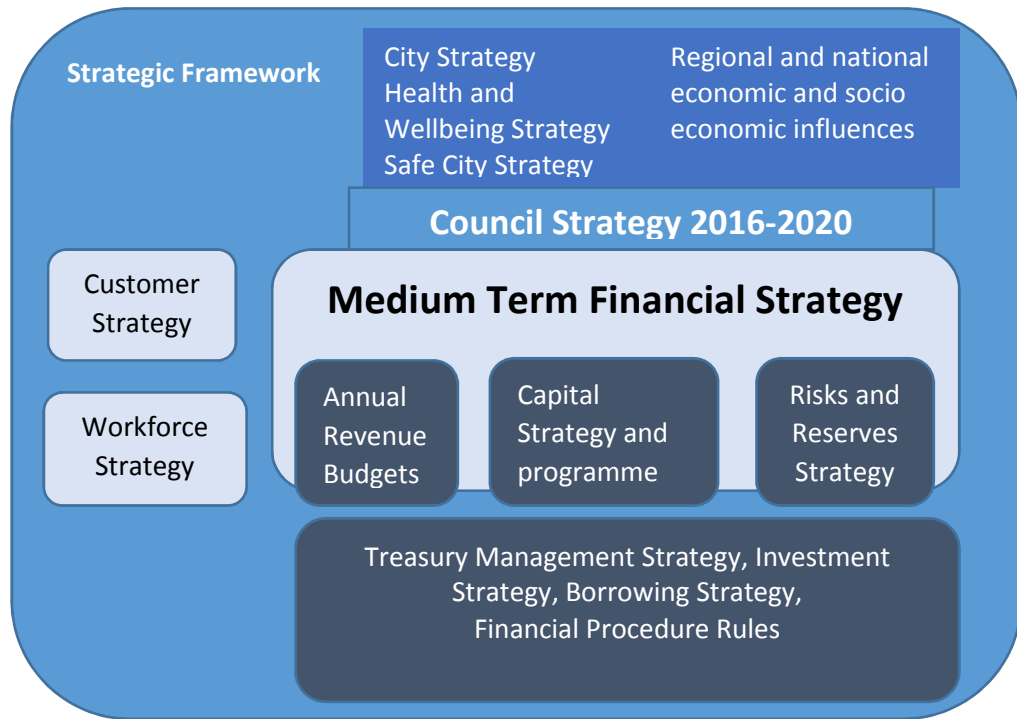


# Medium Term Financial Strategy

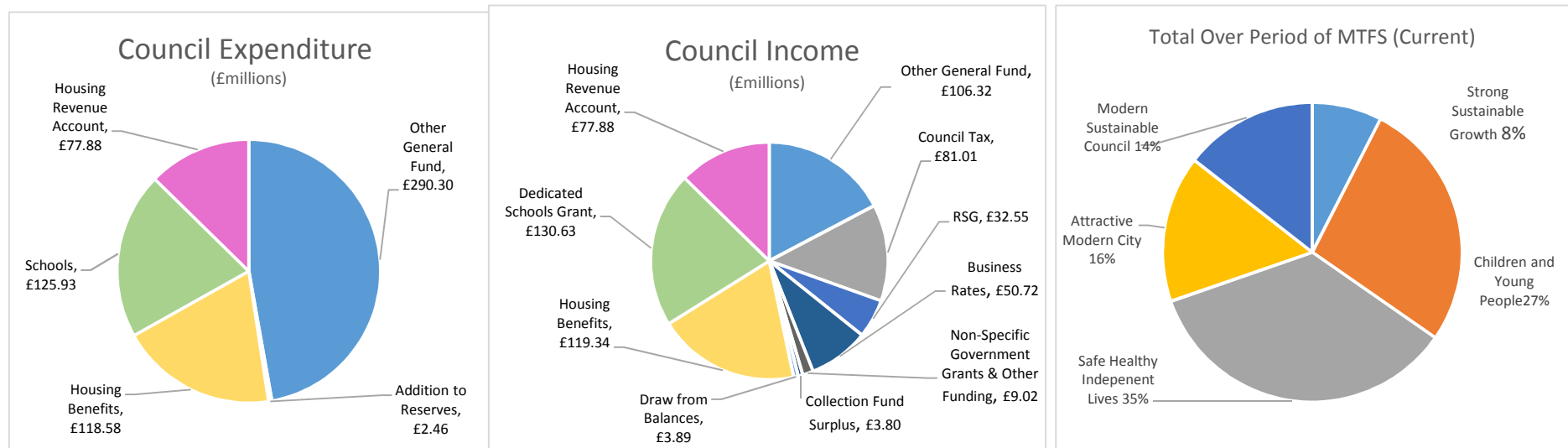


The Medium Term Financial Strategy (MTFS) is central to the delivery of the priority outcomes in the Council Strategy in an affordable and sustainable way over a 4 year period. It is a forward forecast of potential changes that could affect the Council's financial position and takes in account unavoidable service pressures, regional, national and international economic influences as well as local factors and priorities.

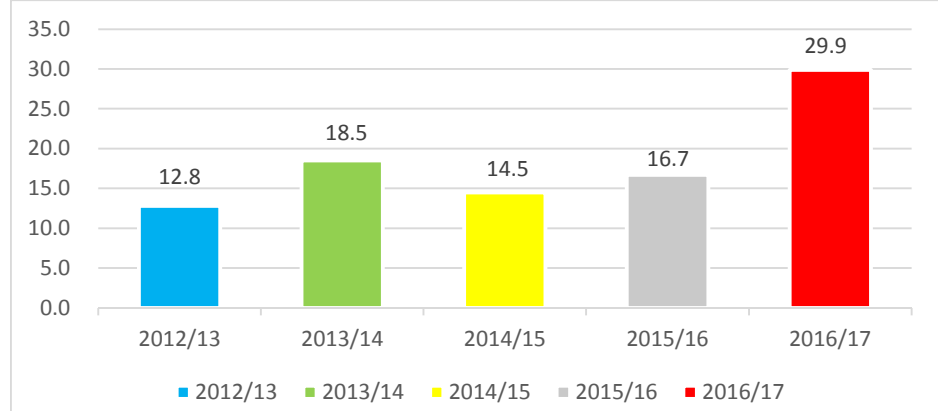


## Key facts and figures

The Council currently spends £615M delivering services and funds this from income from Central Government Grants, Council Tax, Business Rates, Rents, and other Fees and Charges. The pie chart shows four areas of expenditure: two are passed through directly to schools and for benefit payments. The Council needs to include 2 separate plans for the remaining two areas as one relates to ring fenced expenditure on Housing (within the Housing Revenue Account) of £78M and the other (General Fund) of £293M can be used to deliver the Council's outcomes and priorities. In order to meet the financial challenges and service pressures we face, we have to save £42.3M from the General Fund budget by 2019/20 to be sustainable – this is a reduction of 15% on the total General Fund budget.



Over the last 5 years, we have saved £92.4M, but continued to deliver a vast range of front line services.



- Examples of what do we spend our money on**
- We maintain over **416** miles of highways and **49** parks
  - We run **6** libraries, **3** museums and support **5** community libraries
  - We provide **16,300** council houses
  - We recycle, compost and reuse **27,000** tonnes of waste every year
  - We processed over **1,000** planning applications last year
  - We provide long term support for over **3,000** adults
  - We work with and support **75** schools in the city
  - Over **15,000** children **under 5** use our city's children's centres and we look after approximately 600 children who are in our care

## Challenges we face

**The financial problem we are facing**

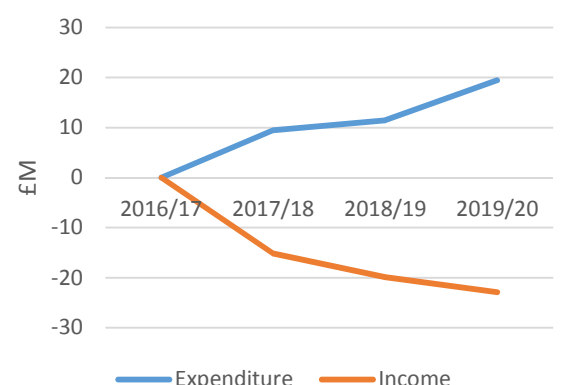
- Council Tax only covers one quarter of our total council expenditure\*
- The main grant we receive from central government has been cut by 30% since 2012/13 and will continue to be cut over the next 5 years
- To meet the needs of our population on a decreasing budget, we have to make cuts and find significantly cheaper ways of delivering services
- The rest of our funding is made up of government grants and funding we win through bids to central government and other funding bodies
- At the same time our expenditure on social care for adults and children continues to go up year on year

\*This figure excludes Housing Revenue Account expenditure and schools expenditure

## Pressures

	2016/17	2017/18	2018/19	2019/20
	£M	£M	£M	£M
Demographic	6.3	3.4	2.2	2.4
National/Policy	6.6	7.1	5.3	5.3
Socio- Economic	12.5	2.4	1.4	1.4
Physical- Environment	2.7	0.3	0.3	0.3
<b>Total</b>	<b>28.1</b>	<b>13.2</b>	<b>9.2</b>	<b>9.4</b>

## The financial gap



<p><b>How much money do we think we will have over the next 4 years and what assumptions have we made?</b></p> <ul style="list-style-type: none"> <li>• Our grant funding from central government will reduce by 55% (from 2015/16 – 2019/20)</li> <li>• Annual increases of 1.99% in Council Tax (just below the referendum threshold), 2% Adult Social Care precept and 1% Business Rates over the next 3 years</li> <li>• New Homes Bonus will significantly reduce each year and other grant funding will reduce significantly over this period</li> <li>• The Public Health grant will be phased out by 2019/20</li> <li>• Pay award to staff will be by 1% each year but post Brexit economic impacts may affect inflation</li> <li>• Pension costs will increase by between 14.1% and 16.1% over this period</li> <li>• Housing Benefit will be phased out and replaced by Universal credit.</li> <li>• Changes in the Care Act 2014 will not come in until at least 2020</li> <li>• Changing demographic profile an aging population</li> <li>• A new national funding formula for early years funding will be implemented in April 2017</li> </ul>	<p><b>Impacts and risks</b></p> <ul style="list-style-type: none"> <li>• Changes in the economy, interest rates, legislation, new burdens and lack of certainty in future Government funding</li> <li>• Major impact on the financial position of the Council particularly around business rate income, and interest payments if the stable global financial position changes</li> <li>• Changes in functions, how services are funded and provided</li> <li>• Demographic changes and impact of Welfare Reforms</li> <li>• Unmanaged service pressure, unachieved savings, increases in demand</li> <li>• Projected income levels from fees and charges</li> <li>• Increasing costs due to level of future pay awards, general inflation assumptions and impact of National Living Wage</li> <li>• Treasury Management impact and interest rate changes</li> <li>• Degree of risk associated with radical transformation change as we seek to deliver significant change against a backdrop of constrained funding and resistance to behavioural change.</li> <li>• The single rate for all early years providers does not take into account higher running costs of maintained nursery schools and does not allow the Council to retain and cover any funding additional costs for them</li> <li>• The Government could impose a lower Council Tax referendum threshold</li> </ul>
<p><b>Key commitments</b></p> <ul style="list-style-type: none"> <li>• PFI Schools</li> <li>• Hampshire waste contract</li> <li>• Bupa Care</li> <li>• Strategic Services Partnership with Capita</li> <li>• Highways Service Partnership, City Watch and Street lighting PFI with Balfour Beatty</li> <li>• Leisure contracts:</li> <li>• Sports Development with Active Nation</li> <li>• Guildhall with Live Nation</li> <li>• Golf course with My Time Active</li> </ul>	<p><b>Other changes in the horizon</b></p> <ul style="list-style-type: none"> <li>• Impact of Brexit on the national and local economy</li> <li>• Devolution and the Solent Deal</li> <li>• Further integration with Health</li> <li>• New funding formula for schools and early years providers from April 2017</li> <li>• Changes to pensions</li> <li>• Restrictions on exit payments for public sector staff</li> <li>• National roll out of Welfare Reforms and the introduction of Universal Credit</li> </ul>

## Outcomes based planning and budgeting



This is a method of budgeting in which funds are allocated according to a set of predefined outcomes or priorities. Outcomes are the end result – the ‘why’ we are doing an activity, rather than the ‘what’ of the activity (or output) itself. Planning and budgeting for outcomes means we focus on what we are trying to achieve, and the impacts on citizens and stakeholders, rather than products, systems or processes. This means that we move away from annual, salami sliced budgeting that is separate to strategy development and planning to an integrated, single process that focuses on outcomes, for a longer time frame. It also enables the Council to directly link its priorities to its resource allocation.

### Bridging the gap

	2017/18	2018/19	2019/20	2020/21
<b>Bridging The Gap</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Original Savings Requirement	24.6	31.3	42.3	42.3
Pressures	9.5	7.3	6.0	4.7
Changes in Medium Term Financial Strategy Assumptions	(12.8)	(7.0)	(5.4)	(4.1)
<b>Revised Budget Gap After Pressures &amp; MTFS Amendments</b>	<b>21.3</b>	<b>31.6</b>	<b>42.9</b>	<b>42.9</b>
Digital Savings	0.0	(1.4)	(1.4)	(1.4)
Business As Usual	(6.8)	(8.3)	(9.0)	(9.0)
Service Delivery & Redesign	(14.5)	(21.9)	(25.6)	(25.6)
<b>Total Savings Identified</b>	<b>(21.3)</b>	<b>(31.6)</b>	<b>(36.0)</b>	<b>(36.0)</b>
<b>Budget Gap</b>	<b>0.0</b>	<b>0.0</b>	<b>6.9</b>	<b>6.9</b>