Appendix 1 - Annex 1.1

Southampton City Council

MEDIUM TERM FINANCIAL STRATEGY

2020/21 – 2022/23

MEDIUM TERM FINANCIAL STRATEGY 2020/21 – 2022/23

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SECTION 1. **Context**

1.1 BACKGROUND

The Medium Term Financial Strategy (MTFS) provides a strategic financial framework and a forward looking approach to achieve long term financial sustainability for the Council. It is central to the delivery of the Council's priorities in an affordable and sustainable way over the medium term. 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 external 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 faces considerable pressures and challenges. The MTFS recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management and delivery of services. The strategy concentrates on the principles that will provide a strong direction for the medium term.

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 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 integrated service and financial planning over the medium term, using a business planning approach. 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.

The Council used a programme based approach this year to ensure resources are directed towards agreed priorities. The budget is presented to show the resources being allocated to the priority programme areas. The council will continue to develop its approach to budget setting to ensure its finances are fully aligned to the agreed goals of the Council. During the 2020/21 budget process, increasing emphasis has been given to ways to generate income, without taking excess risk, and open up new income streams to help address the budget shortfalls the Council faces. It is expected that this work will continue.

1.2 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.

1.2.1 Southampton City Strategy 2015-2025

The MTFS is framed by the City Strategy 2015-2025, including 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 Employment, Skills & Learning Partnership, Health and Wellbeing Board and the Safe City Partnership.

1.2.2 Southampton City Council Strategy

The council's vision is that Southampton is a *City of opportunity,* with strategic goals being *"Greener", "Fairer", "Healthier".* These goals will be delivered through initiatives within the following themes:

Communities & Culture	Green City	Place Shaping	Wellbeing	Successful, Sustainable Business

1.2.3 Other Major Strategies

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.

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.

WORKFORCE DEVELOPMENT STRATEGY

The Workforce Development 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.

1.2.4 Key Financial Strategies

CAPITAL STRATEGY

The Capital Strategy provides an overview of the Council's Capital Programme, Treasury Strategy, Service Investment Strategy, Property Investment Strategy and MRP Statement. The strategy details the priorities of the Council in terms of capital expenditure and a framework for the Council's capital plans to be agreed and implemented.

The Capital Programme sets out the capital plans for the next five years, taking account of any capital investment required to deliver priorities.

TREASURY MANAGEMENT STRATEGY

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

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.

BORROWING STRATEGY

The Council'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.

1.3 POLICIES, PLANS AND OTHER FACTORS

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.

1.3.1 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 2018 and 2025, whilst the number of people over 75 years is forecast to grow by 4,146, an increase of 24.8%. 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 4.8% between 2018 and 2025, 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.

1.3.2 National and Local Policy

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.

The UK government has negotiated and published a Withdrawal Agreement setting out the future framework for the future relationship between the UK and EU. The European Union (Withdrawal Agreement) Bill 2019-20 gained Royal Assent on 23 January 2020 and following ratification by the European Council, the UK formally exited the European Union on 31 January 2020. The UK has now entered a 'Transition Period' until the end of December 2020. During this period the UK will cease to be an EU member, but the trading relationship will remain the same, EU rules will still apply in the UK and the UK will continue to contribute to the EU. During this period the UK and EU undertake negotiations on the future relationship, as outlined in the Political Declaration, including a potential UK-EU Trade Deal. The outcomes of these negotiations and terms of any future trade deal and relationships will have an impact on local government policy.

QUEEN'S SPEECH 2019

Following the general election on 12 December 2019, the Queen’s Speech took place on 19 December as part of the formal State Opening of Parliament.
Key points of interest for Local Government included:

- Serious Violence Bill – will place a statutory duty on public bodies including local government, education, social services, the NHS and probation to work together to reduce the levels of serious violence
- Social Care – a commitment to reform Adult Social Care in England, and to ensure that nobody has to sell their home to pay for social care, although no legislation is planned at this stage. An extra £1bn per year up until 2024/25 for Social Care.

- Mental Health Act – a pledge to update the Mental Health Act to reduce the number of detentions made under the Act
- Environment Bill – enshrining in law that the UK should be net carbon neutral by 2050.
- Building safety standards legislation – plans for new building safety regulations to prevent a repeat of the Grenfell Tower fire of 2017, imposing stronger duties on those responsible for the safety of high-rise buildings.
- NHS Multi-year Funding Settlement – will be enshrined in law for the first time. This will see £34bn go into the NHS per year until 2024/25.
- Reforming business rates (with specific reference to high streets), bringing forward the next rates revaluation and making future revaluations more frequent

Further details of these announcements will be available in due course, and when legislation is laid before Parliament. The Chancellor is expected to lay a new Budget before Parliament on 11 March 2020 which will also provide further clarity in relation to Government policy and spending plans.

1.3.3 Socio-Economic Factors

Southampton is ranked 55th on the overall Index of Multiple Deprivation (IMD) 2019 out of the 317 Local Authorities in England (1 equals the most deprived). Previously for IMD 2015 Southampton ranked 54th so has become relatively less deprived. 7 out of 16 wards have some areas which are within the 10% most deprived areas in the country.

However, in addition in terms of economic growth in the recently published 2019 Good Growth for Cities index, Southampton and its environs 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 onwards, there has been a downward trend in the rate per 10,000 (0-17) children from 1,322.2 in 2015 to 511.1 in 2019. Southampton's rate of referrals has, for the last two years, been lower than the England average (544.5 in 2018/19).

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
2019	511.1	544.5

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).

Although Southampton's rate is still higher than the national average, it has from 2016 onwards, seen annual decreases in the rate - with the latest figure now 95. There was a decrease from 2018 to 2019 of 9%, whilst England and South East generally have seen increases in rates of children in care.

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

Area	2015	2016	2017	2018	2019
Southampton CC	120	120	108	104	95
National Averages	**60**	**60**	**62**	**64**	**65**

In the year ending March 2019, the council carried out 337.0 Section 47 Child Protection investigations for every 10,000 children compared with 168.3 per 10,000 nationally. The city had 91.9 children subject to an initial child protection conference, compared with an average of 63.9 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 2019, the average number of children in care was 506, a slight increase from the previous financial year's 12-month average of 501. In 2017/18, the figure was 523 on average and in 2016/17 it was 593. In 2019/20, the numbers of children in care has remained between 490 and 516.

The number of children in care has, from December 2016 onwards, remained under 600 and from July 2018 under 530. Whilst the reductions are 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 2019 was approx. 30% (an average of 150 placements over the period of April - November 2019).

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 2019, Southampton CC had 164 in-house foster carers, many of which can provide placements for more than one child.

1.3.4 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 16,110 managed by the council with 8,351 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 7.5% 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.

1.3.5 Wider Partnership Working

BETTER CARE FUND

The Better Care Fund commenced 1 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.

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 2020/21 the provisional combined Better Care Fund budget is £128.7M, comprising £80.7M for the CCG and £48.0M for the Council (including the element funded from the Improved Better Care Fund).

1.3.6 Strategic Contracts

The Council has in previous years entered into a number of strategic contracts which have resulted in ongoing financial commitments. These include PFI contracts for schools, waste and street lighting, as well as a public private partnership for care homes and a highways services partnership. 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.

1.4. NATIONAL ECONOMIC AND PUBLIC EXPENDITURE PLANS

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.

1.4.1 Spending Round 2019

The government published the Spending Round 2019 on 4 September 2019, setting out spending plans for the single financial year 2020/21. The key themes relevant to Southampton City Council were as follows:

Social Care

- Local councils will have access to an additional £1.5Bn for social care next year. This is in the form of an additional £1Bn grant for adult and children's social care and, the government will consult on a 2 per cent Adult Social Care precept that will enable councils to access a further £0.5Bn. This is in addition to maintaining £2.5Bn of existing social care grants.
- The NHS contribution to adult social care through the Better Care Fund will increase by 3.4% in real terms, in line with the overall NHS long-term settlement.

Schools, Children and Young People

- The government committed to a £7.1Bn increase in funding for schools by 2022/23 (£4.6Bn above inflation), compared with 2019/20 funding levels. Ahead of that, the schools budget will rise by £2.6Bn in 2020/21 and £4.8Bn in 2021/22, compared with current year funding levels.
- In 2020/21, the government will ensure that per pupil funding for all schools can rise in line with inflation (1.8%). The minimum per pupil amount for 2020/21 will increase to £3,750 for primary schools and £5,000 for secondary schools.
- The additional schools funding includes over £700M more in 2020/21 compared to 2019/20 funding levels to support children and young people with special educational needs.
- Funding for the Troubled Families Programme will continue.

Local Government Funding

- The government will consult on a 2 per cent council tax referendum threshold (in addition to the 2 per cent for the social care precept).

- Revenue Support Grant and the business rates baseline funding level would be uprated by inflation.
- Subsequent to the Spending Round, the Ministry of Housing, Communities and Local Government confirmed that the outcome of the Fair Funding Review and reforms to the Business Rates Retention Scheme would be delayed until 2021/22. It was also confirmed that there would be no business rates pilots in 2020/21.

Other Measures

- A real-terms increase in Public Health Grant (still to be announced).
- Additional £54M to combat rough sleeping and homelessness, £24M for the Building Safety Programme; £30M to tackle poor air quality; £200M to transform bus services.

1.4.2 Provisional Local Government Finance Settlement 2020/21

The 2020/21 provisional settlement was announced on 20 December 2019. It largely confirmed the announcements in the Spending Round and the settlement technical consultation that followed in October 2019. Key messages are as follows:

- An additional £1Bn of social care grant for adult and children's services and continuation of existing adult social care grants into 2020/21. Details of pooled Better Care funding are still to be issued.
- Revenue support grant and business rates baselines uprated by inflation.
- New Homes Bonus continues into 2020/21 with the baseline growth level remaining at 0.4%. The 2020/21 element of NHB will be paid for one year only and the legacy payments in respect of growth in previous years will continue to be paid in 2020/21. The government will consult on a new targeted approach to rewarding housing growth in Spring 2020.
- Confirmation of a 2% council tax referendum cap for 2020/21 and permission for social care authorities to raise additional funding through a 2% social care precept.
- Confirmation of no business rates pilots in 2020/21 (other than those with ratified devolution deals that started in 2017/18).
- No announcement on whether local authorities will receive compensation for the additional business rates relief announced in the Queen's Speech.
- No update on the Fair Funding Review or further business rates retention – Government are expected to consult later in 2020.
- The settlement includes no information on the national total for public health grant or individual local authority allocations.
- An extra £780M has been added to the high needs block of the dedicated schools grant in 2020/21 in recognition of rising costs of meeting special educational needs.

For Southampton the impact of the settlement in terms of grant funding is included in the council resources outlined in Section 2. The final settlement was announced on 6 February 2020 and confirmed the above details, subject to a final vote by MPs once debated in Parliament. Funding for Southampton in the final settlement as published on 6th February matches the provisional settlement. Southampton stated in its reply to the settlement consultation that whilst Government's Adults Social Care levy of up to 2% provides a mechanism to raise funds from local taxpayers to meet the ever rising costs of social care, sustainable social care over the longer term requires a national solution. We therefore look forward to the long-promised Green Paper proposals.

1.4.3 Financial outlook for 2021/22 and after

Changed priorities in central government during 2019 have meant a one year delay to the planned implementation of changes to the local government finance system until April 2021. If the new Government continues with plans to make changes through reform of the business rates retention system and the fair funding review, these changes would increase the proportion of business rates retained locally from 50% to 75%. This would be done in a financial neutral way at a national level, with grants such Public Health Grant, which is currently ring-fenced, being replaced by a share of retained business rates as revenue funding.

The anticipated multi-year spending review, setting out the Government's public expenditure plans over the medium term, was also postponed by a year until 2020.

The changes to the local government finance system will impact local authorities' resources in two ways:

i. Government decisions about the overall sum total of funding available to local authorities and how it is likely to change; and
ii. the determination of each authority's share of the national total based on an assessment of its spending needs relative to all other authorities.

Therefore, most local authority funding is set to come from council tax and business rates from 2021/22 onwards. However, projections indicate that revenues will struggle to keep up with demand and cost increases, even allowing for continued council tax rises and efficiency measures.

A local authority's finances is likely to continue to reflect how it addresses the major pressures felt across adults and children's social care as well as its ability to continue to achieve efficiencies whilst growing existing and developing new income streams to help offset pressures faced.

SECTION 2. **Local Financial Forecast**

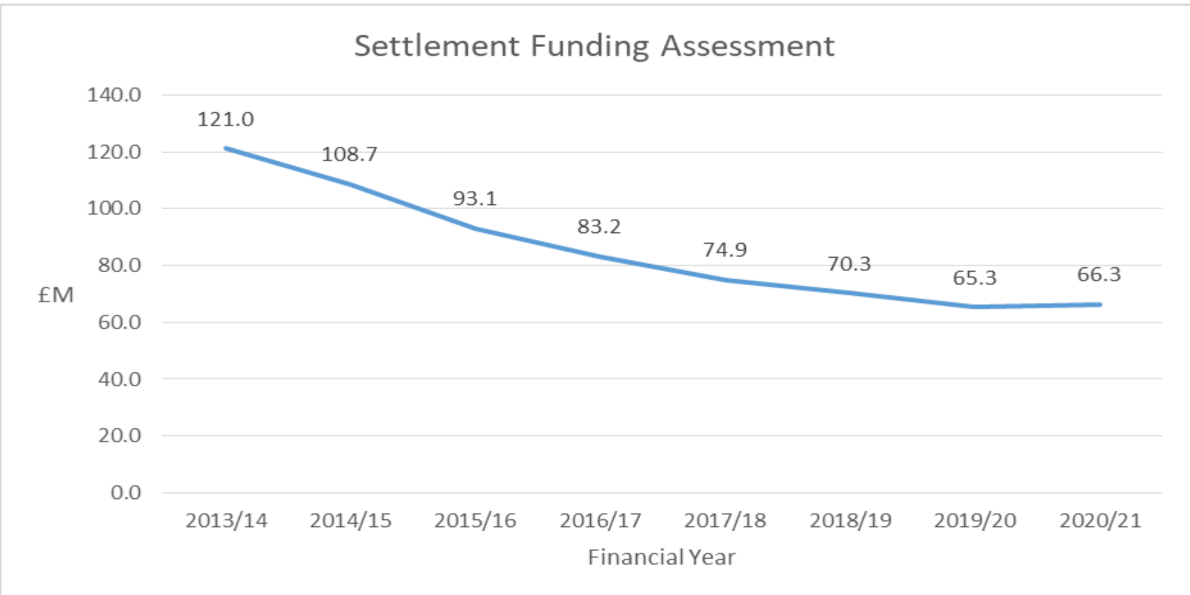
2.1 Financial Trends

2.1.1 Settlement Funding Assessment

The settlement funding assessment is the Government's measure of funding required by a local authority to meet net revenue expenditure after allowing for income generated from council tax. It is used to distribute revenue support grant to local authorities. In line with the Government's spending plans, the settlement funding assessment has been reduced over recent years, and hence the amount of revenue support grant distributed to local authorities.

The chart below shows the settlement funding assessment for the Council since 2013/14 when the current local government finance system was introduced.

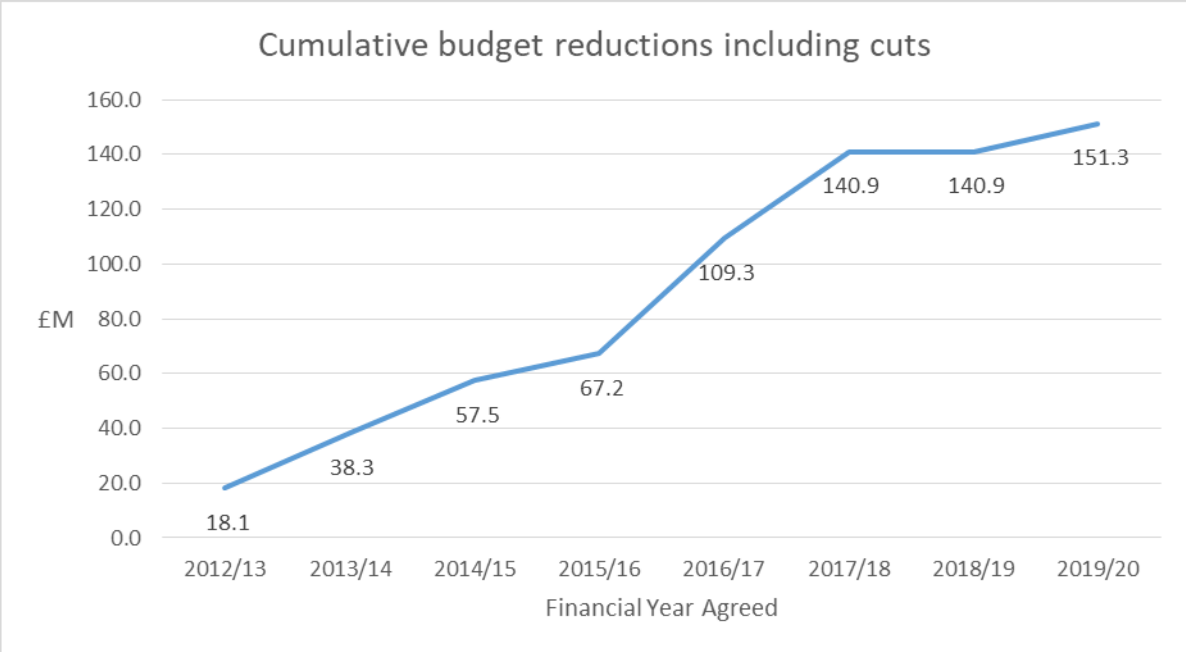
CHART: SETTLEMENT FUNDING ASSESSMENT



2.1.2 Budget Reductions History

In response to Government funding reductions and service expenditure pressures, the council has agreed some £151M of General Fund budget reductions including cuts over the last 8 years (see following chart). This level of reduction represents around three-quarters of the level of the 2019/20 net council revenue budget.

CHART: BUDGET REDUCTIONS HISTORY



Sustaining this level of savings going forward is becoming increasingly difficult, whilst balancing the delivery of improvements to the services provided for our residents. Whilst the existing approach has been successful in taking out some cost through tactical savings and budget reductions, its value going forward is likely to be less. Whilst the council will continue to ensure efficiency is the highest priority, to maximise resources, additional emphasis is needed on new ways to balance the budget.

The financial challenges and uncertainty outlined in this report are just a few examples of the context we face in continuing to deliver services to our residents and achievement of our priority outcomes. In order to rise to these challenges the council needs to consider how our services are delivered, investing in areas where appropriate and taking measures to avoid costs wherever possible.

Consequently we will need to be more flexible, innovative and entrepreneurial in order to rise to the new challenges we face over the next 3-5 years and beyond. Over that period the hallmarks of this approach will be to maximise opportunities for alternative funding streams, at the same time look for cost avoidance, and working collaboratively with partner bodies to share optimise financial benefits whilst promoting better services to our residents. For example, investing in commercial property will be done with local economic and other benefits in mind, whilst also accessing a valuable income stream which will provide a net contribution to the revenue budget.

2.2 COUNCIL RESOURCES

The table below summarises the Council's key funding assumptions for the Medium Term Financial Strategy. Percentages indicate forecast year-on-year changes.

TABLE 1 SUMMARY OF KEY FUNDING ASSUMPTIONS

Item	**2020/21**	**2021/22**	**2022/23**
Council Tax	0.00%	1.99%	1.99%
Social Care Precept	2.00%	0.00%	0.00%
Council Tax Base (No. of Band D equivalents)	65,468	65,670	65,792
Small Business Rates Multiplier	1.7%	2.0%	1.9%
Revenue Support Grant	1.6%	0.0%	0.0%
New Homes Bonus	-14.1%	-64.2%	-54.0%

2.2.1 Council Tax and Adult Social Care Precept

Local authorities with Adult Social Care responsibilities were given the ability to increase council tax by up to 2% in 2020/21 provided this was allocated to help fund Adult Social Care budget pressures. This will generate £2.0M extra funding for Adult Social Care in 2020/21. The 2020/21 settlement does not provide for any further information on whether this ability will continue after next year and therefore the MTFS assumes no further increase in future years.

As set out in Table 1 above, the assumption is that council tax rises will be set at just under 2.00% in 2020/21, under the Adults Social Care Precept flexibility, and at 0% for the general increase, giving a Band D Council Tax of £1,566.18 in 2020/21. The assumption for future years is a 1.99% increase in the core or general level of council tax.

The council tax base that has been assumed for each financial year is detailed in Table 1.

Table 2 below shows the council tax and Adult Social Care precept income that has been included in the medium term financial forecast at Annex 1.1(a).

TABLE 2 COUNCIL TAX INCOME

	2020/21 £M	**2021/22 £M**	**2022/23 £M**
Council Tax - General Precept	93.41	95.75	98.01
Council Tax - Adult Social Care Precept	9.12	9.15	9.17
Total Council Tax Income	**102.53**	**104.90**	**107.18**

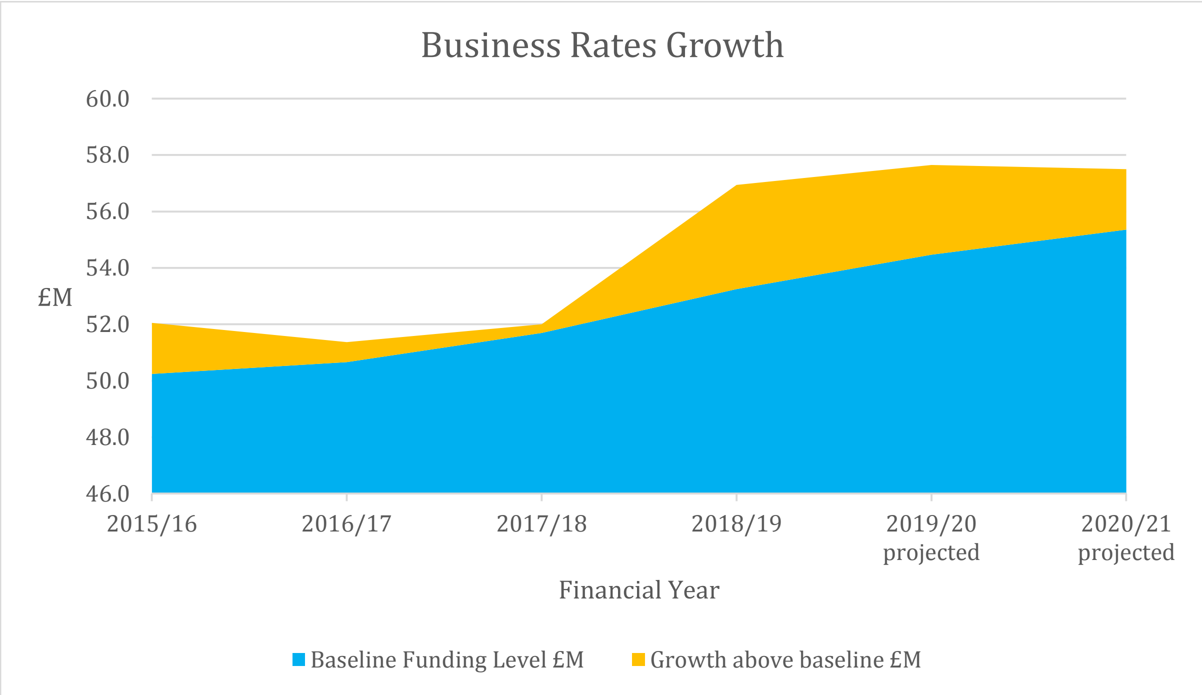
2.2.2 Business Rates

Under the Government's funding arrangements for local authorities the business rate retention scheme means councils are able to retain a proportion of their business rates, including growth, but also take a degree of risk of reductions in business rates during times of recession, although there are ‘safety net’ arrangements in place to protect against very large reductions. Local authorities are compensated by way of S31 grant for reductions to business rates arising from changes in Government policy since the retention scheme was introduced e.g. additional reliefs and a lower uplift of the business rates multiplier.

The MTFS assumes the business rate multiplier will increase with inflation as set out in Table 1 above.

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 growth in business rates income above the Government's baseline funding level since 2015 and the projected future growth.



SOLENT REGION - BUSINESS RATES RETENTION PILOT

Southampton City Council has participated in a business rates pilot during 2019/20, as a part of the Solent Pool arrangement with Portsmouth City Council and the Isle of Wight. The benefit arising from this pilot is that an increased share of the proceeds of growth in business rates can be retained within the pilot area, in this case 75% as opposed to the usual 50%. The value of this benefit will not be known until after the year-end, but the MTFS assumes a benefit of around £1.7M will arise and help fund the 2020/21 budget.

The pilot scheme will come to an end on 31 March 2020. However, a further benefit has been assumed for 2021/22, arising from the shared accumulated funds retained by the Pool, with a further £3.3M in funding factored in to the 2021/22 budget. This has been assumed as a benefit for 2021/22 as the sum will not be confirmed until well into the 2020/21 financial year.

2.2.3 Government Grants

REVENUE SUPPORT GRANT (RSG)

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 2020/21 settlement, with an assumption of a cash flat allocation thereafter.

NEW HOMES BONUS (NHB)

Funding from the New Home Bonus continues into 2020/21, with this funded via a 'top-slice' of £900M nationally from the resources allocated to local authorities. Authorities are reward via the NHB for the additional homes built or empty properties brought back into use. Government stated as part of the settlement that it will consult on changes to the NHB, so it is uncertain what funding will be provided beyond 2020/21. The MTFS assumes that legacy payments for NHB allocations in previous years will continue. Table 3 below shows the assumed allocations in the MTFS.

TABLE 3 NEW HOMES BONUS ALLOCATIONS

	2020/21 £M	**2021/22 £M**	**2022/23 £M**
Assumed New Homes Bonus	4.10	1.47	0.68

PUBLIC HEALTH GRANT

The Public Health Grant continues to be a ring-fenced grant to local authorities in 2020/21. As at the time of writing the Government has not announced the allocations for 2020/21. The Public Health Grant had been falling over recent years, as outlined in Table 4 below.

TABLE 4 PUBLIC HEALTH GRANT

	2016/17 £M	**2017/18 £M**	**2018/19 £M**	**2019/20 £M**
Public Health Grant allocations	17.78	17.42	16.90	16.52

OTHER GRANTS

The Council receives a variety of other grants from Government. Ring-fenced grants are recorded as service income and grants which are not ring-fenced to specific services are held centrally.

In the 2019 Spending Round the Government announced additional grant funding for social care and continuation of existing adult social care grants. For 2020/21 the Council received an allocation of £6.7M Social Care Grant (of which £1.9M was existing funding and £4.8M is new) and £10.4M Improved Better Care Fund (all continuation of existing grants). For planning purposes it has been assumed that the majority of social care grant funding will continue in future years.

2.3 OTHER FINANCIAL ASSUMPTIONS

2.3.1 Pay Inflation

Assumptions have been made in the forecast about the likely level of pay inflation that will apply from April 2020. 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 2% pay award has been assumed from 2020/21 and future years.

2.3.2 National Living Wage

The Government has adopted a policy of 'stepped' increases in the national living wage, which feeds into the council's costs in a number of areas but in particular for the costs of social care. The budget provides an allocation to address this cost pressure.

The Council has adopted the National Living Wage Foundation's recommended living wage, which is currently £9.30 (set in November 2019 but implemented by the Council from 1 April 2020), for payment of SCC employees, and this rate is presently higher than the initial NLW (£8.72 from April 2020).

2.3.3 General Inflation

Assumptions have been made in the forecast about the likely level of general inflation that will apply from April 2020. There is a risk that should inflation increase at a higher rate than anticipated, our costs would rise, with many major contracts being uplifted by indexation linked to inflation on an annual basis. The Consumer Price Index is expected to be around 1.9% - 2.0% over the medium term and the Retail Price Index around 2.7% - 3.1%.

Inflation assumptions are reviewed and a central provision exists to cover this costs but should costs rise in-year it is likely that services would be expected to absorb the difference.

2.3.4 Pension Fund - Employer Costs

Employer contributions to the Hampshire Local Government Pension Scheme (LGPS) were reviewed as part of the 2019 triennial revaluation process. This changes rates applicable from April 2020. The new rate of 18.2% (incorporating past service costs) has been factored into the MTFS.

Good returns from the fund's investments over the last three years combined with the actuary's review of the fund as part of the normal fund valuation has meant that contributions from the council have been reduced for 2020/21 onwards, releasing around £4.5M per annum.

2.4 BALANCES AND EARMARKED RESERVES

The minimum level of General Fund balances is reviewed and risk assessed on an annual basis.

The Executive Director Finance & Commercialisation recommends that the minimum level of the General Fund Balances should be £10.1M, which represents the current balance. This balance provides mitigation against any unforeseeable events the council may face, as well as potential overspends in demand led areas such as social care and safeguarding for both adults and children.

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.

Reserves totalled £85.8M at the end of 2018/19. A review of useable reserves has been undertaken and the uncommitted element identified. The reserves available to the council, and their forecast future position, is given at Annex 1.1(b). The budget strategy involves using an element of the available reserves to offset the budget shortfall, which partly arises out of a lower than forecast take from business rates when compared with previous MTFS assumptions. This will allow more time to develop new approaches and generate additional income as a way to balance the budget. The budget strategy also includes adding £6.0M in each of the next three years to the Social Care Demand Risk Reserve to be called upon if there is demonstrable need. This need will be based on the financial position at year-end, as well as in-year as informed by financial monitoring of cost pressures in Adults and Children's Social Care.

Reserve use and retention is an important part of the medium term financial strategy. Even after applying a proportion of the available reserves, it is estimated there will still be £32.0M left at the end of the MTFS period. Table 5 below shows the forecast General Fund earmarked reserves (excluding schools' balances) at the end of each financial year of the MTFS.

TABLE 5 GENERAL FUND EARMARKED RESERVES

	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Total earmarked reserves (excluding schools' balances)	67.34	51.37	39.90	32.02

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. As we move towards a regime of a higher level of funding from business rates, which fluctuate with the business cycle, reserves will provide a cushion against any 'shocks' to council funding, or delay with savings or being unable to realise the assumed level of savings/income generation.

2.5 PRESSURES, SAVINGS AND NEW INITIATIVES

2.5.1 Pressures & Mitigations

Table 6 summarises the pressures that have been included in the medium term financial forecast in Annex 1.1(a). 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. Where budget is no longer required this has been released to mitigate pressures elsewhere, hence the table shows some negative amounts.

TABLE 6 SUMMARY OF PRESSURES & MITIGATIONS

Programme	**2020/21 £M**	**2021/22 £M**	**2022/23 £M**
Place Shaping	(1.00)	(1.00)	(1.00)
Wellbeing	10.22	10.12	12.02
Communities, Culture & Homes	0.18	0.18	0.18
Green City	(0.23)	(0.23)	(0.23)
Successful, Sustainable Business	0.63	0.48	0.41
Centrally held budgets	(2.59)	(2.25)	(1.56)
Total Pressures	**7.22**	**7.31**	**9.82**

2.5.2 Savings - Income Generation and Budget Reductions

The Council's approach regarding income generation is to maximise opportunities where possible and income generation forms a key strand of the council's budget strategy, with income generation targets forming a key element of reducing the Council's budget gap.

The cost base of services has also been reviewed to identify opportunities to reduce costs.

Table 7 summarises the savings that have been included in the medium term financial forecast in Annex 1.1(a) to the MTFS.

TABLE 7 SUMMARY OF SAVINGS

Programme	2020/21 £M	2021/22 £M	2022/23 £M
Place Shaping	(0.04)	(0.04)	(0.04)
Wellbeing	(1.85)	(3.25)	(4.30)
Communities, Culture & Homes	(0.15)	(0.15)	(0.15)
Green City	0.00	(0.01)	(0.01)
Successful, Sustainable Business	(5.30)	(6.07)	(5.84)
Centrally held budgets	(0.27)	(1.09)	(1.09)
Total Savings	**(7.61)**	**(10.61)**	**(11.42)**

The Property Investment Fund saving of £2.75M is shown net in the above table within Successful, Sustainable Business. The anticipated income from the proposal is £6.60M in 2020/21 and £9.97M thereafter, offset by capital financing costs of £3.85M in 2020/21 and £7.22M in future years.

2.5.3 Investments

As well as experiencing pressures the Council has also identified new investments it wishes to undertake to help stimulate the economy and enhance services as shown in Table 8. The revenue and capital implications have been included in the medium term financial forecast in Annex 1.1(a).

TABLE 8 SUMMARY OF INVESTMENTS

Programme	2020/21 £M	2021/22 £M	2022/23 £M
Place Shaping	0.85	1.26	1.07
Wellbeing	0.42	0.25	0.18
Communities, Culture & Homes	0.76	0.37	0.48
Green City	0.72	0.63	0.72
Successful, Sustainable Business	1.36	0.65	0.48
Centrally held budgets	0.14	1.35	3.16
Total Investments	**4.25**	**4.51**	**6.10**

2.6 FORECAST FINANCIAL POSITION 2020/21 – 2022/23

The Council's current forecast financial position is detailed below and includes the implications of the provisional settlement, implementation of the change 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 at February 2020. The outlook will be extended to 2024/25 when more is known from Government about their funding intentions.

Table 9 below shows the current summary position, with the detail being included in Annex 1.1(a) to the MTFS. This shows the Council is required to achieve £10.2M savings over the period to 2022/23.

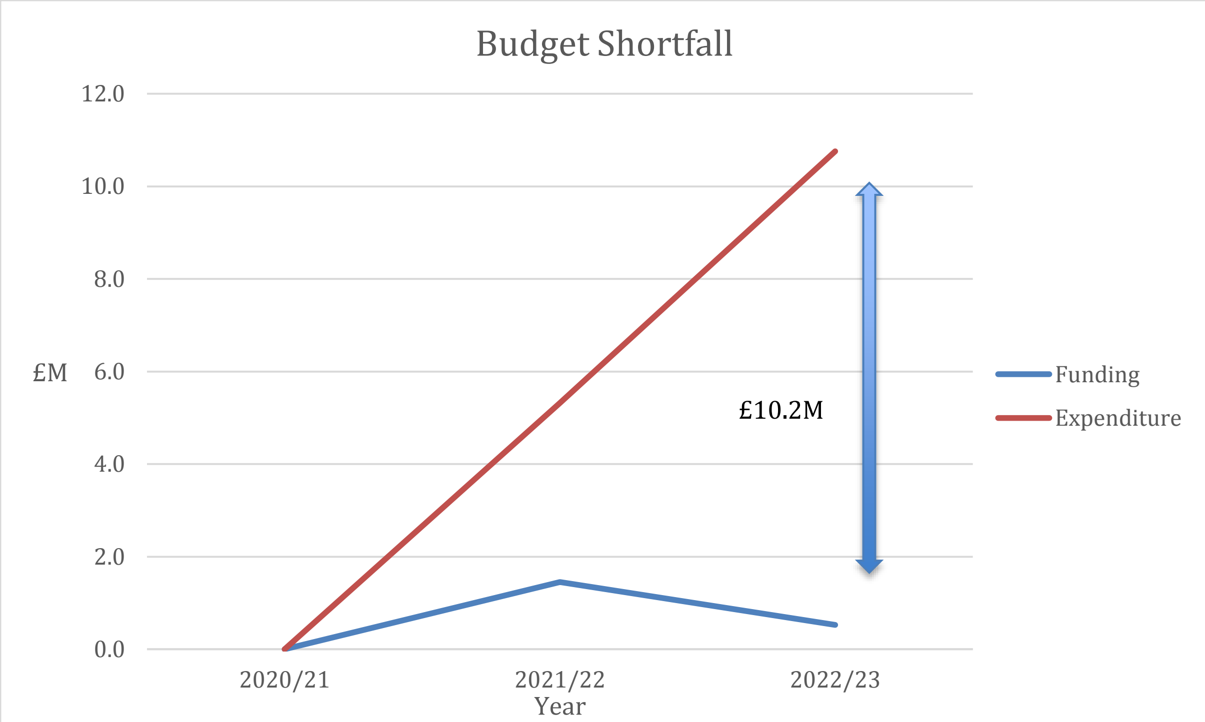


TABLE 9 FORECAST BUDGET SHORTFALL

	2020/21 £M	2021/22 £M	2022/23 £M
Net Expenditure	190.82	196.14	201.57
Funding	(190.82)	(192.27)	(191.35)
Forecast Budget Shortfall	**0.00**	**3.87**	**10.22**

2.7 CAPITAL PROGRAMME

Planned Capital Expenditure and the associated financing is detailed within the budget report for approval by Council in February 2020. The impact of revenue saving proposals for 2020/21 and future years along with new investments on the Capital Programme have been considered and have been integrated into the proposed Capital Programme for 2019/20 to 2024/25. The proposed Programme totals £980.8M and includes £728.8M for the General Fund and £252.0M for the HRA. The General Fund Capital Programme includes the following major commitments:

- £200M Property Investment Fund
- £155.7M for Connected Southampton
- £88.6M for highways and transport schemes
- £125.9M for schools and other education projects

Consideration has also been given to the most appropriate use of Capital Resources in supporting the programme and meeting the investments and the priorities 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.

2.8 HOUSING REVENUE ACCOUNT

The national self-financing regime for the Housing Revenue Account (HRA) was introduced in April 2012. A 40 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 2020. The overall objective is to deliver 1,000 council owned homes by 2025, subject to council approval.
- 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 £231M (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 40 years. This provision has been phased between year 3 and year 40 of the Plan. All elements of the 1,000 homes delivery which has not been subject to Council approval does not feature in the programme at this stage.
- The revenue budget meets the minimum balances of £2M over the life of the Plan.

The Welfare Reform & Work Bill 2015/16 imposed a 1% per annum reduction in rents charged to tenants for a 4 year period from 2016/17 to 2019/20. This period has now ended, and rents are increasing in line with prevailing inflation data. The rental increases are still limited by national Government policy and are currently calculated using the Consumer Price Index inflation plus 1% for the next five years, and Consumer Price Index only thereafter.

A consultation has taken place for a change in the profiling of rent charges from a year of 48 weeks of payments, to 52 weeks of payments. This will be implemented from 1 April 2020. Although the overall rent due across a year is not affected by this change, this will standardise rents in line with regular Housing Benefit and Universal Credit arrangements.

2.9 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.

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, which is reviewed on a quarterly basis as part of financial monitoring. 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 proposed new fair funding formula;
- Changes in function;
- Changes in how services are funded;
- Changes in the economy;
- 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** – 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** – The current Spending Round 2019 covers only 2020/21 and hence a further announcement is expected in 2020. Government has also delayed changes to its business rate retention scheme funding for local authorities and its fair funding review, both of which are now expected to be implemented for 2021/22. The impact of any positive or negative change to our future funding as a result of the next Spending Review 2020 or changes to the local authority funding system will need to be considered in due course.
3. **Treasury** – 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
4. **Internal Change** – After several years of addressing funding reductions via the 'usual' route of restructures and service changes to reduce and limit service provision, more recently the Council has placed greater emphasis on retaining services but generating growth via income to offset funding reductions and budget pressures elsewhere. This will also necessitate internal changes and a greater commercial mind set. Inevitably, such changes have associated risks.

2.10 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.

Conclusion

This MTFS provides a robust framework for setting the budget for 2020/21 and ensuring the Council remains in a sustainable financial position over the medium term. The current forecast position remains very challenging, with the Council facing rising demand for key statutory services.

The MTFS will be kept under regular review, and funding assumptions will be amended where Government announcements provide more clarity on funding beyond 2020/21. Irrespective of those announcements, the Council will pursue a policy of maximising its efficiency, but also providing arrangements and supporting services in generating additional income to help offset the budgetary pressures faced.