priorities.

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, the intended move to 75% Business Rate Retention in 2020/21, and the unknown consequences of exiting the European Union, 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.

Digital Strategy Reserve (Formerly 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 activity.

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 with a recommendation for the end of 2018/19 to add to the Taxation Reserve first.

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.

ANNEX 3. Adult Social Care – Demand Management Strategy

	Demand Management	What we are doing
1	Managing demand through the front door of the Council - How is the front-end of the service set up in relation to handling initial enquiries, and how many of these can be resolved by the staff who handle them?	• 80% reduction in referrals • 3 conversations at front door • Re-Ablement as default
2	Managing demand from acute hospitals - How is the response from the acute hospital managed and what are the outcomes for older people?	• 30% reduction in Delayed Transfers of Care • Simplified discharge • Integration • Discharge to Assess
3	Effective short-term interventions for people in the community - How are the initial offers of help to people designed, and can they respond with short term help that may reduce or eliminate the need for longer term solutions e.g. access to re-ablement?	• Development of Rehab and reablement • Sensory clinics • Trusted professionals • URS – 41% not needing on going care
4	Designing the care system for people with long term needs - How does the way in which we assist people help them to gain opportunities for greater independence in the longer term. How do we assist people to manage their long-term conditions?	• Community clusters • Social Wellbeing hubs • Strength based model • Resilient communities • Getting people healthier
5	Developing a workforce to manage demand - To what extent has the work force been commissioned/managed (trained) to deliver the best possible outcomes for citizens at all of these different levels?	• System wide workforce development • Strength based adult social care certificate • Investing in trainee AMHPs • BIA training increased
6	Governance and management arrangements to sustain improvements - How are managers in the authority and commissioned providers held to account for the delivery of the desired outcomes from the care system?	• Quality Assurance framework for provider services • Quality and assurance improved in private providers due to Integrated Commissioning Unit/Clinical Commissioning Group • Quality Assurance Safeguarding role developed • Principal social worker • Development Plan

Demand Management	What we are doing
Managing demand through the front door of the Council - How is the front-end of the service set up in relation to handling initial enquiries.	The front end of the service operates a combined children's advisory service and a multi-agency safeguarding hub (MASH) - to enhance information sharing and assessment activity in relation to safeguarding children. This part of the service experiences high levels of contacts. We are commencing an extension of our local support offer to families across City wide children's centre and family hub resources. We will adjust current referral pathways for Early Help cases – moving from multiple entry points to a single one step front door, which is aligned to the current MASH. The benefit in creating a designated Early Help referral pathway is greater consistency for referrers, decision makers and also an improved level data across localities; so we can designate resources accordingly. A parallel benefit is a clearer message to communities about our offer, a quicker response time and the pathway being aligned to MASH will support any emerging safeguarding concerns. It is expected that this revised approach will impact on demand by local resources engaging families earlier in partnership with the local voluntary community sector, early years providers and schools.
Managing Looked After Children numbers within the service.	We operate a range of services for looked after children (LAC) where designated teams fulfil statutory functions, both in relation to assessment and provision. Connected to the above activity, we are developing jointly delivered, targeted services within localities and partnering with schools clusters and other agencies. This co-delivered activity will hold a primary objective of tackling root issues that cause family breakdown and will effectively respond to early safeguarding concerns; seeking to address difficulties that may impact a child coming into care. Our expected outcome is to promote family stability and safety and thereby reduce demand for specialist high cost services, including access to care. In addition to this, those children who are subject to formal safeguarding interventions by the LA, are being further supported by Social Workers and Edge of Care practitioners, so as to maximise potential for change and preventing the need for a care episode.

Demand Management	What we are doing
	We have also enhanced the family support offer so to as to create opportunity for children to return home after being in care for a period of time. It is expected that this will reduce the numbers of cases escalating toward care proceedings and ultimately becoming LAC.
Manage demand by keeping Children and Young People within the City to achieve reunification and permanency.	We are targeting activity to achieve permanence for Looked after Children as early as possible. This activity has close senior management oversight. We are exploring options, such as family reunification, special guardianship, long term fostering or adoption to return children who are placed outside of the City. This includes options such as small residential arrangements and/or specialist fostering services. We will also work with independent providers to tailor make service provision.
Developing a workforce to manage demand - To what extent has the work force been commissioned/managed (trained) to deliver the best possible outcomes for children at all of these different levels?	We have extended our Workforce Development offer across children's services to reach a wider group of practitioners, this includes a boarder range of formal training opportunities, and work based developmental sessions and post graduate training opportunities. A whole service model of restorative practices is currently being rolled out and we are using university establishments as partners and evaluators. We have invested in programmes to recognise good practice, commitment and success and we have increased recruitment and retention in light of this.
Managing increasing children placements required in schools.	The demand strategy for the provision of sufficient places for pupils to attend school is a statutory requirement. Recent increases across the Primary phase in pupil numbers is now starting to have an effect on secondary schools. Analysis has been undertaken by the Service to project a strategic view of future placements required over the next 5 years including High Needs and a series of programmes including the construction of a new school.

Demand Management	What we are doing
Governance and management arrangements to sustain improvements	We have embedded a revised Quality Assurance framework and we now operate a monthly performance management and oversight routine. This creates an opportunity for service development, intelligence and learning to inform our integrated improvement journey. In this work we undertake regular audits and we engage with other LA's across the region as part of a peer review network and to help measure our service functions and its outcomes. The service is subject to a range of assurance and governance processes such as the local safeguarding children's board (LSCB), the children's improvement board, the multi-agency children's board and by formal political oversight at scrutiny and corporate parenting panels, led by elected members.