Annex 1.1

Southampton City Council

MEDIUM TERM FINANCIAL FORECAST

2021/22 – 2024/25

MEDIUM TERM FINANCIAL FORECAST 2021/22 – 2024/25

Contents

INTRODUCTION

The Medium Term Financial Forecast (MTFF) 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, such as those relating to the COVID-19 pandemic. The MTFF 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 approach concentrates on the principles that will provide a strong direction for the medium term.

The key overriding aim of the MTFF 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 MTFF 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 MTFF 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's budget setting process centres around the key themes contained within the City Council Corporate Plan to ensure resources are directed towards agreed priorities. The budget is presented to show the resources being allocated to these priority 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 2021/22 budget process, emphasis has been given to income generation and efficiency savings to help address the budget shortfalls the Council faces, to minimise the impact on front line services. It is expected that this approach will continue.

There is significant uncertainty about future funding levels for the Council, with the Government not setting any public expenditure plans beyond 2021/22 and reforms to the local government finance system being delayed. Added to this is the uncertainty around the impact of the COVID-19 pandemic. For these reasons the future years' position within this MTFF is only indicative at this stage.

SECTION 1. **Local Financial Forecast**

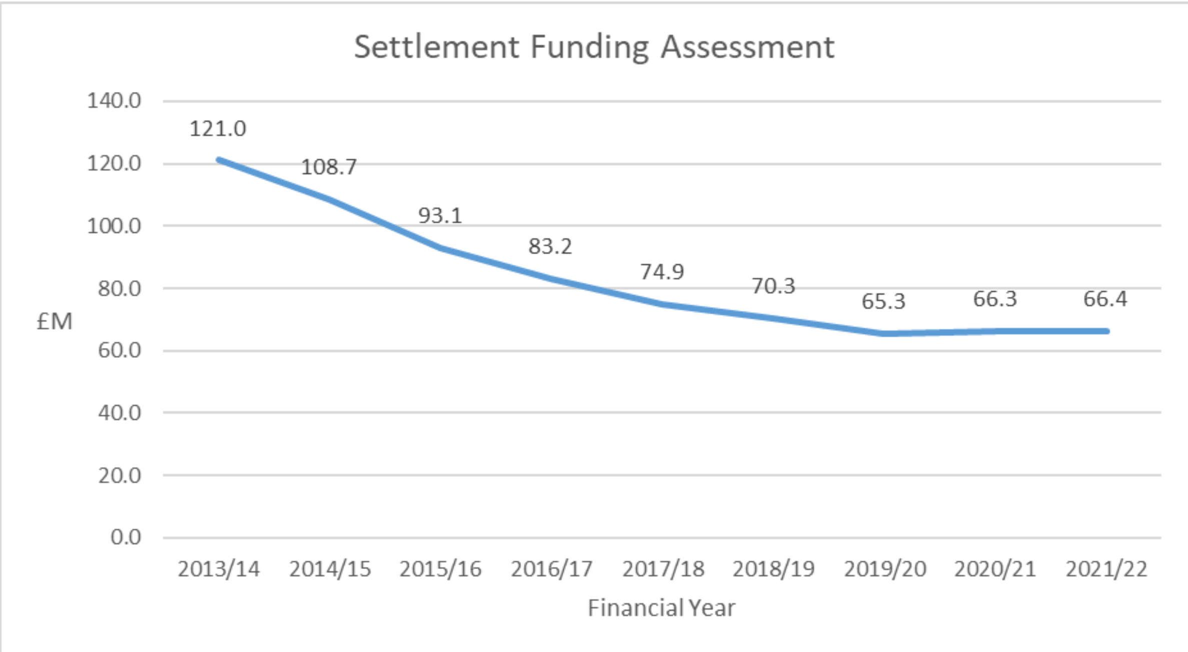
1.1 Financial Trends

1.1.1 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 plans to reduce spending, the settlement funding assessment was reduced over a number of years to 2019/20, and hence the amount of revenue support grant distributed to local authorities. For 2020/21 and 2021/22 an inflationary uplift has been applied, however the reductions in funding made in previous years have not been restored.

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

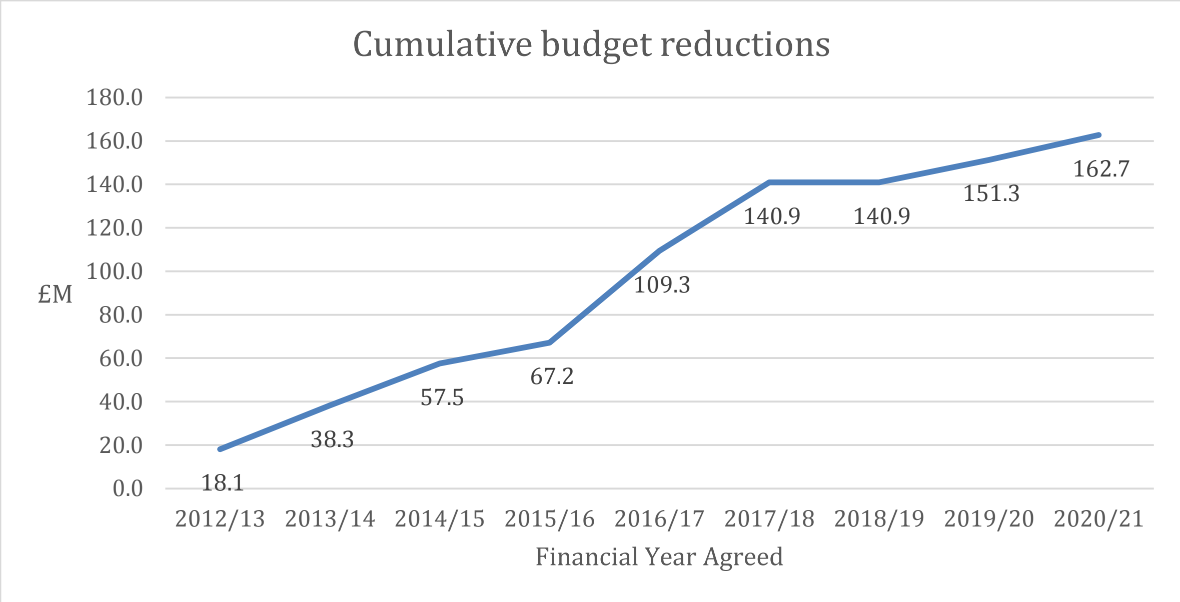
CHART: SETTLEMENT FUNDING ASSESSMENT



1.1.2 Budget Reductions History

In response to Government funding reductions and service expenditure pressures, the council has agreed some £163M of General Fund budget reductions over the last 9 years (see following chart). This level of reduction represents over three-quarters of the level of the 2020/21 net council revenue budget.

CHART: BUDGET REDUCTIONS HISTORY



Sustaining the level of savings required to achieve a balanced budget is becoming increasingly difficult. The Council had sought to change emphasis by generating growth via income to offset funding reductions and budget pressures, rather than make service reductions. However, the restrictions imposed to deal with the COVID-19 pandemic and the impact on the economy has made this approach more difficult in the short to medium term.

1.2 COUNCIL RESOURCES

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

TABLE 1 SUMMARY OF KEY FUNDING ASSUMPTIONS

Item	2021/22	2022/23	2023/24	2024/25
Increase in Council Tax	1.99%	1.99%	1.99%	1.99%
Increase in Adult Social Care Precept	3.00%	0.00%	0.00%	0.00%
Council Tax Base (No. of Band D equivalents)	64,389	64,389	64,525	64,978
Increase in Small Business Rates Multiplier	0.0%	2.0%	2.2%	2.1%
Increase in Revenue Support Grant	0.55%	0.0%	0.0%	0.0%
Reduction in New Homes Bonus	-63.1%	-55.3%	-100.0%	0.0%

1.2.1 Council Tax and Adult Social Care Precept

In the local government finance settlement local authorities were given the ability to apply an increase in core council tax of up to 2% for 2021/22 without the need for a local referendum. The assumption is that an increase of 1.99% will be applied in accordance with this limit, which will generate £2.0M of additional funding.

Local authorities with Adult Social Care responsibilities were also given the ability to increase council tax by up to 3% in 2021/22 provided this was allocated to help fund Adult Social Care budget pressures, with the option to defer all or part of the increase until 2022/23. The assumption is that a 3% increase to the Adult Social Care Precept will be applied in 2021/22, to maximise the funding available to meet Adult Social Care pressures. A 3% increase in 2021/22 will generate £3.0M extra funding for Adult Social Care.

As set out in Table 1 above, the assumption is that the council tax rise will be set at 4.99% in 2021/22 (a 1.99% general increase and 3.00% under the Adults Social Care Precept flexibility) giving a Band D Council Tax of £1,644.39 in 2021/22. The assumption for future years is a 1.99% increase in the core or general level of council tax. A further increase in the Adult Social Care Precept has not been assumed for future years. If the government makes further flexibility available, each additional 1% would generate £1.0M extra funding for Adult Social Care.

The council tax base that has been assumed for each financial year is detailed in Table 1. The tax base includes assumptions about increased levels of Local Council Tax Support for 2021/22 and over the medium term due to the impact on the economy of the COVID-19 pandemic. The reduction in tax base for 2021/22 comes after several years of growth as shown in the chart below.

CHART: CHANGE IN COUNCIL TAX BASE

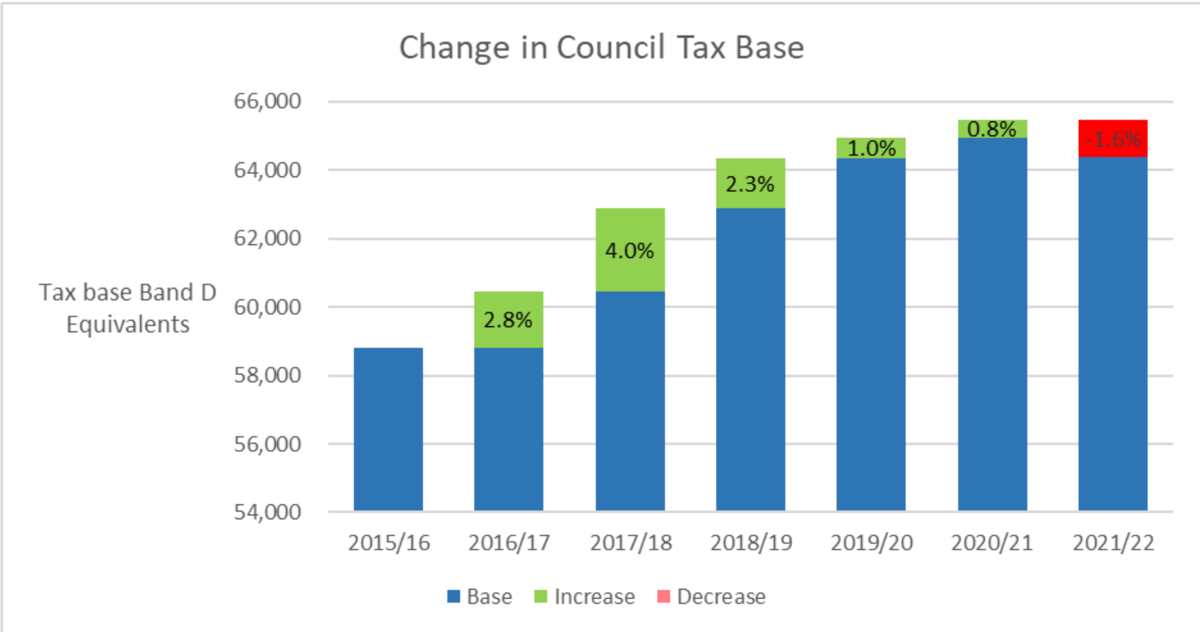


Table 2 below shows the council tax and Adult Social Care precept income that has been included in the medium term financial forecast at Annex 1.1(a).

TABLE 2 COUNCIL TAX INCOME

	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M
Council Tax - General Precept	93.88	95.99	98.35	101.25
Council Tax - Adult Social Care Precept	12.00	12.00	12.02	12.11
Total Council Tax Income	**105.88**	**107.99**	**110.37**	**113.36**

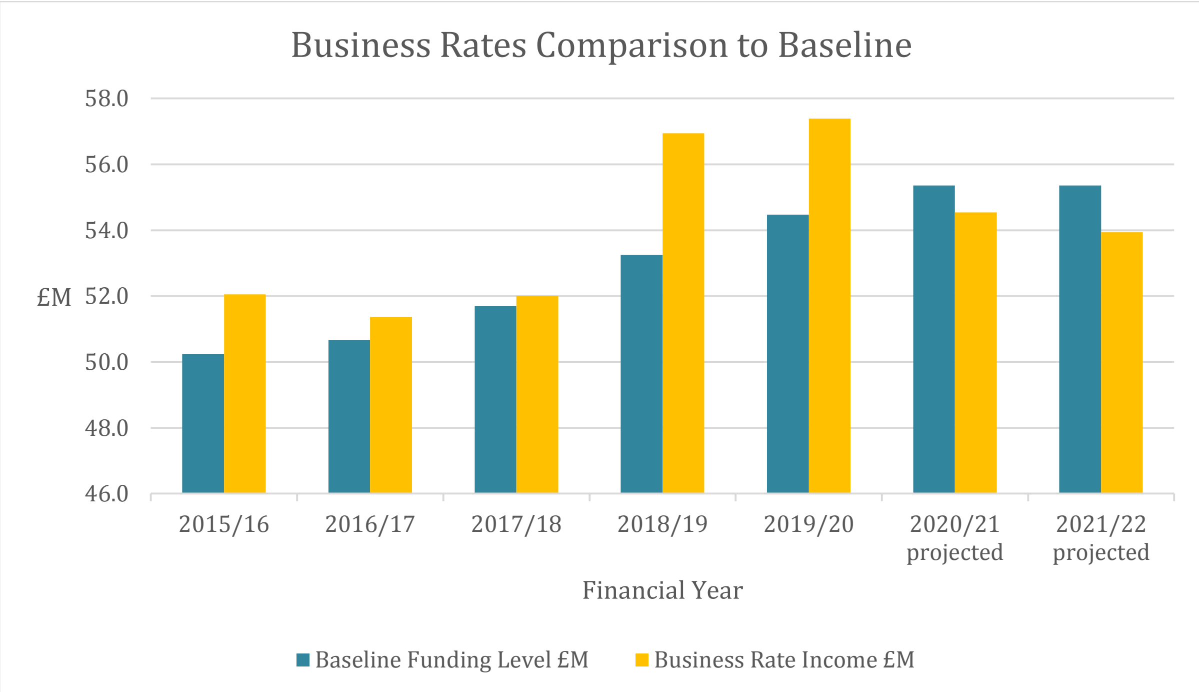
1.2.2 Business Rates

Under the Government's funding arrangements for local authorities the business rate retention scheme means councils retain a proportion of their business rates, including growth, but also take the 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 or freezing of the business rates multiplier.

The government has frozen the business rates multiplier for 2021/22. The MTFF assumes that it will increase with inflation thereafter as set out in Table 1 above.

There has been a cautious assumption built into the MTFF 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 up to 2019/20 and the projected decline below the baseline for 2020/21 and 2021/22. The projected decline in business rates income is mainly due to estimated losses from appeals to rateable values due to the COVID-19 pandemic, together with an expected increase in the number of empty properties.



SOLENT REGION - BUSINESS RATES RETENTION PILOT

Southampton City Council participated in a business rates pilot during 2018/19 and 2019/20, as a part of the Solent Pool arrangement with Portsmouth City Council and the Isle of Wight Council. The benefit arising from the pilot was that an increased share of the proceeds of growth in business rates was retained within the pilot area. The pilot scheme came to an end in March 2020 and the accumulated funds retained by the Pool have been shared between the partners. Southampton City Council's share of the accumulated funds was £3.6M. An estimated share of £3.3M had been anticipated when the previous MTFF was agreed in February 2020 and factored in to the 2021/22 budget.

1.2.3 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.

As with the previous year, the government has applied an inflationary uplift to RSG in the 2021/22 settlement and the MTFF reflects this allocation, with an assumption of a cash flat allocation thereafter.

NEW HOMES BONUS (NHB)

Funding from the New Home Bonus continues into 2021/22, with this funded via a 'top-slice' of £622M nationally from the resources allocated to local authorities. Authorities are rewarded via the NHB for the additional homes built or empty properties brought back into use. Government stated as part of the settlement that this year will be the final year under the current approach and it has launched a consultation on the future of the NHB scheme including options for reform, so it is uncertain what funding will be provided beyond 2021/22. The Council did not receive a new allocation for 2021/22 for additional homes built because the growth in the number of properties in the Southampton area was not above the government's NHB threshold. However, a new allocation for empty properties brought back into use was received and the legacy payments for NHB allocations in 2018/19 and 2019/20 will continue in 2021/22. The MTFF assumes that the final legacy payment will be made in 2022/23. Table 3 below shows the assumed allocations in the MTFF.

TABLE 3 NEW HOMES BONUS ALLOCATIONS

	2021/22 £M	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**
Assumed New Homes Bonus	1.51	0.68	0.00	0.00

PUBLIC HEALTH GRANT

The Public Health Grant continues to be a ring-fenced grant to local authorities in 2021/22. As at the time of writing the Government has not announced the allocations for 2021/22. After a number of years of reduction in Public Health Grant a real-terms increase was applied in 2020/21, as outlined in Table 4 below.

TABLE 4 PUBLIC HEALTH GRANT

	2016/17 £M	**2017/18 £M**	**2018/19 £M**	**2019/20 £M**	**2020/21 £M**
Public Health Grant allocations	17.78	17.42	16.90	16.52	17.17

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 Spending Review 2020 the Government announced for 2021/22 support to local authorities to help meet COVID-19 costs, support towards costs for Local Council Tax Support, additional grant funding for social care and continuation of existing adult social care grants. For 2021/22 the Council received an allocation of £7.8M COVID-19 support funding, £2.8M Local Council Tax Support Grant, £8.5M Social Care Grant (of which £1.8M is new) and £10.4M Improved Better Care Fund (continuation of existing grant). For planning purposes it has been assumed that the majority of social care grant funding will continue in future years and this will therefore be a risk area should funds be discontinued.

1.3 OTHER FINANCIAL ASSUMPTIONS

1.3.1 Pay Inflation

Assumptions have been made in the forecast about the likely level of pay inflation that will apply from April 2021. 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.

In the Spending Review 2020 the government announced a pay freeze for non-NHS public sector workers earning more than £24,000 a year. Although the local government pay settlement is negotiated separately, pay awards for the wider public sector are likely to have a bearing, along with the current low level of general price inflation.

A 0.5% pay award has been assumed for 2021/22 and 1% rising to 2% for future years.

1.3.2 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 £9.50 (set in November 2020 but implemented by the Council from 1 April 2021), for payment of SCC employees, and this rate is presently higher than the initial NLW (£8.91 from April 2021).

1.3.3 General Inflation

Assumptions have been made in the forecast about the likely level of general inflation that will apply from April 2021. 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 fell to a low of 0.3% in November 2020, however rose back up to 0.6% in December 2020 and is expected to gradually rise over the coming months. The Consumer Price Index is expected to be around 2.0% - 2.2% over the medium term and the Retail Price Index around 2.8% - 3.2%.

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.

1.3.4 Pension Fund - Employer Costs

Employer contributions to the Hampshire Local Government Pension Scheme (LGPS) were reviewed as part of the 2019 triennial revaluation process and the rate applicable from April 2020 to March 2023 of 18.2% (incorporating past service costs) has been factored into the MTFF. No changes to the rate have been assumed following the next triennial revaluation.

1.4 BALANCES AND EARMARKED RESERVES

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

The Executive Director for Finance, Commercialisation & S151 Officer 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 MTFF. 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. The COVID-19 pandemic has increased the level of risk faced by the Council, both in the cost pressures faced and the economic impact on funding streams.

Reserves totalled £86.2M at the end of 2019/20. 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 proposed budget strategy involves using an element of the available reserves to meet budget pressures in 2021/22 and 2022/23, particularly those relating to Adults and Children's Social Care. This will allow more time to develop proposals to make cost reductions or generate additional income as a way to balance the budget. Table 5 below shows the planned use of reserves within the MTFF.

TABLE 5 FORECAST USE OF EARMARKED RESERVES

	2021/22 £M	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**
MTFF as at February 2020	**2.13**	**1.20**	**1.20**	**1.20**
Government grants carried forward from 2020/21 to offset Collection Fund deficit	(28.17)			
Other net use of reserves	(18.06)	(6.00)	(1.20)	(1.20)
Sub-Total	(46.23)	(6.00)	(1.20)	(1.20)
MTFF as at February 2021	**(44.09)**	**(4.80)**	**0.00**	**0.00**

Numbers are rounded

Reserve use and retention is an important part of the medium term financial forecast. Even after applying a proportion of the available reserves, it is estimated there will still be £37.4M left at the end of the MTFF period. Table 6 below shows the forecast General Fund earmarked reserves (excluding schools' balances) at the end of each financial year of the MTFF. See paragraphs 23 and 24 of the main report on reserves in the context of the S151 view of their adequacy.

TABLE 6 GENERAL FUND EARMARKED RESERVES

	2020/21 £M	**2021/22 £M**	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**
Total earmarked reserves (excluding schools' balances)	92.43	42.63	37.64	37.37	37.37

The balance at the end of 2020/21 includes carry forward of £28.2M of government grants relating to the Council's share of the deficit on the Collection Fund, which under accounting arrangements is carried forward to be met from the General Fund revenue budget in future years. Excluding the government grants carried forward, the non-school earmarked revenue reserves are forecast to be £64.3M at 31 March 2021.

The reserves forecast includes a £9.4M deficit balance relating to an overspend against the Dedicated Schools Grant, comprising £7.4M overspend brought forward from 2019/20 and £2.0M forecast deficit for 2020/21. The DSG Grant is ring-fenced and the deficit will not impact on the General Fund and non-school services the council provides.

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 potentially 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.

1.5 PRESSURES AND SAVINGS

1.5.1 Pressures and investments

Table 7 summarises the pressures and investments that have been included in the medium term financial forecast in Annex 1.1(a). These have arisen from the impact of the COVID-19 pandemic and demographic and other factors as set out in Section 2, as well as pressures that have been identified via the individual service areas through regular financial monitoring and review. Pressures from additional costs, loss of income and savings that cannot be achieved because of the COVID-19 pandemic are projected to be around £20.0M in 2021/22.

TABLE 7 SUMMARY OF PRESSURES AND INVESTMENTS

Key Theme	**2021/22 £M**	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**
Place Shaping	2.56	2.47	2.02	2.02
Wellbeing	23.27	19.61	19.36	19.17
Communities, Culture & Homes	2.26	0.60	0.55	0.55
Green City	0.79	0.37	0.37	0.37
Successful, Sustainable Business	14.99	13.56	13.48	13.08
Centrally held budgets	(7.06)	(7.22)	(7.22)	(7.22)
Total Pressures and Investments	**36.81**	**29.39**	**28.55**	**27.97**

Numbers are rounded

1.5.2 Savings - Income Generation and Efficiencies

The Council’s approach is to find savings through income generation and efficiencies to help address budget shortfalls, to minimise the impact on front line services. While maximising opportunities to generate income remains a key strand of the Council's strategy, the scope for doing so during a period of economic downturn is reduced, therefore greater emphasis is placed on reducing costs and being innovative with service delivery. Table 8 summarises the savings that have been included in the medium term financial forecast in Annex 1.1(a) to the MTFF.

TABLE 8 SUMMARY OF SAVINGS

Key Theme	**2021/22 £M**	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**
Place Shaping	(2.38)	0.00	0.00	0.00
Wellbeing	(0.53)	(0.92)	(0.92)	(0.92)
Communities, Culture & Homes	(0.36)	(0.17)	(0.17)	(0.17)
Green City	(0.02)	(0.02)	(0.02)	(0.02)
Successful, Sustainable Business	(4.38)	(3.90)	(3.90)	(3.90)
Centrally held budgets	(3.00)	(2.14)	(2.14)	(2.14)
Total Savings	**(10.68)**	**(7.14)**	**(7.14)**	**(7.14)**

Numbers are rounded

1.6 FORECAST FINANCIAL POSITION 2021/22 – 2024/25

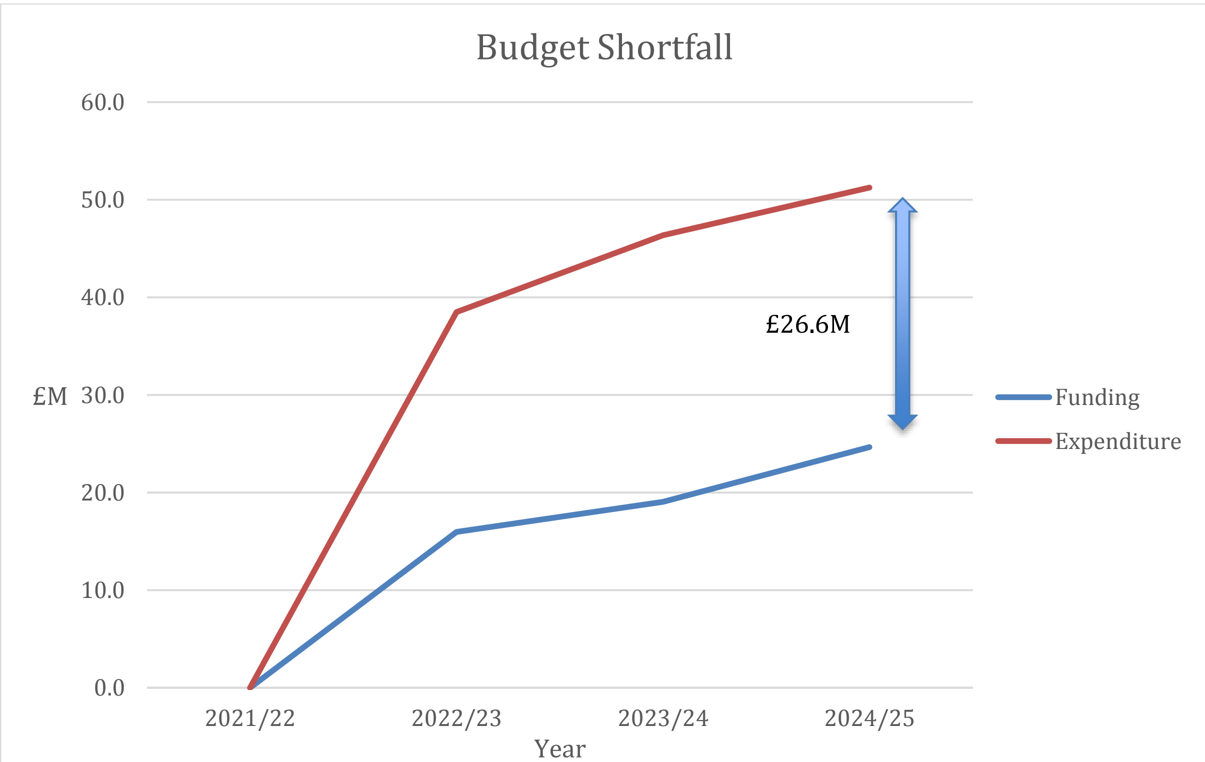
The Council's current forecast financial position is detailed below and includes the implications of the local government finance settlement. It will be reviewed each year of budget setting to reflect any new pressures and any revision to the Council Strategy.

Where possible factors described in Section 2 have been built into the financial modelling to ascertain the forecast financial position. The graph below demonstrates the budget shortfall to 2024/25 as at February 2021. The outlook will be extended to 2025/26 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 MTFF. This shows the Council is required to achieve £26.6M savings over the period to 2024/25. Cost pressures that were already being faced by the Council have been exacerbated by the COVID-19 pandemic and combined with a loss in income from an anticipated economic downturn mean there is a significant budget shortfall to address over the medium term.

TABLE 9 FORECAST BUDGET SHORTFALL

	2021/22 £M	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**
Net Expenditure	173.85	212.36	220.22	225.08
Funding	(173.85)	(189.84)	(192.91)	(198.51)
Forecast Budget Shortfall	**0.00**	**22.52**	**27.31**	**26.57**



The medium term forecast does not allow for any new general use of reserves to offset the budget shortfall or for an increase in the Adult Social Care Precept beyond 2021/22. A flat cash allocation for Revenue Support Grant has been assumed and nothing has been built in for Government reward for housing growth when the current New Homes Bonus scheme comes to an end. Cautious estimates for growth in both residential and commercial properties have been assumed and a slow decline in the elevated rates of working age council tax support claims. If any of these factors are more favourable than anticipated this would reduce the budget shortfall.

1.7 CAPITAL PROGRAMME

Planned capital expenditure and the associated financing is detailed within the budget report for approval by Council in February 2021. The programme has been reviewed and reprofiled in light of the COVID-19 pandemic and changing priorities. A limited number of new investments have been considered and have been included in the proposed Capital Programme for 2020/21 to 2025/26. The government has changed the terms of borrowing from the Public Works Loans Board in relation to commercial property investments and therefore the planned Property Investment Fund expenditure has been removed from the capital programme. The proposed programme totals £842.9M and includes £466.4M for the General Fund and £376.5M for the HRA. The General Fund Capital Programme includes the following major commitments:

- £111.8M for Connected Southampton
- £85.5M for highways and transport schemes
- £22.4M for Green City Charter
- £28.3M for City regeneration
- £104.2M 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.

1.8 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 Full Council approval in July 2020, outline approval has been given for the remainder of the 1,000 homes project to be delivered. This is expected to be delivered over the next 5 years.
- 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.
- A provision of £409M (including inflation adjustment and the 1,000 homes approval) 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.
- 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 four years, and Consumer Price Index only thereafter.

The COVID-19 crisis has caused disruption to the delivery of the capital programme through 2020/21 due to the measures taken as part of the response. There is also the risk of future rent arrears becoming bad debt at a cost to the HRA due to increased financial hardship as an economic consequence of the pandemic. An additional provision element has been set aside in the HRA to mitigate this.

1.9 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 MTFF.

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 impact of the COVID-19 pandemic;
- 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 end of the transition period for exiting the European Union.

It is important to note that the revised forecast represents the best estimate of the 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' forecast 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 Spending Review 2020 covers only 2021/22 and hence a further announcement is expected in 2021. Government has also postponed 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 2022/23. The impact of any positive or negative change to our future funding as a result of the next Spending Review or changes to the local authority funding system will need to be considered in due course.
3. **Treasury** – the MTFF is based on a reasonably stable global financial position going forward, taking into consideration that there are unknowns with regards to the impact that the COVID-19 pandemic 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** – Service transformation will be required to address the budget shortfall over the medium term. Inevitably, such changes have associated risks.

1.10 MANAGING BUDGETS AND FORECASTING

In setting the annual budget and the MTFF 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.

CIPFA has introduced a new Financial Management Code, which will apply from 1 April 2021. The Code sets out the broad principles it requires for sound financial management and expects authorities to measure their own processes against the principles it sets out. The Council will ensure all our processes are reviewed for consistency with the good practice the Code expects. The FM Code principles are set out in Annex 1.1(d).

SECTION 2. **Context**

2.1 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 MTFF.

2.1.1 Southampton City Strategy 2015-2025

The MTFF 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 Health and Wellbeing Board, the Local Outbreak Engagement Board and the Safe City Partnership.

2.1.2 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

2.1.3 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.

2.1.4 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, Commercialisation & S151 Officer 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.

2.2 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.

2.2.1 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. Forecasts predict the 75 to 79 years age group will rise by 30.5% between 2019 and 2026, whilst the number of people aged 75 and over is forecast to rise by 22.5% over the same period. 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 will improve, this will add to the total number of individuals requiring support. In 2020 there were 1,581 Southampton residents recorded on GP registers as having dementia; this has increased from 1,549 in 2019. This increase represents increasing prevalence and the ageing of the population as well as increased diagnosis and recording by GPs.

2.2.2 National and Local Policy

COVID-19 PANDEMIC

The Government's priority over the last year has been and continues to be responding to the COVID-19 pandemic. Since the start of the crisis the Government has taken extensive and unprecedented action to tackle the virus and mitigate the financial impacts on individuals, families and businesses. At the outset the Cabinet Minister, Robert Jenrick, stated that "the government stands ready to do whatever is necessary to support councils in their response to coronavirus" and in the 2021/22 provisional local government finance settlement the Government reiterated its aim to "continue to support councils in dealing with the immediate impacts of the pandemic, to promote recovery and renewal at local level, and support and maintain critical mainstream services".

Southampton City Council has played a critical role in helping to lead the local response to COVID-19, both through its own services and via co-ordination with partner bodies such as the Local Resilience Forum (LRF). The aim has been to save lives, protect the NHS, ensure our residents are protected, help support those residents who need to shield as part of particularly vulnerable groups in the community and that crucial public services continue to operate. The Council has either put in place directly, or worked to support and deliver Government initiatives designed to protect our communities, local business and vulnerable people. These measures include:

- Providing additional financial support to adult social care providers, including support for infection control measures within care homes

- Administering grant payments to local businesses, council tax hardship discounts and self-isolation support payments
- Providing additional support for the homeless and rough sleepers to stay in local accommodation
- Operating an emergency food hub
- Providing additional local support to the test, track and trace process

COVID-19 has had a significant financial impact across many of the Council's services, in terms of demand for support in areas such as both Adults and Children's social care as well as many other services producing much higher than expected costs. At the same time, income has fallen significantly in many areas such as car parking and commercial property rental income. The impact from COVID-19 has also meant it has not been possible to implement planned budget savings.

The Government has provided general grant funding to local authorities to help meet costs arising from the pandemic, as well as compensation schemes for income and irrecoverable tax losses and funding for specific services and measures, however this is not sufficient to meet all of the costs/income losses that the Council faces.

END OF THE TRANSITION PERIOD FOR EXITING THE EUROPEAN UNION

Following the outcome of the referendum on 23 June 2016, the UK left the EU on 31 January 2020 and entered an 11-month transition period. On 24 December 2020, an EU-UK Trade and Cooperation Agreement was made in principle at negotiator's level. The Agreement was backed by Commons and Lords on 30 December and received Royal Assent on 31 December.

The agreement consists of:

- a free trade agreement
- cooperation on economic, social, environmental and fisheries issues
- a close partnership for citizens' security
- an overarching governance framework

Although a Trade Agreement is now in place, From 1 January 2021 a number of wider policy changes were introduced including:

- People planning to move between the UK and EU to live, work, or retire are no longer automatically allowed to do so
- The UK has introduced a points-based immigration system to EU citizens
- Travel rules are changing and people will need to ensure that their passport is still valid, that they have the right health care documents and the right driving documents before entering the EU

EU, EEA and Swiss citizens and their family members who wish to continue living as they do now in the UK (after 30 June 2021) need to obtain permission to remain by applying through the EU Settlement Scheme (the 'EUSS') by no later than 30 June 2021. So far over 25,000 Southampton residents have submitted their application.

The end of the transition period and beginning of a new relationship between the UK and EU will inevitably have an impact on the council's finances. This will include the ending of certain funding streams and changes to some of our financial processes such as procurement.

Southampton City Council will continue to monitor the impacts of the end of the EU Exit Transition period to understand the impacts on local businesses and the local economy.

2.2.3 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 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.

LOOKED AFTER CHILDREN

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. We have, however, seen an increase in the rate per 10,000 children in 2020, increasing by 85% to 943.9. This is a lot higher than the national average, and now above the average of statistical neighbours. We have since seen the rate of referrals drop during the first 6 months of 2020/21, but they remain high.

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
2020	943.9	534.8

Over the period from 2010 to 2015, the rate of Looked After Children (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. This remains at the same level as 2019, whilst England and South East generally have seen increases in rates of children in care.

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

Area	2015	2016	2017	2018	2019	2020
Southampton CC	120	120	108	104	95	95
National Averages	**60**	**60**	**62**	**64**	**65**	**67**

In the year ending March 2020, the council carried out 412.7 Section 47 Child Protection investigations for every 10,000 children compared with 167.2 per 10,000 nationally. The city had a rate per 10,000 children of 137.1 subject to an initial child protection conference, compared with an average of 64.4 per 10,000 In England.

These high rates of referrals, Looked After Children 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 regards to Looked After Children (LAC) numbers, from April to December 2020, the average number of children in care was 494, a slight decrease from the 2019/20 12-month average of 501. The figure in 2017/18 was 523 on average and in 2016/17 it was 593, showing a downward trend in the average numbers of Looked After Children.

The number of children in care has, from December 2016 onwards, remained under 600 and from July 2018 under 530. The majority of 2019/20 saw levels below 500. The average percentage of fostering placements made with independent fostering agencies, (IFA) from April to December 2020 was approx. 29% (an average of 143 placements over the period of April - November 2019). This is down from 150 during the same period last year. This could be due to the slight drop in Looked After Children so far this year.

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 December 2020, Southampton CC had 153 in-house foster carers, many of which can provide placements for more than one child.

2.2.4 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 6,500 Houses of Multiple Occupation (HMOs) in the city. Nearly a quarter of all homes are in the social rented sector with 15,895 managed by the council with 7,695 households on its housing waiting list. The council has a responsibility to ensure that its own properties meet minimum decency standards. As of January 2021, 34.7% of stock was non-decent as a result of the aging profile and the deteriorating condition of components.

The most up to date housing target for Southampton is set out in the Partnership for South Hampshire (PfSH) Spatial Position Statement 2016. This states that the target for Southampton is to deliver 19,450 dwellings during the period 2011-2034. The council recognises that the number of new affordable homes available needs to be increased, and the Executive has made a commitment to deliver 1,000 council homes by 2025, a £144M programme was approved at Cabinet and Council in July 2020.

2.2.5 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 2021/22 the provisional combined Better Care Fund budget is £131.9M, comprising £83.9M for the CCG and £48.0M for the Council.

2.2.6 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 and street lighting, a highways services partnership and a long term waste disposal contract. Whilst these contracts are actively 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 and the Council has already realised savings in previous financial years. The financial health of these major contractors is kept under review as part of the monitoring arrangements.

2.3 NATIONAL ECONOMIC AND PUBLIC EXPENDITURE PLANS

The MTFF 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.

2.3.1 Spending Review 2020

The government published the Spending Review 2020 on 25 November 2020, setting out spending plans for the single financial year 2021/22. The Chancellor set out his 3 key priorities as: Responding to COVID-19, Stronger Public Services and Investment in Infrastructure. The key themes relevant to Southampton City Council were as follows:

COVID-19 Support

- Local government will receive around £3Bn additional funding for COVID-19 in 2021/22, of which £1.55Bn is for additional expenditure pressures, £670M for funding local council tax support and £762M to compensate 75% of irrecoverable loss of council tax and business rates revenues in 2020/21.
- An extension to the existing COVID-19 sales, fees and charges compensation scheme for a further 3 months until the end of June 2021.

Social Care

- £300M additional grant for adult and children's social care, with confirmation that the £1Bn social care grant in 2020/21 will be rolled forward.
- Local authorities with adult social care responsibilities will be able to levy a 3 per cent Adult Social Care precept.

Schools, Children and Young People

- The government reaffirmed its commitment to increase the funding for schools by £7.1Bn by 2022/23 compared with 2019/20 funding levels (£2.2Bn increase in the schools budget for 2021/22).
- £165M in 2021/22 for continuation of the Troubled Families programme.

Local Government Funding

- The government will consult on a 2 per cent council tax referendum threshold (in addition to the 3 per cent for the social care precept).
- Revenue Support Grant would be increased in line with inflation.
- The small business rates multiplier will be frozen in 2021/22 (instead of increasing by inflation), with local authorities fully compensated for any loss of income.
- A fundamental review of the Business Rates System will report in Spring 2021.
- There will not be a reset of the business rates baseline in 2021/22 i.e. no change to the current Business Rates

Retention Scheme and councils will continue to benefit from any past growth in their local business rates.

- New Homes Bonus will continue for a further year with no new legacy payments.

Infrastructure

- The government will reduce the Public Works Loan Board (PWLB) borrowing rate by 100bps (1%) for all new Standard Rate loans and 0.8% on Certainty Rate loans.
- New Levelling Up Fund worth £4Bn - local areas to bid to fund local projects.
- £1.7Bn in 2021/22 for local roads maintenance and upgrades to tackle potholes, to relieve congestion and boost connectivity.

Other Measures

- A further £254M funding to tackle homelessness and rough sleeping (of which £103M had already been announced).
- Local authority spending through the Public Health Grant will continue to be maintained.
- Public sector pay rises to be paused next year for other than 1 million NHS workers and those earning below £24,000 - the latter will be guaranteed a £250 annual pay rise.

2.3.2 Provisional Local Government Finance Settlement 2021/22

The 2021/22 provisional settlement was announced on 17 December 2020. It largely confirmed the announcements made in the Spending Review 2020 published 3 weeks earlier, providing allocations at individual local authority level. Further information on COVID-19 support for local authorities for 2021/22 was published alongside the settlement. Additional announcements made are as follows:

- A new £111M un-ringfenced Lower Tier Services Grant which incorporates a minimum funding floor so that no authority sees an annual reduction in Core Spending Power.
- An extra £125M new burdens funding for local authorities to provide safe accommodation for victims of domestic abuse and their children (a new duty included in the Domestic Abuse Bill).
- £15M in 2021/22 to implement Sir Tony Redmond's recommendations for strengthening the local audit system.
- Details of the proposed local tax income guarantee scheme for irrecoverable council tax and business rates losses in 2020/21.

For Southampton the impact of the settlement in terms of grant funding is included in the council resources outlined in Section 1.

2.3.3 Financial outlook for 2022/23 and after

The Government's priority of responding to the COVID-19 pandemic has meant a further year's delay to the planned implementation of changes to the local government finance system until at least April 2022. If the 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 2021.

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 2022/23 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.

The major budget pressures felt across adults and children's social care remain key factors in the sustainability of local government finance. The Government's proposals for putting the adult social care system on a sound financial footing are keenly awaited.

Conclusion

This MTFF provides a robust framework for setting the budget for 2021/22 and ensuring the Council remains in a sustainable financial position over the medium term. The current forecast position is extremely challenging, with the additional budgetary pressures arising from the COVID-19 pandemic adding to those faced through increasing demand for key statutory services. Responding to the COVID-19 pandemic has been the primary focus this year, which has inevitably meant taking some short term measures such as the use of reserves to balance the budget for 2021/22. However, many of the budget pressures faced are ongoing, therefore action will need to be taken to find long term solutions for addressing the future years' budget shortfalls.

The MTFF will be kept under regular review, and funding assumptions will be amended where Government announcements provide more clarity on funding beyond 2021/22. 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.