PLYMOUTH CITY COUNCIL

Subject:	Medium Term Financial Strategy – Submission to DCLG to secure four-year RSG settlement and eligibility for capital receipts flexibilities
Committee:	Wellbeing Overview and Scrutiny Committee
Date:	20 July 2016
Cabinet Member:	Cllr Darcy
CMT Member:	Lesa Annear
Author:	Paul Cook (Head of Financial Planning and Reporting)
Contact details:	Tel 01752 398633 paul.cook@plymouth.gov.uk
Ref:	
Key Decision:	Yes
Part:	I

Purpose of the report:

Scrutiny is invited to review the Council's updated Medium Term Financial Strategy 2016-20.

Following approval by Cabinet 9 August 2016 and Council 19 September 2016, the MTFS will be submitted to DCLG as the Council's Efficiency Plan.

Approval by DCLG will;

- Secure the Council's RSG settlement for the four years 2016/17 to 2019/20
- Provide the Council with the discretion to use capital receipts to fund revenue transformation costs. Specific usages of the discretion will require Council approval of the business case for the relevant project.

The Co-operative Council Corporate Plan 2013/14 -2016/17:

Approval of the MTFS by DCLG and the resultant flexibilities will assist the Council in delivering the Corporate Plan

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Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land:

The resource implications are set out in the body of the MTFS

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

The MTFS addresses the financial risks facing the Council. It also provides the maximum resources achievable to address key policy areas.

Equality and Diversity:

Has an Equality Impact Assessment been undertaken? No

Recommendations and Reasons for recommended action:

1. That Wellbeing Overview and Scrutiny Committee scrutinises the MTFS
2. Recommends any proposed changes to Cabinet

Alternative options considered and rejected:

Not to secure a four-year settlement would not be in the Council's financial interests

Published work / information:

Background papers:

Title	Part I	Part II	Exemption Paragraph Number						
			1	2	3	4	5	6	7
Statutory guidance on the flexible use of capital receipts (updated). DCLG, March 2016	x								

Sign off:

Fin	Corp FDC 1617 001 PC 11/07/2016	Leg		Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member – Andrew Hardingham													
Has the Cabinet Member(s) agreed the content of the report? Yes													

1.0 Introduction

1.1 The attached MTFS sets out the Council's refreshed Corporate Plan.

1.2 The MTFS calculates the resources that are expected to be available over the plan period. The main sources are RSG, Council Tax and Non-domestic Rates. It also reflects the latest projections (during the government consultation period) regarding New Homes Bonus.

1.3 The MTFS then looks at the additional costs facing the Council, particularly in the Adults and Children's areas. It has been updated for new demographic information and reassessed impact of the National Living Wage.

1.4 Provision is made for specified risks facing the Council including the capital financing costs of essential schemes that cannot be met from service budgets.

1.5 The MTFS outlines the significant savings that have been achieved since December 2013. At the same time it reflects on the high value Transformation Programme already committed in balancing the 2016/17 budget. It also looks ahead to the budget gaps in future financial years that remain to be resolved.

1.6 The MTFS also sets out the Council's future approach to Transformation, and the financial challenges that lie ahead.

1.7 The Plan also summarises the Council's Capital Programme and Treasury Management Policy.

1.8 The MTFS is a strategic document and explains in wider terms how the Council is reshaping and improving its services whilst remaining within its financial envelope. As such it demonstrates to DCLG a clear efficiency plan.

1.9 It should be noted that in setting the 2017-18 budget, there will be the normal process to allow full discussion and consultation on options. However, at this stage it will protect the Council's financial interests to submit the MTFS to DCLG and secure a 4-year settlement and capital receipt flexibilities.

MEDIUM TERM FINANCIAL STRATEGY 2016-20

PLYMOUTH CITY COUNCIL

The Medium Term Financial Strategy (MTFS) covers the financial years 2016/17 to 2019/20. The Plan sets out how the Council will finance the priorities for the Council, having regard to the Plymouth Plan and the Corporate Plan. It is the Council's submission to DCLG to secure the Council's four-year funding settlement. The certainty of the four-year settlement has enabled the council to develop a longer term efficiency plan. Submission of the Plan will also secure the discretion to use capital receipts to fund revenue transformation expenditure.

Version Control – To be deleted in final version			
Date	**Version**	**Editor**	**Detail of Change**
070815	9	Candice Sainsbury	Merging of feedback from CMT 060815 (DN) and new proposed format and edits (DN/HD)
110815	10	David Northey	Updates following meeting with Cllr Lowry
130815	11	Hannah Daw	PPP contribution to section 1
130815	12	Candice Sainsbury	Minor changes to overview – still needs alignment
140815	13	Hannah Daw	Updates following editorial meeting and comment from TL
261015	14	David Northey	Updates following CMT / Labour Group
250116	14.2	Andrew Hardingham	Update following Cabinet Dec. 2015 and Local government settlement Dec. 2015 Rewrite of Capital, TM,
250116	14.3	David Northey	Update following discussion AH
260116	14.4	David Northey	Update following TPB (CMT) discussion
290116	14.5	David Northey	Update following AD & finance feedback
010216	14.5a	David Northey	Update following read through; DN/AH/ LA
050216	15	David Northey	Update following CMT 2 Feb
090216	16	David Northey	Update following finance discussions and update to devolution & Plymouth plan
160216	17	David Northey	Update following review DN/AH/LA
180216	18	David Northey	CMT feedback re Council Tax
190216	19	David Northey	Syntax update
210616	20	Paul Cook	Paper for 210616 CMT
280616	21	Paul Cook	Discussion Leader and Portfolio Holder
070716	22	Paul Cook	Update following discussions 21.6.16 CMT and 5.7.16 Cabinet Planning
200716	24		Scrutiny (People/Health)
270716	25		Scrutiny (Place/Corporate)
090816	26		Cabinet
190916	27		Council
311016	28		Submission to DCLG

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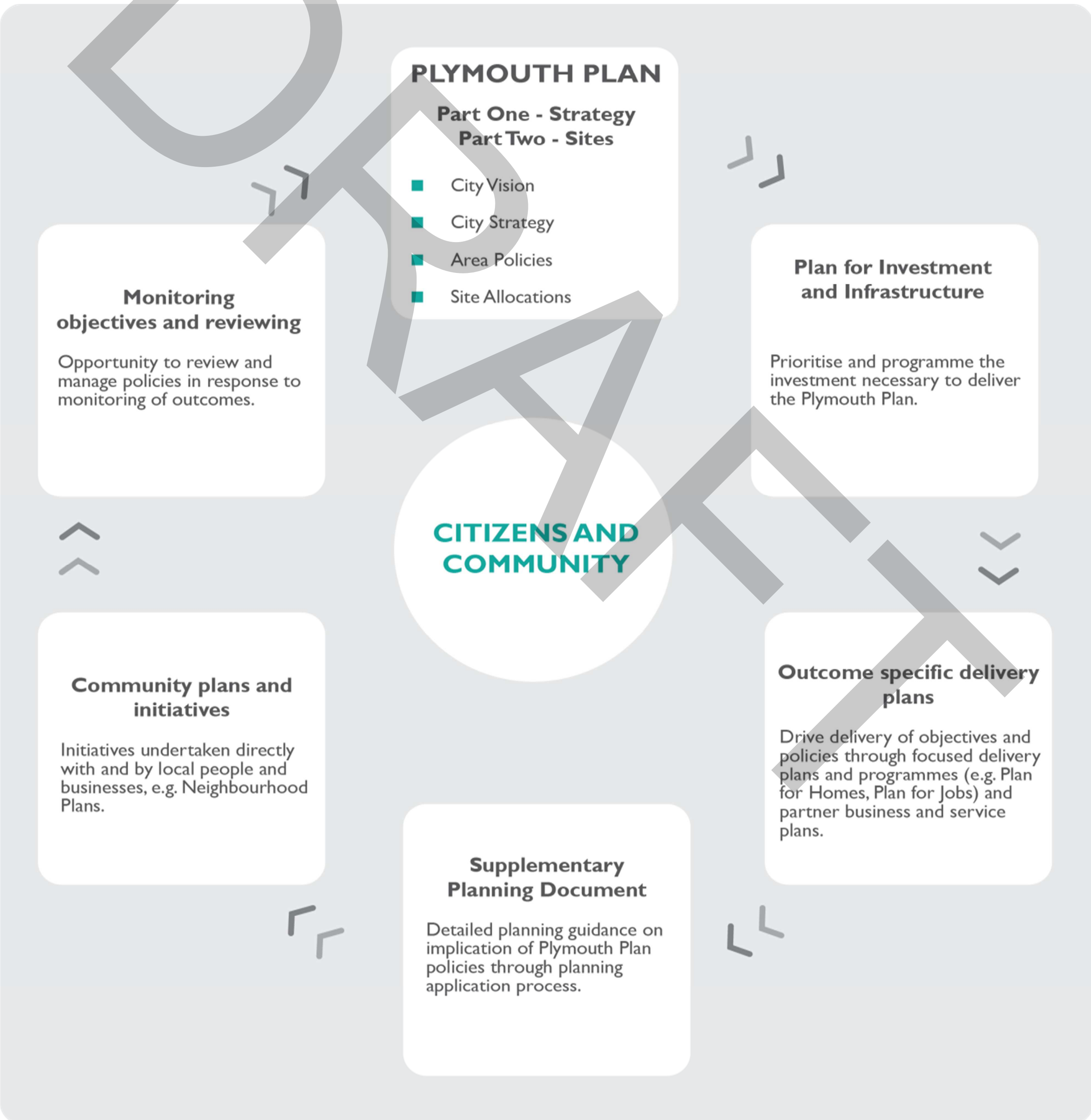
Plymouth Plan

The Plymouth Plan is the overarching strategic plan for the city which looks ahead to 2031 and sets a shared strategic direction of travel for the long-term future of the city. The Plan brings together under one umbrella a wide range of strategic plans which help to guide and shape the services delivered in the city, not only by us, but also those that are delivered by partner agencies and other organisations.

The Plymouth Plan replaces over 130 strategies and now incorporates the children and young people's plan, community safety strategy, health and wellbeing strategy, economic strategy and local transport plan. This is in addition to it being the City's Development Plan.

The Medium Term Financial Strategy is a critical element in that it allocates the financial resources necessary to support the council in delivering most of the plan's objectives and policies. It forms a key part of the delivery of the plan and supports the outcome specific delivery plans identified in the diagram below.



The City faces some major challenges, and has some incredible opportunities. The Plan is therefore truly transformational seeking to ensure the City, its institutions and its people are more empowered and resilient. Five key principles underpin this ambition:

- Roots – ensuring that people feel like they belong and have pride in Plymouth
- Opportunity – people have the ability to contribute to their own and the city's future
- Power – people have the confidence and opportunity to influence decisions
- Flourish – people thrive in a creative, diverse and open environment
- Connections – people mix physically and socially to learn and work together and support each other

In addition there are three cross cutting themes that run throughout the Plan's policies:

- A welcoming city whether you are young or old, resident or visitor, local business or potential investor, and where people feel they have a stake in the city's future
- A city of sustainable linked neighbourhoods which provide quality places that meet the needs for all Plymouth's people
- A green city which enhances its natural environment, demonstrates its commitment to mitigating and adapting to climate change and is recognised for its approach to sustainable development

The overall Vision sees Plymouth becoming one of Europe's most vibrant waterfront cities where an outstanding quality of life is enjoyed by everyone. To help achieve this there are four strategic outcomes:

- The city's strategic role which sees Plymouth becoming the major economic driver for the heart of the south west:
- Healthy city; where its people live in happy, healthy, safe and aspiring communities. Key measures include supporting Thrive Plymouth, becoming dementia friendly, creating strong and safe communities, promoting recreation and play, and meeting housing needs:
- Growing city; which has used its economic, social and environmental strengths to deliver quality and sustainable growth. Key measures include supporting economic growth, creating jobs, building homes, investing in transport, protecting green space and reducing carbon emissions:
- International city; renowned as Britain's Ocean City harnessing the benefits of the city's outstanding waterfront and maritime heritage. Key measures include Mayflower 400, improving the cultural offer, new high quality hotels, and world class universities.

There is a spatial element to the Plan, based around three growth areas: Derriford and Northern corridor, City Centre and Waterfront and Eastern corridor.

Key Plan targets include: 18,600 new jobs; 300,000 population; 22,700 new homes; 2hrs 15 minutes rail journey time to London; 50 per cent recycling rate.

Key Plan milestones include the completion of the following projects: History Centre, Forder Valley Link Road, new district centre in the north of the city, marine industries production campus, electrification of the main line, North Prospect regeneration.

Clearly the City Council and its activities and resources are critical to the effective delivery of the Plymouth Plan. The Plymouth Plan is significant in relation to all of Plymouth City Council's Corporate Plan Objectives. Most particularly it delivers the Growing Plymouth objective, due to its focus on the city's growth agenda and the vision to transform the city. The following table shows that the content of the Plymouth Plan relates well to all of the Corporate Plan objectives:

Corporate Plan Objective	Plymouth Plan Theme
Pioneering Plymouth	Arts and Culture; Greener Plymouth; Local Communities.
Growing Plymouth	Education and Learning; Prosperity and Affordability; Living and Housing; Getting Around; Local Communities.
Caring Plymouth	Health and Wellbeing; Local Communities.
Confident Plymouth	City Pride and Vision.

Successful delivery of the Plymouth Plan will require significant investment from many different partners and sectors including ourselves. This investment requirement will be set out in the Plan for Investment and Infrastructure, which will consider the infrastructure that the city needs as well as the investment required to achieve the plan's objectives. Therefore mechanisms to help forward fund such infrastructure will need to be considered and developed. These objectives are not just about delivering the specific policies identified in the plan, but also in the infrastructure that is needed to help the city grow in a socially, economically and environmentally sustainable way. Whilst the Plan extends to 2031, the Medium Term Financial Strategy take's account of significant investment requirements of the Plymouth Plan over the next four years to ensure the Plan can start to deliver the long-term strategy for the city. This investment includes both capital and revenue elements.

In relation to capital, the key challenge will be ensuring that sufficient capital resources are available to enable the provision of infrastructure. Much of this infrastructure is required to enable the growth that brings with it the growth dividend, i.e. New Homes Bonus, NNDR and Council Tax It is therefore essential that the infrastructure is in place early on during the Plan period. Consequently investment is needed up front. The implication of not doing this will be that growth could be slower and future income targets could not be fully achieved

Key infrastructure types that are required to enable growth include: transport, flood and drainage works, and education facilities. Policy 44 of the Plan identifies over £300m of infrastructure measures required to deliver the spatial strategy. These will require both Council capital resources through capital receipts, developer contributions and borrowing, and also external funds through LEP contributions and bids to Government Departments and other funding bodies. The council is currently reviewing its Community Infrastructure Levy (CIL) Charging Schedule in line with Policy 46 which seeks to secure developer contributions to meet the infrastructure needs of the city. There will also be close links to the council's (and its partners') asset strategies.

In terms of revenue, there could also be significant implications over the Plan period. Investment in services that provide early intervention and health promotion are essential if we are to move to a more empowered and independent population. This clearly should bring benefits in reduced future service costs particularly in health and social care but will require up-front investment to bring about these benefits. The Plymouth Plan can be viewed: Plymouth Plan

OUR PLAN
ONE CITY COUNCIL

PLYMOUTH
CITY COUNCIL

CITY VISION
Britain's Ocean City

One of Europe's most vibrant waterfront cities where an outstanding quality of life is enjoyed by everyone.

OUR VALUES

WE ARE DEMOCRATIC

Plymouth is a place where people can have a say about what is important to them and where they can change what happens in their area.

WE ARE RESPONSIBLE

We take responsibility for our actions, care about their impact on others and expect others will do the same.

WE ARE FAIR

We will be honest and open in how we act, treat everyone with respect, champion fairness and create opportunities.

WE ARE PARTNERS

We will provide strong community leadership and work together to deliver our common ambition.

OUR VISION One team serving our city

PIONEERING PLYMOUTH

We will be innovative by design, and deliver services that are more accountable, flexible and efficient.

GROWING PLYMOUTH

We will make our city a great place to live by creating opportunities for better learning and greater investment, with more jobs and homes.

CARING PLYMOUTH

We will work with our residents to have happy, healthy and connected communities where people lead safe and fulfilled lives.

CONFIDENT PLYMOUTH

We will work towards creating a more confident city, being proud of what we can offer and growing our reputation nationally and internationally.

OUR THEMES

- Quality services focused on customers' needs
- Balancing the books
- New ways of working
- Best use of Council assets
- Working constructively with everyone

- Quality jobs and valuable skills
- Broad range of homes
- Increased levels of investment
- Meeting future infrastructure needs
- Green and pleasant city

- Focus on prevention and early intervention
- Keeping children and adults protected
- Inclusive communities
- Respecting people's wishes
- Reduce health inequalities

- Council decisions driven by citizen need
- Plymouth as a destination
- Improved street scene environment
- Motivated, skilled and engaged workforce
- Setting the direction for the South West

Plymouth
Britain's Ocean City

www.plymouth.gov.uk/ourplan

Our vision is for Plymouth to become one of Europe's most vibrant waterfront cities, where an outstanding quality of life is enjoyed by everyone. Our *Corporate Plan* outlines the strategic direction of the council to reach this vision for the next three years. It clearly sets out the values, vision and themes that the council is committed to whilst driving down spend and maximising income in order to balance the books. The plan contains our vision of Pioneering, Growing, Caring and Confident Plymouth.

The council refreshed it's Corporate Plan in 2016 and worked hard to articulate the vision for the city and expressed in simple terms our values, vision and themes. This document is widely known as our Plan on a page and drives everything that the council sets out to achieve.

Each directorate of the council contributes towards delivering the corporate plan. There are four directorates:

The **People Directorate** comprises of Strategic Co-operative Commissioning, Children Young People and Family services (including Children's Social Care and commissioning of Adult Social Care), Housing services and Learning and Communities. The directorate accounts for almost 64% of the council's net spend.

The **Place** Directorate comprises of Economic Development, Strategic Planning and Infrastructure, Street Services and a Business team. It accounts for 12% of the councils net spend.

The **Office of the Director of Public Health** (ODPH) includes Public Health, Public Protection and Civil Protection. These services are largely funded through income whether ring fenced grant, income generation through service delivery, or cost recovery and therefore the net budget appears relatively small compared to gross expenditure. Our Public Health grant for 2016/17 is confirmed as £16.133m.

The **Transformation and Change Directorate** includes Customer Services, Finance service, Human Resources and Organisational Development, Legal Service and Portfolio transformation and transformation programmes. It accounts for17% of the councils net spend.

Gross spend on other **Corporate Centre** functions at £146m is somewhat skewed through the inclusion of Housing Benefit Subsidy. With this excluded net spend reduces to £26.7m.

OUR MEDIUM TERM FINANCIAL STRATEGY

Our Medium Term Financial Strategy is a core part of the Council's strategic framework. The Plan has a vital role to play in translating the City's ambition set out in the Plymouth Plan, and the Council's ambition and priorities set out in the Corporate Plan into action.

The Medium Term Financial Strategy takes a view out to 2019/20 on the major issues affecting the financing of Plymouth City Council. It should be read together with the 2016/17 Budget Report which sets out in detail the funding and pressures and how we ensured we balanced the books for 2016/17 whilst continuing to provide vital frontline services.

The MTFS links the strategic issues affecting the revenue budget, capital funding strategy and programme, treasury management strategy, and a view of our anticipated reserves, including the working balance. By comparing revenue streams with our forecast cost base the Plan highlights the budget issues that will need to be addressed by the Council over the coming financial years.

In setting this strategy, we have incorporated:

Financial Principles:

1) The expectation is that managers will deliver a balanced budget in year.
2) To achieve a balanced budget year on year
3) To charge for services in accordance with the Council's Fees and Charges Policy applying the relevant inflation index on an annual basis
4) To provide for pay inflation to be allocated from a central provision in accordance with the LG pay settlement
5) To apply specific grants to service budgets and that any reduction in grant should be absorbed by the service budget. It is recognized that there are exceptions (e.g. DSG which is passported to schools and Housing Benefit grant)
6) Cross cutting savings are held in a central corporate items budget and applied to service budgets in the year following implementation. In-year savings are reported against the corporate budget.
7) Capital expenditure to be financed by service departments with corporate or cross cutting schemes funded from a central provision.
8) ICT expenditure to be financed by service departments with corporate or cross cutting schemes funded from a central provision.

In alignment with the Corporate Plan objectives, these principles inform our financial objectives as set out below.

Financial Objectives:

1) To generate the maximum possible funding towards deliver the priorities as set out in the Plymouth Plan and our Corporate Plan
2) Prioritise capital schemes based on deliverability of tangible outcomes whilst considering the context of the overall capital and revenue affordability.
3) We will support the local Plymouth economy working in partnership with local businesses

4) Council Tax is to remain in line with current government guidelines without triggering a referendum
5) Maximise income opportunities primarily through structured growth of the city and proactive partnership working
6) To continue to maximise savings from our Transformation Programme and seek new opportunities where possible
7) Work towards the following Treasury Management principles and targets under our revised (February 2016) strategy: Treasury Management Strategy 2016/17
    a. Continue to maintain the overall investment and borrowing portfolio at a level commensurate with our overall Treasury Management Strategy
    b. Achieve an average return on new investments in the 2016/17 year of 0.8% and 1% for future years
    c. Maintain an overall level of council borrowing of under £300m throughout the financial year
    d. Revenue costs associated with additional borrowing will be factored into the council's revenue budget and MTFS.
8) Retain a revenue working balance of at least 5% of net revenue budget at the end of each financial year.

In February 2016 we received our final Local Settlement for 2016/17 with indicative funding allocations for our Revenue Support Grant (RSG) through to 2020. As expected the funding continued to reduce each year. This MTFS is the Council's submission to DCLG to lock in the Council's four year settlement.

We have responded to the budgetary challenge by continuing to adopt a medium-term approach to our resource planning with our assumptions being regularly updated as new information becomes available. We need to start planning for these now, which will add to the £21m of savings we already had to achieve in 2015/16 to balance our budget. We will also continue to face a number of significant financial pressures in the medium term, with continued uncertainty around our overall future funding and notification dates moving later into the year.

We are preparing for the planned review of National Non Domestic Rates (NNDR) – more commonly referred to as Business Rates - with new valuations in place from April 2017. We will also be monitoring the position as the Government consults on 100% business rates retention. The Consultation is expected in summer 2016.

We have set ourselves stretching targets for increasing our council tax income through new housing build programmes, as set out in our February 2016 Cabinet paper Plan for Homes 2016-2021 as well as growing our business rates base by encouraging new business opportunities. We will also build on our success with the Devon-wide Business Rates Pool to generate further additional rates income. Given the current political climate a key feature of the projected financial plan for the Council continues to be a continuation in the reduction in Government funding.

With effect from April 2015, Plymouth City Council and the NHS Northern, Eastern and Western Devon Clinical Commissioning Group (NHS N.E.W. Devon CCG) have entered into a Section 75 agreement to integrate their respective funding covering all aspects of children's and adults' social care plus intervention services. The People Directorate at over £120m accounts for close to two thirds of the Council's overall net budget; we also have specific grant funding with the primary purpose of improving the public health of our local population of £16.133m for the Office of the Director of Public Health for 2016/17. The funding agreement with the NHS N.E.W. Devon CCG sets out clearly the direction of travel in order to get the best value from every pound spent on an integrated service which serves the needs of the most vulnerable citizens of Plymouth.

The core resource assumptions are based on the 2015 Autumn Statement and the February 2016 Final Local Government Funding Settlement; they also recognise the uncertainty around future funding in general and any impact of the impending move to 100% Business rates retention locally.

Although the continual removal of ring fencing in grants allows the Council more control to allocate resources to meet local need rather than central Government policy, the scale of the reductions of funding puts the Council under extreme pressure to make its costs match the scarce resources available.

This medium term financial strategy supplements the figures set out in the budget for the financial year 2016/17, and looks ahead and models the financial resources and spending plans for the next three years 2017/18 – 2019/20.

The future of local government funding remains uncertain, with annual budget allocations confirmed only weeks in advance of the new financial year to which the resources relate. The only certainty is that, regardless of any change in government, austerity in the public sector will remain for the foreseeable future.

The key vehicle used to protect and improve frontline services within an environment of reducing funding is the Council's Transformation Programme. We are now two years into this programme and have a clearer view as to the financial and non-financial benefits that we can achieve from the defined programmes. In order to avoid duplication, and focus on the big issues that will deliver the greatest outcomes, all financial savings required to deliver future year balanced budgets are expressed through the Transformation Programme. Full details of the Transformation Programme are set out in Section 3.8.

Despite the fall in funding, we remain committed to protecting and investing in essential front line services across the city. We will be investing in early intervention, tackling the city's health inequalities and further integrating social care with health with a clear focus on preventative and enabling services.

This Medium Term Financial Strategy has three principal components covering revenue expenditure on day-to-day services; capital expenditure on assets and other investments; Treasury Management, covering our debt and investment portfolios:

General Fund - This covers our expenditure and income relating to the day to day delivery of our core services and functions. For 2016/17 this equates to £533m spend and £347m income, leaving a net revenue requirement of £186m.

The Government funding for 2016/17 set out in the Local Settlement was our first opportunity to see our resources as the 2015/16 Settlement was only a one year view. By linking with industry experts, LG Futures and the Local Government Association, (LGA), our estimate of our core formula funding for 2016/17 was only out by £0.074m on our confirmed RSG of £33.285m (a variation of 0.22%); our allocation from central government reduces from £44.550m in 2015/16 to £33.211m in 2016/17, a reduction of 24.5% in one year; it falls to a projected £9.533m for 2019/20, a reduction of 79% over the period.

Capital – The council has reviewed and updated its medium term capital programme considering all factors including the current economic climate and ability to raise future funding through areas such as grants, developer contributions and capital receipts.

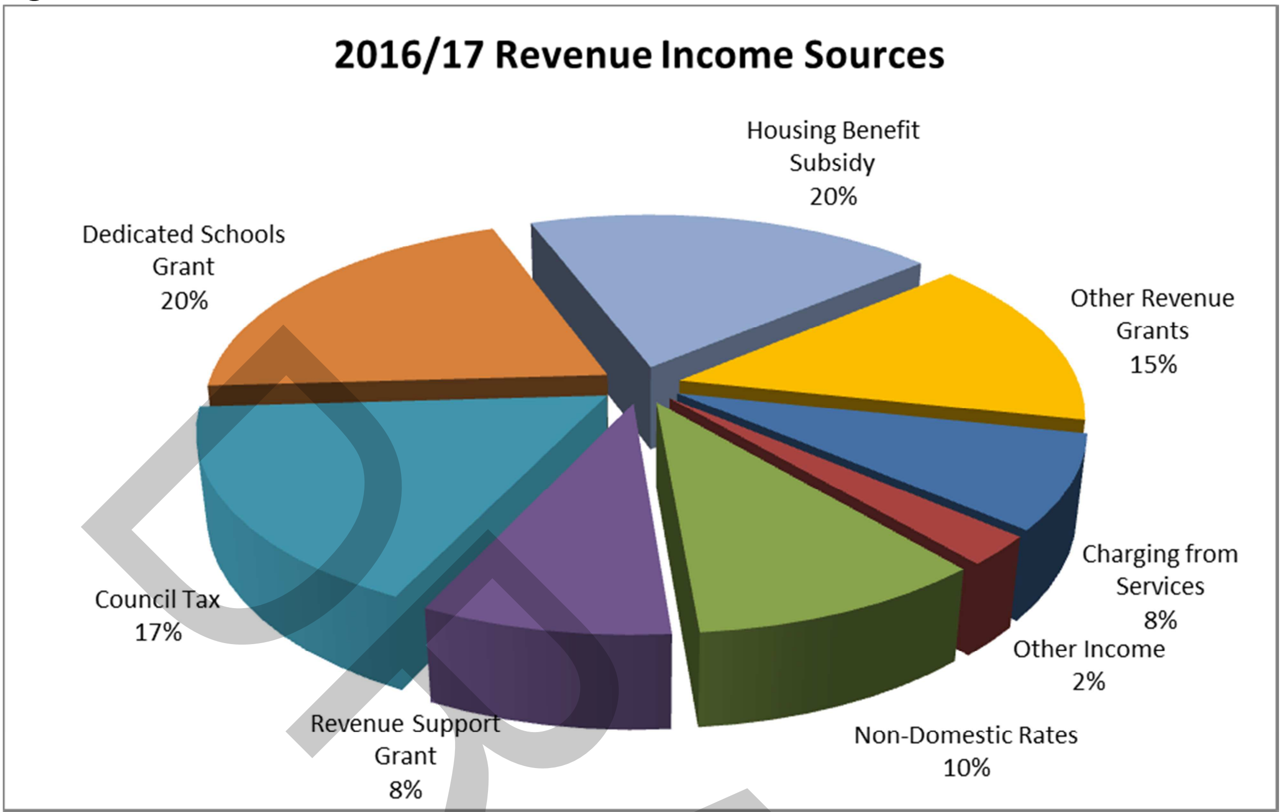
The council remains committed to investment in the city, recognising the importance of structured and planned growth to support and strengthen the local economy and community as a whole. Our approach to prioritising capital spend is now focussed on bigger, more strategic investment that will deliver against corporate objectives and outcomes whilst delivering tangible returns.

Our capital programme to 2020 is £419m.

Treasury Management – Our Treasury Management Strategy sets out Plymouth City Council's approach to the management of its debt and investments, within the framework summarised in the Treasury Management Policy. Both reports will be presented for approval by Full Council in February 2016. In the current economic climate, this strategy has taken on an added significance as we balance investment returns against risk. Our strategy recognises the changing financial landscape and the changes to recent CIPFA guidance on our MRP (Minimum Revenue Provision).

1 Medium Term Financial Forecast

Figure 1: Revenue Income Sources 2016/17



The financial horizon for local government is constantly changing. There are a number of variable factors within this strategy that will materially impact on both resources and spend commitments.

As such, any MTFS requires constant revision and updating throughout the year, integrated with programmed budget monitoring.

Sections within this strategy will set out in full detail our:

- Revenue resource assumptions:
- Grant assumptions
- Identified additional costs
- Future risks
- Identified savings plans
- Required savings plans

Over the three years 2017/18 to 2019/20, there still remains a significant shortfall and savings to be worked through of £3.466m, £2.314m and £7.072. The gap amounts to £12.852m. Officers will continue to work with Cabinet Members to identify additional savings, additional income, or cost savings to achieve a balanced forecast over these future years.

Piecing together our best estimate, future year budgets are as follows:

Figure 2: Medium Term Financial Forecast

		2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
	Figure reference	**BUDGET**	**FORECAST**		
REVENUE RESOURCES AVAILABLE	3	**186.702**	**180.776**	**178.804**	**176.920**
Baseline spend requirement	17	193.009	186.702	180.776	178.804
One off savings b/fwd.	19	-	4.876	-	-
Risks: additional costs	16	-	0.800	1.050	1.050
Plus identified additional costs	15	17.564	7.536	6.307	5.853
Overall spend requirement	**17**	**210.573**	**199.914**	**188.133**	**185.707**
In-year shortfall to be found:	17	**23.871**	**19.138**	**9.329**	**8.787**
Cumulative shortfall	17		**43.009**	**52.338**	**61.125**
Transformation stretch savings	19	**23.871**	**15.672**	**7.014**	**1.716**
REVISED SPENDING FOR YEAR		**186.702**	**184.242**	**181.119**	**183.991**
Budget Gap		**0.000**	**3.466**	**2.314**	**7.072**

2. National and Local Context

2.1 National Economic Growth[1]

The effects of the UK recession, unlike most other major economies, have been characterised mainly by a contraction in output, whereas employment has suffered less and has been more resilient. This contraction in output has predominantly been driven by a drop in labour productivity, a measure that lags significantly behind the other major economies and one that has caused delays in the country's return to growth.

Private sector real wages began to see positive growth in 2015 after a prolonged period of decline; this was due to both an increase in nominal wages and a fall in inflation. The labour market has seen continuous improvement since the beginning of 2013, with unemployment reaching pre-recession levels at the beginning of 2015, and economic inactivity falling well below these levels.

In addition, job creation has mainly been seen in the private sector and away from the public sector. While business confidence has remained in a positive territory since mid-2012, despite a more recent decline since Q3 2014, construction firms anticipate a strong year ahead, and manufacturers are becoming increasingly optimistic.

2.2 Local Economic Growth[2]

With a population of approximately 261,500, an economic output of £5.2 billion and 106,300 jobs, Plymouth is the most significant economic centre in the south west peninsula and the largest urban area in the Heart of the South West Local Enterprise Partnership, making it a key location for growth.

The city's economic performance up to the onset of the global financial crisis and subsequent recession of 2008/9, showed some signs of improvement particularly in terms of nominal Gross Value Added (GVA), relative GVA per job/hour, and employment growth. However, even pre-recession there were concerns about the sustainability of that growth given the city's reliance on public sector jobs, a construction-led housing boom, and the relative weakness in higher value financial, professional and business services.

The recession was deeper and more enduring in Plymouth than elsewhere and overall GVA growth over the decade to 2012 was lower than national and regional (SW) averages. Policy neutral forecasts suggest long-run employment and GVA growth rates below the national average to 2031, showing early indications that in the absence of new interventions, the 'productivity gap' is likely to widen given relatively weak performance across the majority of our industries.

Against other cities, Plymouth has tended to perform better on headline labour market indicators such as unemployment and skills attainment. There remain, however, long term issues of youth unemployment and underemployment. The city saw tangible progress at both ends of the skills spectrum between 2006 and 2012, a convergence with the national average on the proportion of the workforce with degree level qualifications (Level 4 and above) and continued reductions in individuals with no qualifications. The city's performance on no qualifications, however, remains stronger than for higher-level qualifications. It is on productivity and its drivers (particularly business start-ups, density and knowledge based employment) where the city continues to lag and needs to raise its relative standing.

[1] *Plymouth's Economic Review Report, 2015*

[2] *Plymouth's Economic Review Report, 2015*

2.3 Devolution

Since the 2015 election, the government has reiterated its commitment to devolving power out of Whitehall and this has been marked by the introduction of a new enabling piece of legislation, the Cities and Local Devolution Act. Areas are being encouraged to develop ambitious proposals to submit fiscally neutral plans to take on powers and funding streams currently administered by central government, based on the evidence that local areas are best placed to deliver against local priorities, particularly to drive growth.

Plymouth is playing a leading role in creating a negotiating prospectus for the Heart of the South West area (including councils across Devon, Somerset, Plymouth and Torbay, plus health partners and the Local Enterprise Partnership). The Prospectus is focussed on driving up productivity levels by securing greater powers and longer term funding to invest in more housing, jobs and strategic infrastructure. Plymouth is particularly championing the devolution of powers and funding to transform skills and employment, to overhaul the overly-complicated system which is currently failing to meet the needs of local employers.

2.4 Summer Budget 2015

The Local Government Association (LGA) has noted that over the last parliament local authorities underwent a cut in core funding of 40%.[3] Basing the cut measure on adjusted spending power[4], the cumulative real term impact on local authorities was 29.5% over the 5 years to 2015-16. The Government has also delayed the expected return to a budget surplus by a year to 2019/20, but is then aiming for a slightly bigger surplus in the medium term.

The Government's summer budget set out spending assumptions which imply that Resource Departmental Expenditure Limits (RDEL) - which cover day-to-day spending on public services, grants and administration - would be £83.3 billion higher in total over the current Parliament than the Coalition set out in March. These changes would be financed from the following sources:

- Welfare cuts of £34.9 billion including:
  - a four-year freeze in the uprating of most working-age benefits;
  - cuts to tax credits and reduced work allowances in universal credit;
  - forcing registered social landlords to cut rents, thereby reducing the cost of housing benefit to the Treasury.
- Tax increases raise £47.2 billion over the Parliament, including -
  - increases in dividend taxation, insurance premium tax and vehicle excise duty;
  - cuts in pensions tax relief, earlier corporation tax payments, and anti-avoidance and evasion measures.
- Other spending decisions raise £8.1 billion. These include reductions in departmental capital spending and a cut in funding for the BBC reaching £745 million in 2020-21;

Most housing associations have housing finance and investment models built on the assumed RPI+1% model. Neither are profit making therefore any reduction in income must be matched by a reduction in cost. Locally feedback suggests that the most likely result of this initiative is a reduction in housing investment including the construction or acquisition of new housing.

[3] Future funding for councils interim 2015 update, the LGA

[4] Aggregate of year on year comparative cut, taking into account new burdens and rolled in grants.

2.5 Spending Review – Autumn 2015 & Local Settlement February 2016

HM Treasury has demanded in 'A Country that lives within its means: Spending Review 2015' that government departments, excluding those in areas of health, defence and international development, set out plans for reductions to their budgets and model two scenarios, of 25% and 40% cuts in real terms, by 2019-20.

If local authorities were treated as other unprotected departments, their contribution towards the '*Remaining consolidation' (in* Table 1A of the Spending Review report) would require around a £600 million reduction in 2016-17 and £4 billion over 16-17 to 19-20. This represents a 35% real term reduction. Other grants, business rate share and Council Tax funding are not taken into account by DCLG when allocating cuts to authorities and so do not impact equally across all authorities.[5]

In addition authorities face uncertainty over the ad hoc grants that have been created during the last administration such as Care Act (phase 1) and funding streams created during 2010-2015, to compensate authorities for the Business Rate 2% cap.

A. Revenue Support Grant (RSG)

2016/17	Est	Actual	Var
	£m	£m	£m
Revenue Support Grant (RSG)	33.285	33.211	(0.074)

For the first time, the 2015/16 Settlement figures did not include any indication of the funding for the following year 2016/17. The indicative 2016/17 forecast of £33.285 was therefore calculated in collaboration with our independent advisors LG Futures and intelligence received from the Local Government Association (LGA) and working with SIGOMA and other Unitary Authorities.

Although the settlement is only £0.074m different from our forecast this still represents a further cut to our core funding.

This Settlement also gave indicative figures through to 2019/20 that it is now possible to lock in by submission of this MTFS.

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Settlement Forecast			
	£m	£m	£m	£m	£m
Revenue Support Grant (RSG)	44.550	33.211	23.058	16.323	9.533
Reduction £m		(11.339)	(10.153)	(6.735)	(6.790)
Reduction %		25	31	29	42

[5] SIGOMA The Special Interest Group of Municipal Authorities (Outside London) within the LGA

B. Adult Social Care 2% Precept

In the spending review 2015, the Chancellor of the Exchequer announced that for the rest of the current Parliament local authorities responsible for adult social care (ASC), "will be given an additional 2% flexibility on their current council tax referendum threshold to be used entirely for adult social care"

Additional guidance was published by the Department for Communities and Local Government that set out the controls to ensure the flexibility was used in accordance with the Governments intentions. Councils must demonstrate increased spending on ASC in each year equivalent to the amount raised via the ASC council tax flexibility; also tax payers were informed on the face of the council tax bill and in the information supplied with it the part of the increase used to fund ASC. The Council decided to apply a 2% precept in 2016-/17. The MTFS assumes a 2% increase is made in each successive year.

	2016/17	2017/18	2018/19	2019/20
	Funding from 2% precept			
	£m	**£m**	**£m**	**£m**
Adult Social Care Council Tax Precept 2%	1.845	1.938	2.035	2.137
Cumulative impact	**1.845**	**3.783**	**5.818**	**7.955**

Business Rates

In October 2015, the Government announced that, by the end of this Parliament (the full devolution of business rates to councils is set to be completed by 2020 although there is uncertainty as to whether this is 2019/20 or 2020/21), local authorities will be able to keep 100 per cent of the business rates they raise locally. In order to ensure that the reforms are fiscally neutral, the main local government grants will be phased out and additional responsibilities will be devolved to local authorities. Achieving these reforms will require a radical overhaul of the local government finance system. To implement this, government wants to work closely and in full collaboration with the sector, in particular the Local Government Association (LGA), as well as other representatives of local government, local councils and interested bodies. A Business Rates Retention Steering Group has been established and is a forum through which local government representatives and other interested bodies will provide information and expert advice to support the LGA and Department of Communities and Local Government in advising Ministers on the implementation of the reforms, with whom the final decision on the design and operation of the scheme will rest.

Our NDR allocation is made up of a number of components;

NDR Baseline

Whilst DCLG publish a baseline NDR figure for each Local Authority as part of the Settlement, this figure is not the final figure that Local Authorities will receive. In January 2016 we submitted our NDR1 return which forecasts the NDR yield expected after allowances for appeals and doubtful debt. Our forecast is higher that the figure used by Central Government.

When considering an acceptable increase in NDR billing, DCLG refer to the Retail Price Index (RPI). For 2015/16 RPI was at 2.4% at the point of the settlement however DCLG considered this rise to be too much and capped the increase at 2%. The intention of the cap was to ensure that retailers weren't burdened with high increases in NDR bills, and the economy continued to grow.

In order to ensure that Local Government was not adversely affected by this national decision, we are then compensated with a Section 31 Grant for the balance.

At the point of the settlement announcement December 2015, the RPI was at 0.8% and this rate was used as the multiplier for NDR in 2016/17. Plymouth City Council and other Local Authorities had been modelling on a RPI increase of 2%, as the original forecasts were. This change in RPI rate has the potential to drastically reduce the NDR yield for Plymouth City Council if not fully compensated for each year. RPI forecasts which were published by the Office of Budgetary Responsibility in December 2015 are shown below.

2014				2015				2016			
Q1	Q2	Q3	**Q4**	Q1	Q2	Q3	**Q4**	Q1	Q2	Q3	**Q4**
2.6	2.5	2.4	2.0	1.0	*0.8*	0.7	1.1	1.9	1.9	2.2	2.4

Period used by Central Government to set NDR multiplier for 2016/17

NDR Top Up

As per the NDR baseline, the top up is also adjusted to reflect the RPI rate. Therefore our projected top up funding also included a 2% increase rather than 0.8%. Our income assumptions therefore include a Top Up of £9.240m in 2016/17 increasing to £9.425m in the subsequent years.

Section 31 Grants

Local Authorities receive Section 31 grants from Central Government to compensate them for national decisions that reduce the NDR yield they benefit from. There are currently two Section 31 grants that Plymouth City Council receive;

Multiplier Cap, as mentioned above the Council receive a top up in respect of caps made to the RPI increases in previous years. These grants continue in future years as they then form part of the baseline.

Small Business Rate Relief (SBRR): In an attempt to stimulate the economy and provide support to small businesses, Central Government gave exemptions to NDR to businesses under a certain threshold. Again, Local Authorities are compensated.

D. New Homes Bonus (NHB) and the switch of funding to Better Care

On the 17 December 2015, the Department for Communities and Local Government published the provisional 2016/17 NHB allocations, indicative 2017/18 to 2019/20 allocations and a technical consultation paper regarding the future of the NHB scheme – "New Homes Bonus: Sharpening the Incentive".

It was also announced that the NHB scheme would be extended indefinitely. However Government has issued the consultation to consider how the incentive element of the Bonus could be further tightened alongside possible changes to respond to the move towards full retention of business rates and the potential for further devolution of powers and responsibilities to Local Authorities.

In addition, the consultation is also looking to achieve savings of at least £800m over the period 2017/18 to 2019/20, which can be used to support authorities with specific pressures, such as adult social care budgets. The Government is not proposing changes to allocations for 2016/17, however the consultation sets out changes that if implemented post 2016/17 will reduce these legacy payments.

Under the original design of the scheme Local Authorities received NHB payments for growth for a six year period. Changes to these legacy payments are being consulted upon. Government's preferred option is to reduce existing allocation payments from 6 years to 4 years (5 years in 2017/18 and 4 years from 2018/19 onwards).

The impact of these changes to Plymouth City Council would be a cumulative reduction of NHB of £5.422m by 2019/20. Full details on the impact are included in section 3.3.5 of this report. It is assumed that the Council's loss of New Homes Bonus will be compensated by an increase in our Better Care Fund allocation.

E. Four Year Settlements

On 17 December 2015 the Department of Communities and Local Government (DCLG) announced a consultation on four-year settlements: an offer to all councils, setting out an offer to any council that wishes to take up a four-year funding settlement to 2019/20. It is hoped that this multi-year settlements strengthens financial management and efficiency in Local Government.

However, as Central Government has identified in the consultation, there are many factors that can influence the funding allocations, and the proposal has been caveated for them. Potential influences included;

- Changes to the business rates multiplier, which is based on RPI in September each year. This impacts upon NDR base increases, top up and Section 31 grants.
- Transfers of additional functions to Local Government. Will any such transfers come with the equivalent funding as in place of the agreement, or subject to reductions in advance
- Transfers of responsibility for functions between Local Authorities. This is unlikely to apply to Plymouth City Council, potentially more applicable to County vs District.
- Impact from the consultation on New Homes Bonus
- Any other unforeseen event.

The Council intends to take advantage of this option.

The advantages of doing so are considered to be:

- The opportunity to plan our finances over the four years, rather than annually.
- The ability to progress budget preparation without having to wait until the annual finance settlement
- Would guarantee the Council's RSG allocation and avoid competing for the residue of a reduced pool once guarantees to subscribing authorities had been met
- This is the decision of most local authorities

The disadvantages of doing so are considered to be:

- Acceptance by implication of significant funding reductions over the period

F. Specific Grants

There remains a lack of information relating to many of the specific grants that Plymouth City Council receives.

- **New Homes Bonus**
  - As part of the Local Government Settlement the Department for Communities and Local Government (DCLG) issued the 2016/17 New Homes Bonus (NHB) allocations for 2016/17 in conjunction with a consultation on how the NHB Scheme could be administered going forward.
  - Under the current scheme we receive circa £5.5m of NHB each year through to 2019/20
  - Moving from current six –year entitlements to the proposed four-year entitlements would reduce our funding in 2017/18 by £1.574m; £2.057m in 2018/19 and a further £1.791m in 2019/20.
  - The MTFS assumes these losses would be compensated by an increase in the Better Care Fund allocation

- **Dedicated Schools Grant**
  - Dedicated Schools Grant (DSG) remains at the levels previously received in 2015/16 for the schools block and early years block. However, the DSG high needs block increased by £92.5 million above the 2015 to 2016 baseline. This equates to an additional £0.431 million for Plymouth in 2016/17.
  - The Government have not given any indication of future funding allocations.

- **Education Services Grant**
  - The Education Services Grant (ESG) retained duties rate will remain at £15 per pupil; however as efficiency saving has been applied to the ESG general funding rate for 2016/17, reducing the rate from £87 to £77 per pupil. MAT
  - Allocations for Local Authorities will be adjusted on a quarterly basis during 2016/17 to take account of academies opening since 30 November 2015.
  - As part of the spending review 2015 the Chancellor announced the intention to save £600m over the period from ESG, and remove Local Authorities involvement in Schools.
  - For 2016/17 our ESG allocation has been reduced from £2.476m to £2.258m, a reduction of £0.218m.
  - For each year 2017/18 to 2019/20 we have included a further annual reduction of £0.200m to reflect the Government's policy to reduce funding in line with their determination that all schools by 2020 will be an academy and therefore our responsibilities as a local authority will also reduce.

- **Pupil Premium Grant**
  - The Pupil Premium Grant (PP) will remain at the current rates for 2016/17, which are
    - Disadvantaged pupils: primary £1,320
    - Disadvantaged pupils: secondary £935
    - PP Plus (LAC): £1,900
    - Service Children £300
  - This Medium Term Financial Strategy assumes our grant will continue at the current level through to 2019/20

- **Homeless Prevention Grant**
  - DCLG have confirmed the 2016/17 allocation will remain the same level as 2015/16, £543,441.
  - We have noted that this level of funding might not be sustainable through to 2019/20 but at this stage have not factored in any reductions. We will keep a watching brief and reflect any new information in our MTFS updates.

- **Better Care Funding**
  - Central Government have announced there will be a formal consultation on the allocation of this funding in due course. Future allocations of BCF will take into account Local Authorities ability to raise additional resources through the 2% Adult Social Care Precept.

  - DCLG and the Department of Health have released a joint Better Care Fund Policy Framework document:
    - The document states that BCF will be increased to a mandated £3.9 billion of which £3,519million is NHS ring fenced funding and £394 million is DFG monies.
    - The £3,519m is to consist of £2,519 up front monies to Health and wellbeing boards including £138 million Care Act & "other" funding and £300 million re-ablement.
    - The remaining £1 billion formerly for pay for performance is to be replaced by two national conditions regarding NHS commissioned out of hours hospital services and action plans for managing delayed transfer of care (DTOC).
    - We do have indicative figures for our BCF to 2019/20 and need to factor these into our overall ASC funding.

- **Public Health**
  - The 2015/16 in-year funding cut was announced in November 2015 and reduced our grant allocation from £14.851m to £13.932m, a reduction of £0.919m or 6%.
  - The Department of Health has considered feedback on the consultation of Public Health Grant in October 2015. Plymouth City Council's Public Health Grant for 2016/17 has reduced by £0.374m and the provisional 2017/18 allocation is cut by a further £0.398m.
  - Since 2015/16 Plymouth's allocation has been cut by £1.169m
  - These reductions have been factored into our forecast.

- **Housing Benefit Admin Grant**
  - This grant is to support our administration of housing benefits on behalf of the Department for Works and Pensions (DWP).
  - In 2016/17 we have been allocated a grant of £1.255m which is a reduction from the 2015/16 grant of £1.530m.
  - We do not have an indication of the level of funding going forward, but we have modelled a similar year-on-year reduction using £0.250m

G. Flexible use of capital receipts

Background

In the Spending Review 2015 the Chancellor of the Exchequer announced that to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects.

Additional Information

Additional guidance published by the Department for Communities and Local Government sets out the controls and requirements to enable this to happen. It applies to the period 1st April 2016 to 31 March 2019.

The following are the key points from the guidance;

- Local Authorities cannot borrow to finance the review costs of service reform
- Local Authorities can only use capital receipts from the sale of property, plant & equipment received in the years in which the flexibility is offered (April 16 to March 19)
- Local Authorities may not use their existing stock of capital receipts to finance the revenue costs of reform
- Local Authorities can only use capital receipts to fund qualifying expenditure
- Local Authorities are able to decide which projects are effective for their areas without the requirement to refer to Central Government.
- Local Authorities are required to produce an annual strategy Efficiency Strategy setting out the projects to be funded or part funded through capital receipts flexibility. It is suggested that this forms part of the annual budget cycle.

The Council intends to take consider taking advantage of this flexibility for 2017-18
The advantages of doing so are considered to be:

- An additional pool of resources to fund essential transformation projects
- The ability to invest capital to achieve long term revenue savings

The disadvantages of doing so are considered to be:

- A one financial year budget advantage with any roll over into future years having to be addressed
- Capital receipts already urgently required for capital investment

Qualifying Expenditure

The following are examples of projects that could generate qualifying expenditure, and is not an exhaustive list;

- Sharing back-office and administrative services with one or more other council or public sector bodies
- Investment in service reform feasibility work e.g. setting up pilot schemes
- Collaboration between Local Authorities and Central Government departments to free up land for economic use
- Funding the cost of service reconfiguration, restructuring or rationalisation where this leads to ongoing efficiency savings
- Sharing Chief-Executives, management teams or staffing structures
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible

- Aggregating procurement on common goods and services, either a part of local arrangements, Crown Commercial Services, regional procurement hubs or professional buying organisations
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, selling services to others)
- Integrating public facing services across two or more public sector bodies to generate savings or to transform service delivery

H. Efficiency Strategy

In order to accept the offer of four year settlement and to be able to make use of the relaxation regarding capital receipts, each financial year, the Council should prepare an Efficiency Strategy setting out the projects that will utilise the capital receipts flexibility. The following are the key points relating to the strategy;

- Local Authorities should prepare annually as part of the budget preparation and approval cycle
- The strategy should be approved by full council.
- In year revisions to the strategy are allowed, however must be put before full council for approval and the initial strategy should set out the circumstances that would lead to a revision
- The initial strategy and any subsequent revisions should, once approved, be made available to the public

As a minimum, the strategy should contain the following;

- A list of each project that plans to make use of the capital receipts flexibility
- The funding split for each project between capital receipts and other sources
- On a project by project basis, a cost benefit analysis to highlight the expected savings
- The impact on the Local Authorities Prudential Indicators for the forthcoming financial year and subsequent years
- From 2017/18 and in each subsequent year, details of projects approved in previous years and commentary on whether the planned savings or service transformation have been/are being realised in line with the initial cost benefit analysis

It is intended that the Council's MTFS is submitted to DCLG as the Council's Efficiency Strategy.

Plymouth Context

A forecast of anticipated capital receipts for the 2016-19 period forms part of the approved Capital Budget (covering the period 2015-20). As the bulk of these receipts are un-ring-fenced, the anticipated income forms part of the total un-ring-fenced Capital Resources reported to the City Council Investment Board for use in support of Capital Projects.

As at December 2015, the council's un-ring-fenced capital resources (including capital receipts) have been fully committed to fund the existing capital programme.

In short, this means that there are currently no available capital receipts to support new capital projects in relation to the above guidance.

However, there could still be a benefit to be taken from the flexibility offered, whereby the guidance provides the Council with the ability to capitalise costs that would otherwise fall to the annual revenue budget. Through doing this, these one-off expenses can be spread over a numbers of years.

To achieve this, it will be necessary to allocate 2016-19 Capital Receipts (as a rough guide, the value of Receipts forecast for the period 2016-19 might be in the order of £10m, but there are a number of factors that might cause this to change) to specified projects, which will have the effect of creating an affordability "gap" within the capital programme. Unless alternative resources are identified, it is most likely that this gap would be bridged though borrowing, where the repayments will need to be met from future years' revenue budgets.

In accordance with the Government's draft guidance and the Council's own governance requirements, each case would be required to be supported by a robust business case, demonstrating the ongoing revenue savings to be achieved.

No assumption has been made in the MTFS as to the flexible use of receipts in 2016/17. Further consideration will be given to business cases as part of the 2017/18 budget preparation.

2.6 Welfare Reform

The Welfare Reform and Work Act 2016 introduced further changes to the way welfare assistance is provided. The government says these reforms will achieve their aspiration for people to become more socially mobile and to promote work as the route out of poverty. The changes will cut the welfare budget by £12 billion and we estimate this will have a direct negative impact on about 20% of our population. There has been significant opposition to the changes by Citizens Advice, Shelter and the Joseph Rowntree Foundation with concerns that they will push some of the poorest people in society into deeper deprivation.

The changes will be implemented between April 2016 and April 2017. These include the lowering of the benefit cap to £20,000, limiting child tax credit support to the first 2 children, freezing benefit payments for 4 years and the removal of the work related activity group rate within Employment and Support Allowance to align with Job Seeker Allowance.

Welfare Reform has been identified as a key strategic risk on achieving citywide objectives. Those objectives include designing and delivering better services, making our City a fairer place to live where an outstanding quality of life is achieved by all. By increasing vulnerability and placing increased demands on already stretched services it puts the delivery of these objectives at risk.

There are further potential consequences which could include increased levels of:

- indebtedness homelessness
- pressure on frontline services such as first stop shop
- crime including domestic abuse
- demand on Children and Adult Social Care provision
- demand for commissioned services such as Advice Plymouth

3. Financing the Council

3.1 Financial Planning Assumptions

By understanding the national and local economic context and local strategic direction we have identified financial planning assumptions that this Medium Term Financial Strategy can be based upon.

The key financial planning considerations are:

- The four-year Revenue Support Grant settlement
- Reductions in other Government grant funding without matching reductions and responsibility for related services provision
- A continuing range of increasing costs in order to meet the demands on the Council and maintain key services, particularly in Adult Social Care and Children's Social Care
- Increased costs of meeting new initiatives
- An expected increase in annual pay inflation of one per cent
- A continued increase in employer pension contributions
- General inflation relating to external spends and contracts have not been accounted for on the understanding that smarter procurement practices will continue to contain significantly increased spending.

The MTFS also assumes that Plymouth City Council will:

- Benefit from the Devon-wide Rates Pool in 2016/17. No further pooling gains are assumed in later years, given the move to 100% retention and the uncertainty as to whether pooling will continue to be available.
- Build on the strong relationship with key partners such as the NHS N.E.W Devon Clinical Commissioning Group building on the S75 Agreement implemented April 2015 and the Integrated Fund
- Maintain a minimum 5% Working Balance. The Council's Working Balance is the revenue reserve that is put aside to cover any significant business risks that might arise outside of the set budget. This reserve has been steadily built up over the years and stands at £10.652 million as at March 2016. This equates to approximately 5.5% of the council's net revenue budget which is about the average for Unitary Councils.

3.2 Revenue Resources

Plymouth City Council, in line with all other Local Authorities, continues to face diminishing resources and increasing demand and costs. In the period April 2011 to March 2015 we reduced net revenue expenditure by just over £43m; for the next four years to March 2020 we will have funding cuts to our core Revenue Support Grant (RSG) of £35m from the 2015/16 £44.5m to £9.5m.

This is a reduction of 79% and a cumulative loss of income over the four years of £96m. This continuing reduction in our core funding has forced us to transform fundamentally the way in which we undertake our business and how we set a sustainable budget.

The whole landscape of funding for Local Authorities is under review. The Government expects to publish shortly a consultation paper on the introduction of 100% NDR retention by local authorities to be phased in by 2020. The Council welcomes this change but will be watching carefully a number of areas, including:

- The proposed review of councils' need to spend
- Sharing the risk of appeals
- Equalisation of resources between authorities
- What safety net arrangements will be on offer

No increase was made in the Council Tax for 2016/17. A forecast increase in council tax income from £90.410m to £94.082m reflects

- The increase in our Council Tax Base as a result of our growth programme £1.827m:
- The additional 2% ASC precept of £1.845m.

Business Rates forecast assumes a full growth dividend. It is expected there will be no benefit from pooling in 2017-18, as it is not expected pooling will continue to be available given imminent business rates retention reforms. A moderate RPI inflation factor has been assumed.

Figure 3: Revenue Resource Assumptions

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Forecast**			
	£m	**£m**	**£m**	**£m**	**£m**
Revenue Support Grant (RSG)	44.550	33.211	23.058	16.323	9.533
Council Tax	90.410	94.082	96.927	99.842	102.845
Business Rates	58.049	59.409	60.791	62.639	64.541
Total (including ASC Precept):	**193.009**	**186.702**	**180.776**	**178.804**	**176.920**
Increase / (decrease) over previous year		**(6.307)**	**(5.926)**	**(1.972)**	**(1.884)**

The scale of the funding reductions as set out in Figure 3 gives an indication of the task facing the Council over the next four years. Looking only at RSG the reductions are:

Figure 4: RSG reductions

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Settlement Forecast**			
	£m	**£m**	**£m**	**£m**	**£m**
Revenue Support Grant (RSG)	44.550	33.211	23.058	16.323	9.533
Decrease over previous year		**(11.339)**	**(10.153)**	**(6.735)**	**(6.790)**
Decrease over previous year %		**25**	**31**	**29**	**42**

The Council faces a continuing reduction in core central funding from the Revenue Support Grant and its replacement by locally collected business rates and council tax.

The imminent Government consultation proposals on 100% business rates retention will be carefully watched and the Council will hope to maximise its flexibilities under the new arrangements. A comprehensive business rates revaluation exercise is being undertaken in 2016 to implement new valuations from April 2017.

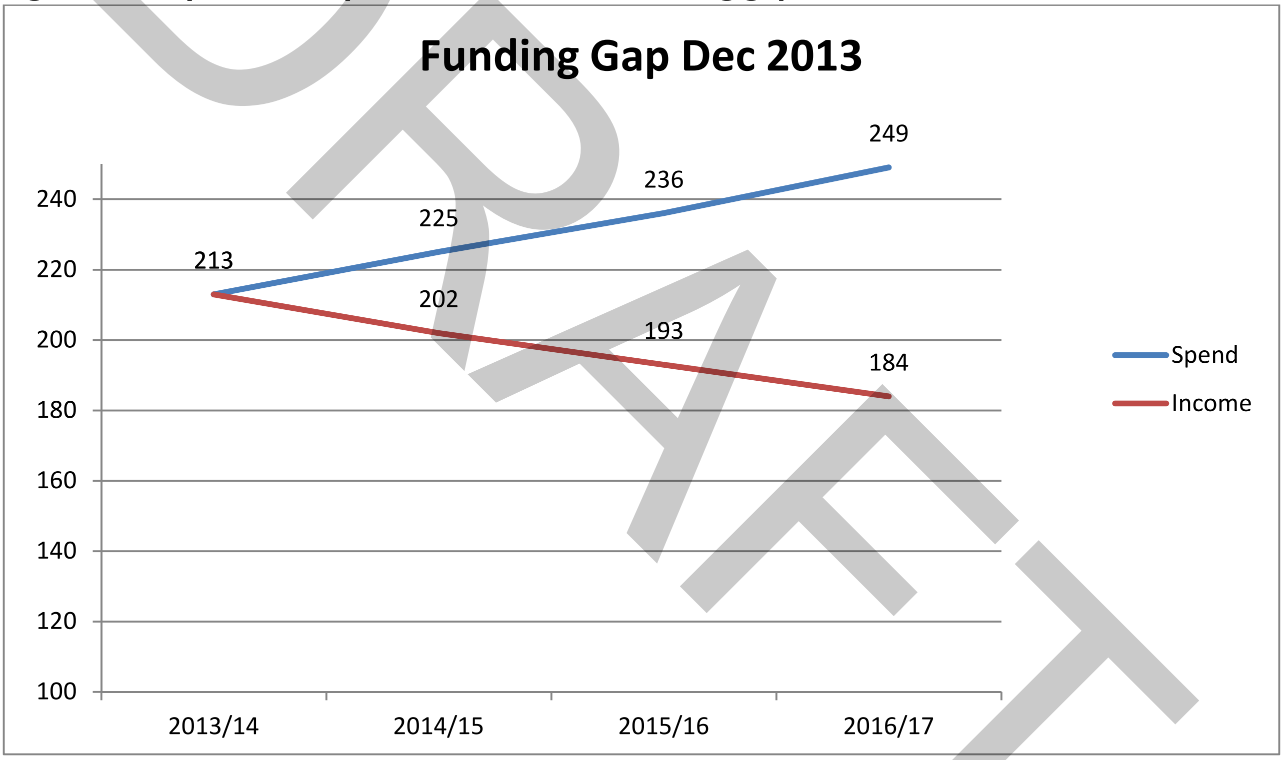
The Government has set a cap of 1.99% for any council tax increase without a local referendum. However authorities now also have the power to raise an additional 2% social care precept to meet the increased costs associated with adult social care. The government has assumed in calculating the national settlement that authorities will raise the general council tax by RPI each year over the life of this parliament in order to fund their services.

The Efficiency Plan business rates forecasts are based on current valuations and government legislation.

Although our budget is expressed in net terms, the actual gross spend for the council is in excess of £530m per annum. This reflects a number of significant income streams which the council either manage, or passport on to third parties. The three largest of these are the Housing Benefit Subsidy Grant, Dedicated Schools Grant (vast majority allocated direct to Schools on a formula basis) and the New Homes Bonus.

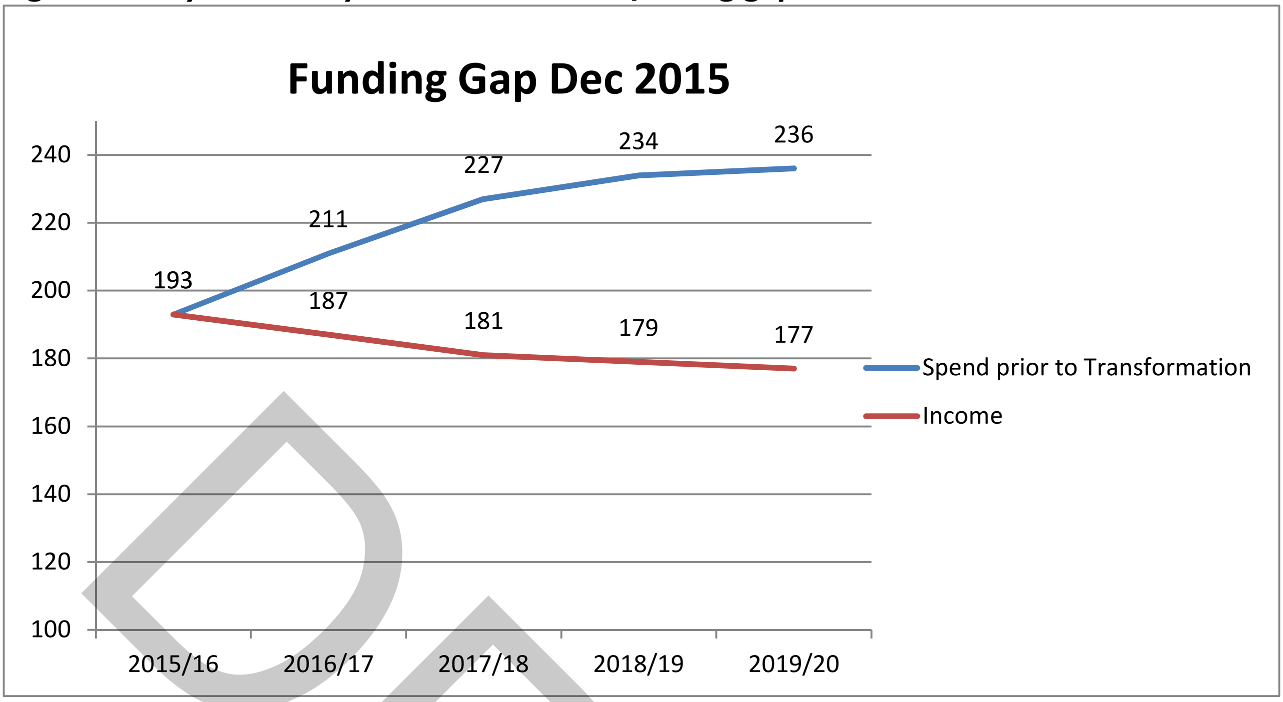
The Council's MTFS approved in December 2013 estimated an overall funding gap of £65m because of falling revenue resources and increases in demand led services as detailed in *Figure 5*.

Figure 5a: Plymouth City Council estimated funding gap as at December 2013



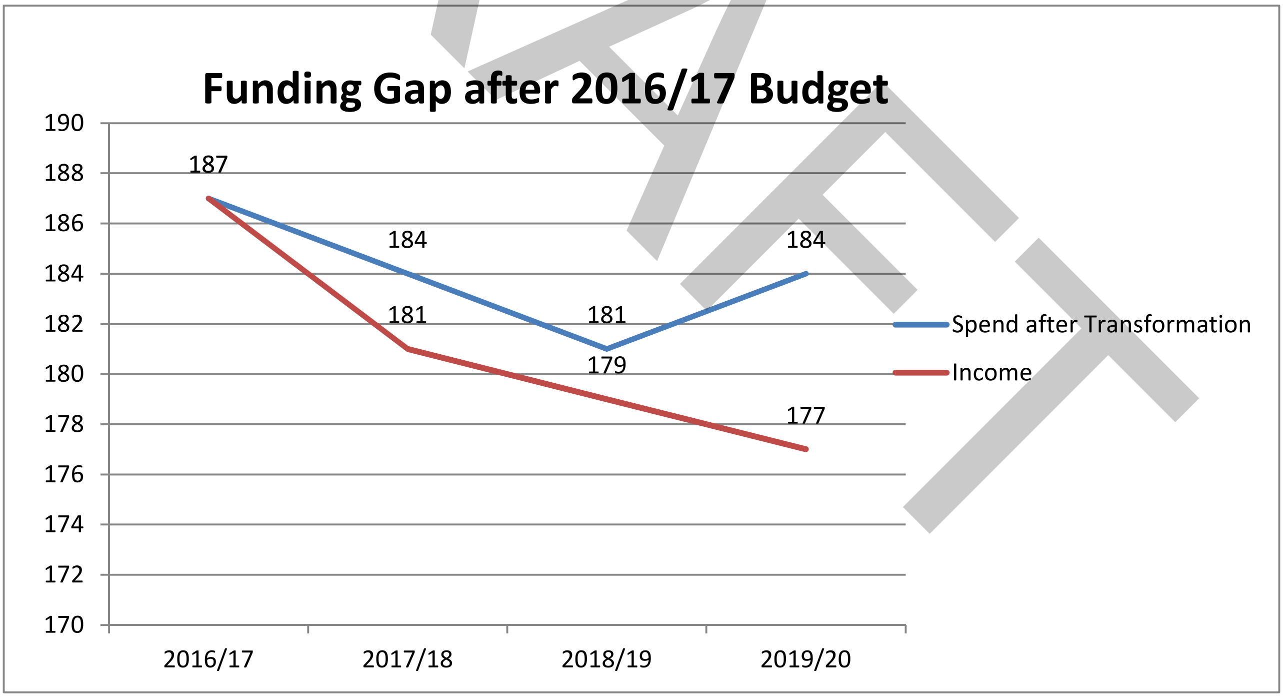
Due to transformation savings the Council has overcome these financial challenges. However the efficiency challenge moves forward. The chart below resets the position prior to setting the 2016/17 budget.

Figure 5b: Plymouth City Council estimated funding gap as at December 2016



However due to the high level of Transformation Stretch savings recognised in setting the 2016-17, the current budget gap is set out in the table below.

Figure 5c: Plymouth City Council estimated funding gap after setting 2016/17 budget



This Efficiency Plan details actions over the next four years and the financial benefits obtainable. It will be refreshed and updated on a regular basis. We have every confidence that we will succeed in delivering these savings, and emerge in a strong position to take on the next set of financial challenges.

3.3 Treatment of Specific Grant Funding

3.3.1 Housing Benefit Subsidy Grant

This Government Grant relates to the level of Housing Benefits that the council administers on behalf of Plymouth residents. At defined stages throughout the year, we need to report on the totality of benefit payments made and discounts applied in order to draw down the appropriate level of government funding.

The Housing Benefit Subsidy Grant is estimated to be **£101m** in 2016/17. In effect, this is a cost neutral grant in budget terms. However, there are some financial incentives for the council in terms of our performance in the timely recouping of housing benefit overpayments.

3.3.2 Dedicated Schools Grant

The largest specific grant that the Council receives is the Dedicated Schools Grant (DSG) which equates to **£183m** for 2016/17. The funding is spent either directly by Schools, (Primary, Secondary and Special), through their formula allocations, or by the authority on their behalf. The Schools Forum, (a representative group of Head Teachers and relevant stakeholders), are consulted on the local authorities formula distribution and the amounts administered centrally.

Any over or under spends on the DSG are carried forward to the following financial year with a neutral impact on the council's general fund. However, accumulated school balances do form part of the council's overall reserves and provisions.

3.3.3 Pupil Premium

In addition to DSG the Council also receives additional schools funding through the Pupil Premium. This allocates additional funding to schools that have pupils who are eligible for free school meals, are looked after by the City Council or have parents who are currently serving in the armed forces.

3.3.4 Public Health Grant

This Government Grant relates to the discharge of Local Authorities public health responsibilities. Conditions are set out that govern the use of the grant including responsibilities for 0-5 children services which transferred in October 2015.

For 2016/17 the Public Health grant **is £16.133m**. In effect, this is cost neutral in budget terms as any over or underspends are carried forward to the following financial year with a neutral impact on the council's general fund. However Plymouth City Council's Public Health Grant has been cut by over two per cent (£0.374m) with the provisional 2017/18 allocation being cut by a further two point five per cent (£0.398m).

Overall, since 2015/16 Plymouth's allocation has been cut by £1.169m.

The 2015/16 baseline was adjusted to include the full year equivalent of the budget for children aged 0-5 and the effect of the 2015/16in-year saving. Nationally there has been a reduction in the total grant of two point two per cent in 2016/17 and a further reduction of two point five per cent in 2017/18.

It remains essential that funds are only spent on activities whose main purpose is to improve the public health of our local population. In 2015/16 a new condition stated that Local Authorities should have regard to the need to improve the take up of and outcomes from their drug and alcohol misuse treatment services.

3.3.5 New Homes Bonus (NHB)

The "New Homes Bonus" (NHB) is a Government scheme which is aimed at encouraging local authorities to grant planning permissions for the building of new houses in return for additional revenue. Local authorities are not obliged to use the Bonus funding for housing development. The scheme was introduced in April 2011 in order to provide a clear incentive to Local Authorities to encourage housing growth in their areas. The amount of NHB that each authority receives is dependent upon two elements;

- The council tax band of each additional property built, multiplied by the national average council tax level from the preceding year i.e. 2016/17 allocations are based upon the average Band D council tax set in 2015/16 at £1,484.
- A payment of £350 for each affordable home.

Plymouth City Council welcomed the incentive-based NHB and it has become a vital tool in our growth agenda, and a core element of our overall funding. For the early years, NHB funding was allocated directly to the Place Directorate. However, allocations for 2014/15 and beyond have been treated as general corporate revenue as part of our overall Growth targets.

The current NHB scheme only guarantees funding for a six year period which starts to taper out from 2017/18. At its estimated peak, in 2016/17, the Council will be reliant on more than **£5.5m** of NHB funding within core revenue budgets. Growth projections from 2017/18 and beyond have been netted off by the anticipated drop out of funding received on a rolling six year basis (e.g. 2011/12 NHB will drop out from 2017/18 income projections). This risk has been factored into our future year resource assumptions as is the wider risk of Government changes to the existing arrangements.
On the 17 December 2015, the Department for Communities and Local Government published the provisional 2016/17 NHB allocations, indicative 2017/18 to 2019/20 allocations and a technical consultation paper regarding the future of the NHB scheme – "New Homes Bonus: Sharpening the Incentive"
It was also announced that the NHB scheme would be extended indefinitely, however Government has issued the consultation to consider how the incentive element of the Bonus could be further tightened alongside possible changes to respond to the move towards full retention of business rates and the potential for further devolution of powers and responsibilities to Local Authorities.
In addition, the consultation is also looking to achieve savings of at least £800m over the period 2017/18 to 2019/20, which can be used to support authorities with specific pressures, such as adult social care budgets. The Government are not proposing changes to allocations for 2016/17, however the consultation sets out changes that if implemented post 2016/17 will reduce these legacy payments.

Under the original design of the scheme Local Authorities received NHB payments for growth for a six year period. Changes to these legacy payments are being consulted upon. Government's preferred option is to reduce legacy payments from 6 years to 4 years (5 years in 2017/18 and 4 years from 2018/19 onwards). The impact of these changes to Plymouth City Council would be a cumulative reduction of NHB of £6.4m by 2020/21. The year on year reductions are shown in the table below.

Government has also considered a further alternative to reduce existing NHB allocations to 3 or 2 years however this is very unlikely to be carried forward. There no information in the consultation paper regarding transition arrangements for this option.

NHB funding within our revenue base budgets and projected future allocations are detailed in ***Figure 6***

Figure 6: PCC Revenue Funding attributable to the New Homes Bonus (NHB)

Exisiting 6 Year Allocations	2011/12 £000's	2012/13 £000's	2013/14 £000's	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's
Year 1 (Oct 2009-10)	832	832	832	832	832	832			
Year 2 (Oct 2010-11)		706	706	706	706	706	706		
Year 3 (Oct 2011-12)			868	868	868	868	868	868	
Year 4 (Oct 2012-13)				1,189	1,189	1,189	1,189	1,189	1,189
Year 5 (Oct 2013-14)					602	602	602	602	602
Year 6 (Oct 2014-15)						1,319	1,319	1,319	1,319
Year 7 (Oct 2015-16)							850	850	850
Year 8 (Oct 2016-17)								850	850
Year 9 (Oct 2017-18)									850
Year 10 (Oct 2018-19)									
New Homes Bonus	832	1,538	2,406	3,595	4,197	5,516	5,534	5,678	5,660
Cumulative Payments	832	2,370	4,776	8,371	12,568	18,084	23,618	29,296	34,956

Proposed 4 Year Allocations	2011/12 £000's	2012/13 £000's	2013/14 £000's	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's
Year 1 (Oct 2009-10)	832	832	832	832	832	832			
Year 2 (Oct 2010-11)		706	706	706	706	706			
Year 3 (Oct 2011-12)			868	868	868	868	868		
Year 4 (Oct 2012-13)				1,189	1,189	1,189	1,189		
Year 5 (Oct 2013-14)					602	602	602	602	
Year 6 (Oct 2014-15)						1,319	1,319	1,319	1,319
Year 7 (Oct 2015-16)							850	850	850
Year 8 (Oct 2016-17)								850	850
Year 9 (Oct 2017-18)									850
Year 10 (Oct 2018-19)									
New Homes Bonus	832	1,538	2,406	3,595	4,197	5,516	4,828	3,621	3,869
Cumulative Payments	832	2,370	4,776	8,371	12,568	18,084	22,912	26,533	30,402

Movement in Schemes	2011/12 £000's	2012/13 £000's	2013/14 £000's	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's
New Homes Bonus	0	0	0	0	0	0	706	2,057	1,791
Cumulative Payments	0	0	0	0	0	0	706	2,763	4,554

3.3.6 The Plymouth Integrated Fund (Section 75 Agreement with NHS N.E.W. Devon CCG)

From 2015/16 the Council and NHS N.E.W. Devon Clinical Commissioning Group (CCG), as part of their overall transformation programme, have taken the innovative decision to create the Plymouth Integrated Fund by pooling or aligning the vast majority of the People Directorate budget and the Public Health commissioned services budget to form a fully integrated health and social care commissioning budget. This has been implemented via a Section 75 Agreement under the NHS Act 2006.

The Plymouth Integrated Fund has a combined net budget of circa **£482m** in 2016/17 and has been established to create an integrated population based system of health and wellbeing for the city of Plymouth. Four new integrated commissioning strategies have been developed in conjunction with the NEW Devon CCG based on the 2014 Joint Strategic Needs Assessment for the city.

These strategies address the whole of the health and social care system in Plymouth and therefore identify how the Plymouth Integrated Fund will be used to improve outcomes and maximise efficiency.

The two partners to the Plymouth Integrated Fund are contributing funding to these arrangements as follows:

- NHS N.E.W. Devon Clinical Commissioning Group: £346m
- Plymouth City Council: £136m

The Plymouth Integrated Fund also incorporates the Better Care Fund, which is an ambitious national programme aimed at driving forwards integration between the NHS and Local Government. It creates a local single integrated budget to incentivise the NHS and Local Government to work more closely together placing wellbeing as the focus of the health and social care services. For 2016/17 the funding we receive from the Better Care Fund has been confirmed as £19.351m for the two partners.

The Plymouth Integrated Fund which was created by the Section 75 Agreement is also supported by a detailed financial framework which in defines how the integrated arrangements are intended to work. The fund is further underpinned by an innovative risk capping agreement on the basis of a 77% CCG: 23% Council share of both financial benefits and risks. This agreement limits the transfer of any over or under spends between the partners to a defined prudent maximum.

Whilst the development of the Plymouth Integrated Fund will create new opportunities to deliver improved outcomes and financial savings, it is important to recognise the existing budget pressures that exist in both separate organisations. Both organisations have developed plans to address underlying overspends in relation to the funding in the Plymouth Integrated Fund.

As part of the planned integration of health and social care 171 adult social care delivery staff transferred from the Council to Livewell Southwest on the 1st April 2015. Livewell Southwest is a community interest company (CIC) set up in 2011 to deliver community, physical and mental healthcare to people living in Plymouth, South Hams and West Devon. The transfer of the adult social care delivery staff will, for the first time, enable a fully integrated approach to both health and social care assessments for the people of Plymouth.

3.3.7 Other un-ring fenced grants – Where practical, (depending on grant conditions), the Council aims to pool all non- ring fenced grant funding received with all other revenue and capital resources. Total resources are allocated based on corporate prioritisation linked to the council's Corporate Plan.

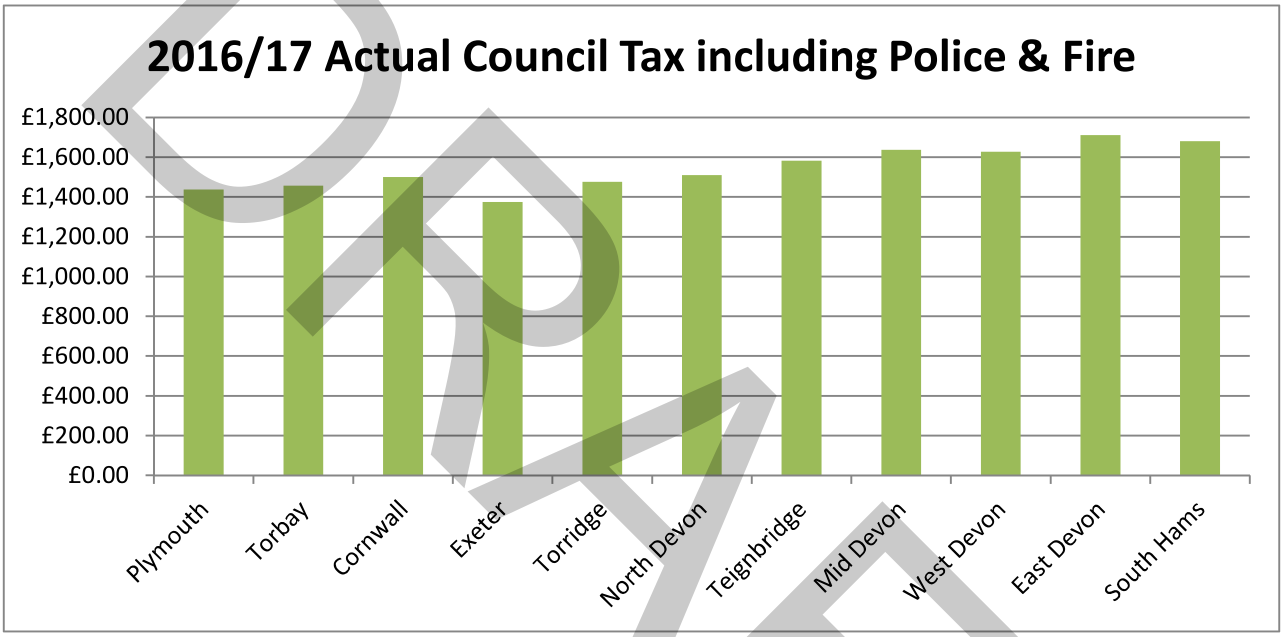
The finance department have developed a grant register to ensure we capture all grant funding receipts, and also ensure the appropriate receiving department are aware of the value and timing of receipts. Finance also work closely with departments to evaluate grant bids, ensuring there are no hidden costs or match-funding requirements.

3.4 Council Tax

Due to the level of reduction in government funding, it was necessary for the Council to increase Council Tax in 2015/16 by 1.99%. Council Tax has thereafter been frozen through to 2019/20; for 2017/18 at this stage of modelling the additional precept introduced by government for adult social care has been applied. This increase would equate to an additional circa £1.84m on-going revenue core budget.

The 2% increase would mean that the average Plymouth Household would be paying an additional 38p per week for the numerous front line services that we provide. Plymouth City Council will still retain one of the lowest average council tax levies across Devon and the wider South West as demonstrated in Figure 7

Figure 7: 2016/17 Devon Average Council Tax



For MTFS purposes we have modelled our resource assumptions based on no general council tax increase for all years to 2019/20. Clearly this will be reviewed and updated on an annual basis considering legislation and policy changes, political prioritisation and other local economic and funding factors.

In the table below we have set out the implications on our overall resources for 2017/18 to 2019/20 of three alternative options on future changes; a general council tax freeze in each year; a general council tax increase of 1% year-on-year; and an increase up to the referendum limit of 1.99% in each year.

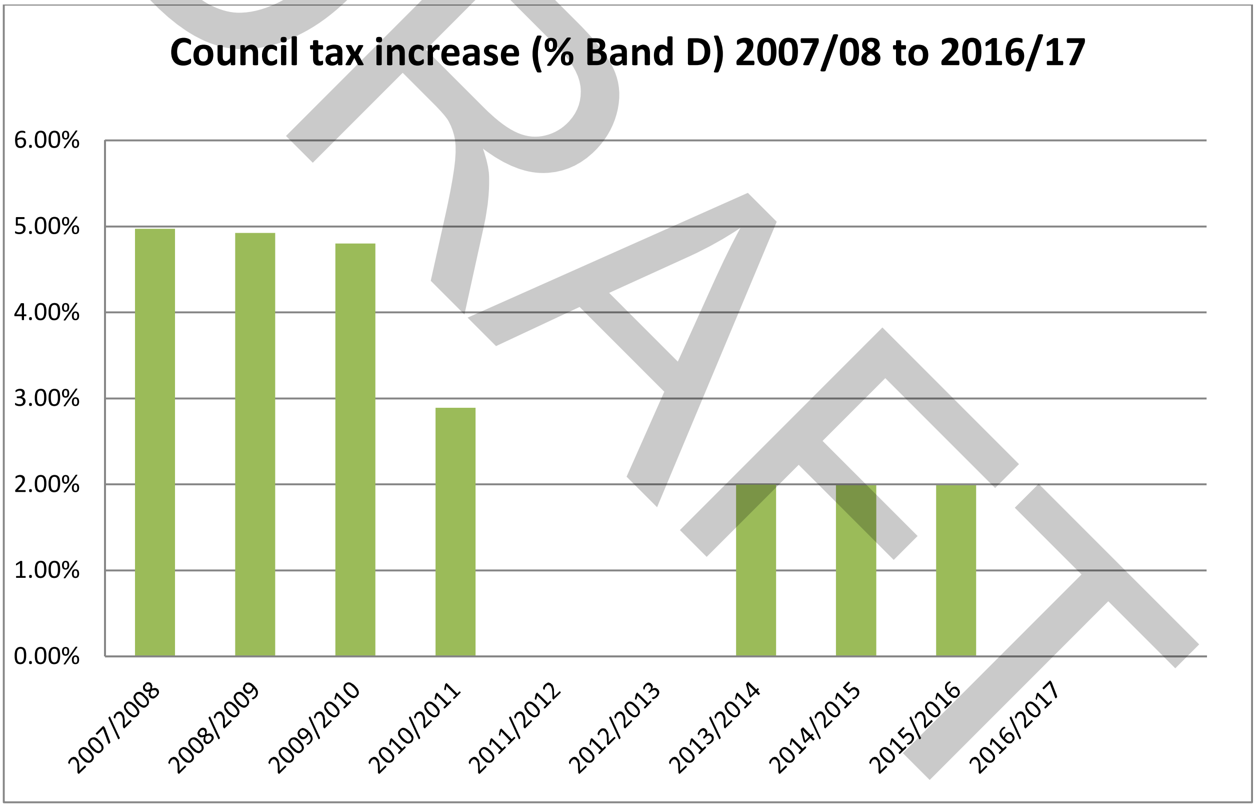
In round terms, every 1% movement in our Council Tax base equates to between £0.950mand £1m. This reflects the cumulative impact of year-on-year increases.

Figure 8: Council Tax sensitivity impact

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Adult social care precept assumed	94.08	96.927	99.842	102.845
		0.945	0.979	1.014
(1) Based on +1.00% increase	94.082	97.872	100.821	103.859
		0.945	0.979	1.014
Based on 1.99% increase	94.082	98.890	101.800	104.873

Since Local Government Re-organisation in 1998, the level of funding per head of population for Plymouth residents has remained significantly lower than the majority of Unitary Councils across the country. In order to retain and protect essential front line services, it has therefore been necessary to enact phased increases in Council Tax over the past 15 years as demonstrated in ***Figure 9.*** The figures quoted do **not** include the Adult Social Care 2% precept.

Figure 9: Plymouth Council Tax Increases 2007/08 to 2016/17



The associated Council Tax Freeze Grants for 2011/12 and 2012/13 were £2.4m for each year; the figure excludes the impact of 2% ASC precept applied in 2016/17.

3.5 Income Collection

In-year collection targets have been set for Council Tax, Business Rates, Commercial Rent, and Sundry Debt Income, which includes our Trade Waste Income. The 2016/17 revenue budget and MTFS assumptions are based on achieving the required targets.

We continue to increase our collection rates in core income streams and explore alternative ways of making further improvements. For example, in-year Council Tax collection rate has increased steadily from 92.5% in 2009/10 to a forecasted 96.7% in 2014/15, (with an overall collection rate of 98.5% being achieved). Collection of Commercial Rent has dropped slightly in 2014/15 but we are confident this will improve during 2015/16.

Clearly, risk remains that we may not achieve the set income targets. The Collection Fund accumulates in-year shortfalls and surpluses accrued in relation to council tax and business rate collection. We have returned a surplus within this fund for each year since 2013/14 but this is more difficult to manage going forward as the Council will have to deal with the effects of welfare reform including the introduction of universal credit.

One-off surpluses through the Collection Fund can be used to off-set prioritised one-off additional costs under delegated authority. For example, surpluses have been used to address the timing delay of receiving Private Finance Initiative (PFI) credits regarding the Energy to Waste Plant. However, year on year surpluses must prompt a review of budgeted collection rates to ensure that income budgets are robust and reasonable. An example of this is our budgeted reduction in the council tax collection to 97.5% in 2013/14 due to the perceived drop in collection as a result of the introduction of the local Council Tax Support Scheme. Since then collection rates have improved and budgeted council tax income has been re-instated at 98.5% for 2016/17 and beyond. However, this will continue to be closely monitored.

Bad debt provisions are made within our accounts to allow for non-collectable debt. These provisions are kept under regular review by the Council's statutory Section 151 Officer.

Figure 10: Income Collection Performance and Targets

Type of debt	Target % 15/16	Target % 16/17	Target % 17/18	Target % 18/19	Target % 19/20
Council Tax	98.5	98.5	98.5	98.5	98.5
Business Rates	98.5	98.5	98.5	98.5	98.5
Commercial Rents	97.0	98.0	98.5	98.5	98.5
Sundry Debt	97.0	97.5	98.0	98.0	98.0

3.6 Additional Costs absorbed within the Medium Term Financial Forecast

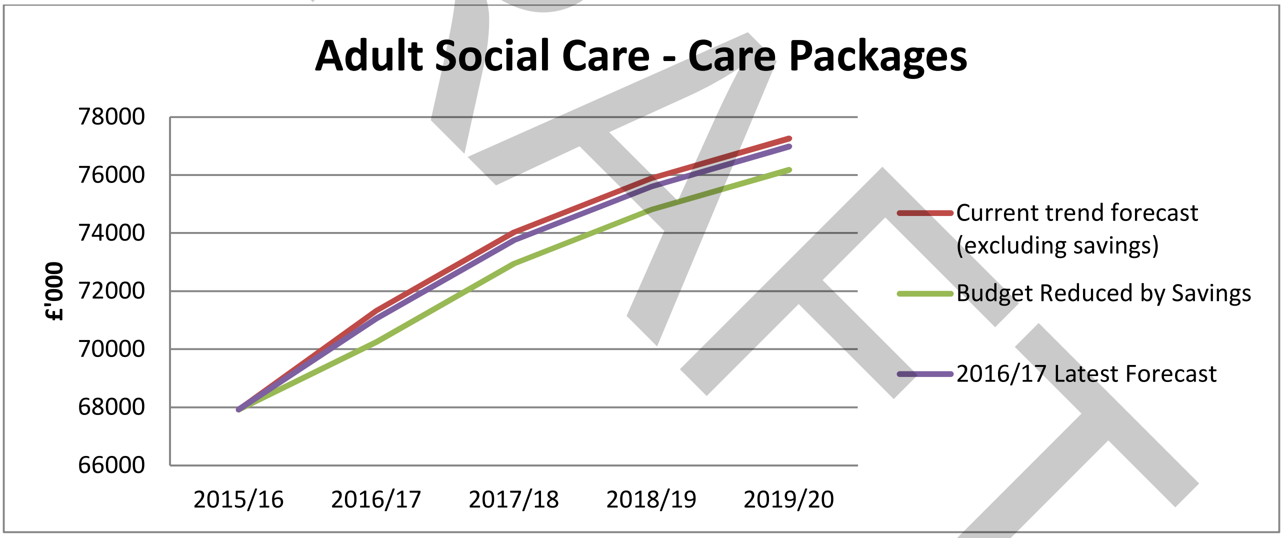
The Council will set its revenue budget for 2016/17 at the Council meeting 29 February 2016. Council directorates have for some time identified known and anticipated expenditure pressures on a rolling three year basis.

For the 2016/17 budget, we have allocated additional revenue funding to match core spending requirements. Due to diminishing resources, these allocations are exceptional in nature with the largest single amounts within the People directorate relating to Children, Young People & Families and Adult Social Care. For these two budget lines which, between them, amount to circa £120m, (in excess of 50% of the Council's entire revenue budget), we have adopted a cost and volume approach to setting the budget for 2016/17 and future years.

Working with the service leads within the business we have projected forwards the likely number of service users and average cost per care package for each type of adult and child that we support between now and 2019/20. We have used this as the starting point, or baseline, for the 2016/17 budget setting.

We have then modelled the anticipated impact of the planned interventions and changes to service delivery models that will be introduced through the Council's transformation programme. We have set the revenue budget through applying the savings from planned interventions to the forward projected costs as demonstrated in ***Figures 12 and 14***:

Figure 11: Cost & Volume for Adult Social Care 2015/16 to 2019/20



Addressing the cost and volume baseline and pressure within Adult Social Care in 2016/17 equates to an added additional cost of £3.409m with further increases applicable in relation to future years. This baseline is reflected by the 'red' line in the graph which represents the core projected cost of the service prior to planned interventions, service changes and/or savings programmes.

Actual care package budgets have been allocated based on the 'green' line which represents the net projected cost of the service accounting for quantifiable interventions and action plans which are described in more detail elsewhere in this strategy.

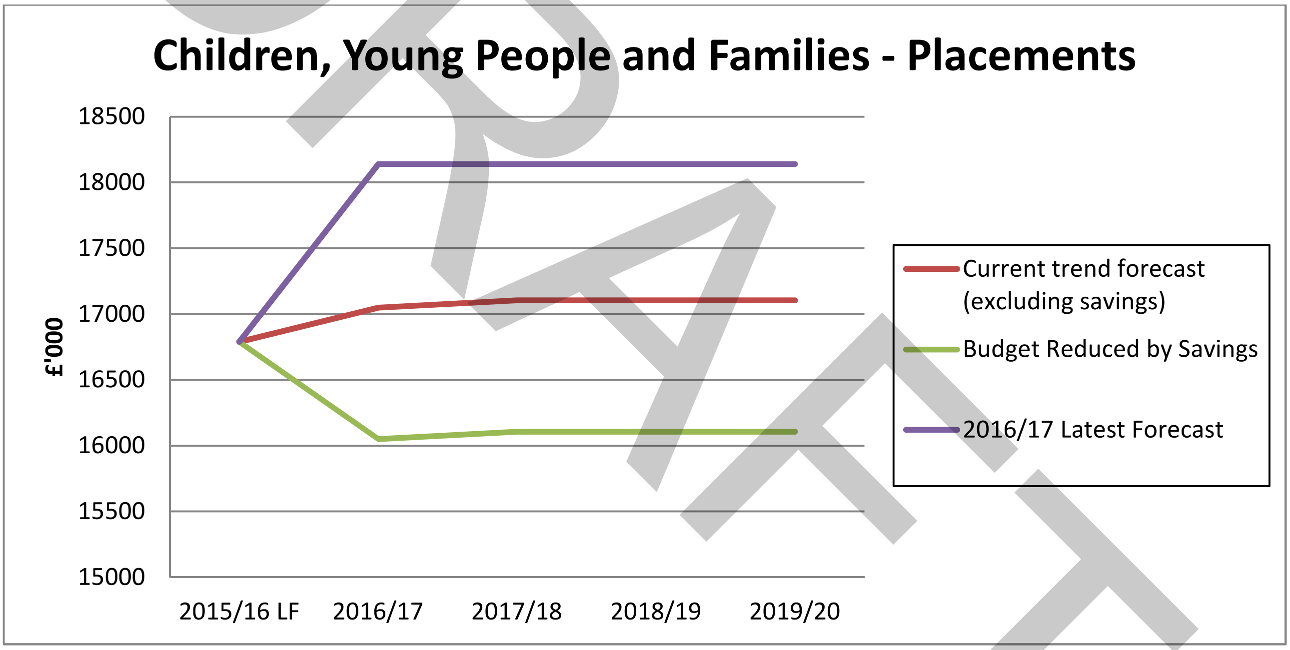
However, going into 2016/17, the supported living and day care budgets are already showing signs of overheating due to higher than budgeted client numbers and costs, which is then shown on the 'purple' line.

The forecasted budget required for Adult Social Care care packages over the medium term, before planned interventions, is demonstrated in Figure 11. It should be noted that this is the net projected cost of the service, incorporating income from health and client contributions which are both established within the existing base budget.

Figure 12: Net Adult Social Care Budgets within MTFS (prior to interventions)

	2015/16 Outturn £m	2016/17 Budget £m	2017/18 Budget £m	2018/19 Budget £m	2019/20 Budget £m
Net budget for ASC care packages (before savings)	67.921	71.331	74.031	75.885	77.259
Annual increase		3.409	2.700	1.854	1.374
Latest Forecast	67.921	72.131			
Variation		0.800			

Figure 13: Cost & Volume for Children, Young People and Families 2015/16 to 2019/20:



Addressing the cost and volume baseline and pressure within Children Young People & Families in 2016/17 equates to an added additional cost of £0.261m with further increases applicable in relation to future years. This baseline is reflected by the 'red' line in the graph which represents the core projected cost of the service prior to planned interventions, service changes and/or savings programmes.

Actual placements budgets have been allocated based on the 'green' line which represents the net projected cost of the service accounting for quantifiable interventions and action plans which are described in more detail elsewhere in this strategy.

However, going into 2016/17, there are a mix of placement budgets that are already showing signs of overheating, which is then shown on the 'purple' line.

Figure 14: Children Social Care Budgets within MTFS (prior to interventions)

	2015/16 Outturn £m	2016/17 Budget £m	2017/18 Budget £m	2018/19 Budget £m	2019/20 Budget £m
Net budget for CYPF care packages (before savings)	16.788	17.049	17.106	17.106	17.106
Annual increase		0.261	0.056	0	0
Latest Forecast	16.788	18.049			
Variation		1.000			

For Children Young People & Families the significant pressure placed on the 2016/17 revenue budgets relate to a steady increase in the number of children being 'looked after' by the authority. When initially setting the base budget in September 2015, a baseline figure of 389 children was used, there are currently 410 (June 2016) looked after children. The current pressure is due to the volume of Looked after Children, increase 21 young people £1.000m.

There are a number of risks around achieving a balanced budget for 2016/17.

- Lack of availability of the right in-house foster care placements creating overuse of IFA's.
- Unexpected court-ordered spend on Parent & Child Assessment placements.
- There are currently 106 Independent Foster Care (IFA's) placements with budget for only 70.
- There are currently 24 Residential placements with budget for only 20.

Current workstreams to deliver savings are being worked up by the service. Similarly to adults, we have then quantified the planned interventions around early intervention and preventative services, (as detailed in our transformation programme), to project reduced demand on the social care budget into future years. The net impact of these interventions, as shown on the 'Green' line reflects the budget allocation approved within our MTFS.

As previously described the Adult Social Care and Children, Young People and Families budgets will be incorporated within the Section 75 integrated budget arrangement with Health from 2015/16.

Overall the People Directorate was allocated an additional £9.215m, with savings and re-allocated budgets from other departments within the directorate contributing to the £9.945m cost and volume funding required for Adult Social Care and Children's Social Care budgets in 2016/17.

As previously described the Adult Social Care and Children, Young People and Families budgets have been incorporated within the Section 75 integrated budget arrangement with Health from 2015/16.

Overall the People Directorate was allocated an additional £8.439m, with savings and re-allocated budgets from other departments within the directorate contributing to the £9.945m cost and volume funding required for Adult Social Care and Children's Social Care budgets in 2015/16.

At this stage, additional costs accepted within the MTFS are exceptional in nature with the inherent assumption that spending departments will absorb the increased cost of service demand and inflation through proactive management action and efficiencies through business as usual operations.

Where managers are unable to sustain such additional costs a clear business case would need to be approved through the Corporate Management Team (CMT) in order to incorporate future year funding allocations.

Utilities have been a significant additional cost in recent years. However, through office rationalisation, carbon reduction investment and falling prices, we have not incorporated such pressures within our MTFS at this stage.

Likewise, general inflation relating to external spends and contracts have not been accounted for on the understanding that smarter procurement practices will continue to contain significantly increased spending.

The additional costs within our MTFS are detailed in *Figure 15* below.

Figure 15: Additional costs within MTFS (from 2015/16 Base Budget)

Item / area	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Salary & Pension / Inflation	0.900	0.900	0.900	0.900
Pension actuarial review		0.600	0.900	0.100
ASC,CSC and People Directorate	3.562	2.756	1.854	1.374
Major Investments	0.850	0.550	(0.400)	-
National Insurance changes April 2016	1.500	-	-	-
Transport links / Income	0.528	-	-	-
National Living Wage	2.217	2.520	3.263	3.479
Delt	1.400	-	-	-
2015/16 savings met from one-offs	5.888	-	-	-
Plymouth Plan (one-off)	-	0.210	(0.210)	-
Total	**16.845**	**7.536**	**6.307**	**5.853**

This table is kept under constant review as part of on-going budget monitoring.

Salary & Pension / Inflation

Pay awards have been significantly reduced over recent years, including a prolonged period of staff pay freeze. A one per cent increase in our payroll roughly equates to £0.9m added revenue spend within our base budget. Looking forward, we have assumed a one per cent award for both 2017/18 & 2018/19, with additional funding towards our pension deficit review.

With the move towards alternative service delivery vehicles such as DELT (www.deltservices.co.uk) and CaterEd (www.plymouth.gov.uk/catered), future one off costs will need to be quantified in terms of ensuring that there is no pension deficit at the point of transfer.

ASC + CSC and People Directorate

For the 2016/17 budget, building on our 2015/16 budget setting process, we have again allocated additional revenue funding to match core spending requirements with the largest single amounts within the People Directorate relating to Children, Young People & Families and Adult Social Care. For these two services which, between them, account for circa £100m of expenditure (in gross t

Major Investments

We are creating the South Yard Marine Industries Production Campus site. This is a long term investment project which will create employment opportunities and generate commercial income in future years. The MTFS assumes an allocation of £0.500m in 2016/17 to cover start-up and running costs with an additional £0.500m allocated in 2017/18. This reduces back to £0.500m in 2018/19. These running costs will not be required long term.

Plymouth City Council is working towards the 400th celebration of the sailing of the Mayflower from Plymouth and has set out ambitious plans to ensure the occasion is marked nationally as well as locally. This allocation is to cover the revenue associated costs of planning and hosting events up to and including 2020.

National Insurance changes April 2016

The Government has announced changes to the levy of national insurance on both employees and their employers for those eligible to a defined benefit pension. Plymouth City Council runs such a scheme and will therefore incur this additional cost burden, calculated to increase our annual salary costs by £1.5m

Transport Links / Income

The importance of a reliable, high speed rail link to London cannot be underestimated. The 2014/15 Outturn Report approved by Cabinet 9 June 2015 allowed the allocation of additional resource to head up this area. It is envisaged that this post will be required for a minimum of three years and the following two years costs have been included here in the Medium Term Financial Strategy.

The additional allocation of £0.528m also includes covering the lost car park income as a result of the closure of some of the city's current sites, and the additional cost of security for the former airport site.

National Living Wage

The Government has introduced a National Living Wage for all working people aged 25 and above. In the first purely Conservative budget for two decades it was announced that the new compulsory National Living Wage of £7.20 per hour will be introduced in April 2016; we have calculated the impact on Plymouth City Council to be £2.217m in 2016/17 rising by £2.520m in 2017/18; £3.263m in 2018/19; and £3.479m in 2019/20.

Delt

The publicly owned private sector company Delt set up in October 2014 currently provides a vast range of IT services to Plymouth City Council (PCC) and NEW Devon CCG as its founding partners. Delt Shared Services Ltd. is continuing to develop the services it provides to its partners and customers and has an ambition for further growth. The company was formed to provide a shared IT service currently providing IT Service Management; IT Professional Services; IT Infrastructure Solutions and Business Applications. As the company is still in its infancy we are undertaking a full review of all of the running costs and are providing £1.4m from 2016/17 to enable the company to be correctly funded going forward.

2015/16 Savings met from One-offs

During the setting of the 2015/16 budget, each directorate and transformation programmer identified savings to be delivered within year. Although in the majority of cases these savings plans are still on course to deliver the full savings, in some cases the launch and therefore the delivery of the savings have had to be delayed during 2015/16. These shortfalls have been made good by one-off in-year savings equating to £5.5m.

Each Director has been tasked to ensure these savings are delivered in full as sustainable during 2016/17 and these form part of the savings target.

Plymouth Plan (one-off)

This covers the anticipated consultation costs in 2017/18.

Risks

During the MTFS setting process, the following "Risks" have been identified and included in our financial model.

(N.B. The risks are steps so the figure for each financial year is an addition to the previous year's base. So for example £250k 17/18 and £250k 18/19 would mean a base budget of £500k from 18/19 onwards.)

Figure 16: Risks 2017/18 – 2019/20

	2017/18	2018/19	2019/20
Risks – Additional Costs	**£m**	**£m**	**£m**
ICT re-provisioning	0.300	0.300	0.300
Apprenticeship Levy	0.250	0.000	0.000
Revenue costs arising from capital investment decisions	0.250	0.250	0.250
Staff costs (EVRS / redundancy)	0.000	0.500	0.500
Total – Additional Costs	**0.800**	**1.050**	**1.050**

The items detailed above have been included under the banner of Risks as they are all yet to be confirmed. However, they have been included in our overall MTFS model.

An amount of £0.300m in 2017-18, 2018-19 and 2019-20 has been set aside for **ICT re-provisioning.** For the purposes of this MTFS we are making two financial assumptions. Firstly that the cost of replacing our current stock of ICT equipment, covering desktop and laptop equipment and printers etc. will fall to our revenue resources rather than the capital programme; secondly that the cost will increase each year. Both of these assumptions will need to be further challenged.

An **Apprenticeship Levy** will come into effect in April 2017 and payable at 0.5% of pay bill which will be calculated on total employee earnings. We will receive an allowance of £15,000 to offset against our payment of the levy and will be collected through "Pay as You Earn" (PAYE) and will be payable alongside Income Tax and National Insurance.

We have included £0.250m for the **revenue costs arising from capital investment decisions** in 2017/18 stepped a further £0.250m in 2018/19 and £0.250m in 2019/20. In the section on capital, we set out our proposed principle that borrowing costs associated with investment projects follow the "Invest to save" principle and are repaid by the project. There will be cases where investment is required, such as Health and Safety, where there is no financial payback. In these circumstances the provision identified as a risk will be available.

Our workforce has reduced significantly in the last 3 years with further posts being considered through alternative service delivery mechanisms (e.g. shared services, social enterprises) as a direct result of the actions and solutions that will be delivered within the 2016/17 budget. We are therefore including £0.500m in 2018/19, stepped a further £0.500m in 2019/20 to cover the **Council Staff costs (EVRS / redundancy).** In summary, comparing quantified baseline spend and additional costs with forecasted resources available provides a funding gap prior to planned interventions of £61.869m over the next four years as detailed in *Figure 17*.

Figure 17: Forecast MTFS Funding Gap prior to planned interventions

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
	BUDGET	FORECAST		
REVENUE RESOURCES AVAILABLE	**186.702**	**180.776**	**178.804**	**176.920**
Baseline spend requirement	193.009	186.702	180.776	178.804
One off savings b/fwd.	-	4.876	-	-
Risks: additional costs	-	0.800	1.050	1.050
Specific Grants reduction	0.719	-	-	-
Plus identified additional costs	16.845	7.536	6.307	5.853
Overall spend requirement	210.573	199.914	188.133	185.707
In-year shortfall to be found:	**23.871**	**19.138**	**9.329**	**8.787**
Cumulative shortfall		**43.009**	**52.338**	**61.125**

3.7 Addressing the Funding Gap – Future direction and shape of the Council

Our Transformation Programmes have fundamentally changed the way that the Council goes about its business by improving efficiency and reducing costs whilst still delivering benefits for citizens of Plymouth. Significant savings will be focused in four key programmes:

Growth, Assets and Municipal Enterprise (GAME)

- Economic growth initiatives that will provide financial dividends for the Council; attracting more businesses and business growth in the city and growing the council tax base through building more housing
- A more commercial approach to the way that we commission and run our services across the city - combining decent standards with high productivity

Integrated Health & Well Being (IHWB)

- Creating an integrated approach to health, wellbeing and social care commissioning and delivery
- Working co-operatively with partners to deliver joined-up high quality services

Customer Service Transformation (CST)

- Customer-led service redesign
- Transforming the way the council interacts with citizens and serves its customers
- Meeting customer needs and preferences
- The move to a purpose-built "1st Stop Shop" in the City Centre
- Driving out efficiencies via internal system reviews

People and Organisational Development (POD)[6]

- Affordable support services that are modern and support our changing organisational needs
- A strategic asset review
- Staff accommodation requirement
- Smarter, evidence based decision-making for the Council using co-operative principles

A number of desired non-financial benefits will also be realised through the Programmes including:

- Making the changes to services that are needed including digitisation throughout the Council and taking opportunities to improve the customer experience as we do so;
- Opportunities for council staff to improve their job satisfaction and gain knowledge, skills and experience;
- Working co-operatively with partners across the city and in the wider region, helping achieve partnership objectives.

These programmes started during 2013/14 and have already delivered some financial savings, as well as non-financial outcomes.

In the four year period up to and including 2014/15 we had already successfully reduced our costs by more than £45m. Many difficult decisions have had to be taken in order to address a reduction of this nature.

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[6] Our Cooperative Centre of Operations (CCO) has been merged with our People and Organisational Development programme (P&OD) and is now simply People and Organisational Development.

We will continue to focus on the significant issues that will deliver the best outcomes in terms of improved services to our residents or maximise financial returns / cost savings. All such savings are captured through the cross-cutting transformation programme as detailed in this section.

4. Transformation Programmes

Local government is changing rapidly as traditional sources of funding are reducing and the demand for our services is increasing. We continue to face a £65m funding gap within three years unless we continue to transform the way we do things at pace. We know we cannot do things in the same way we have done in the past and our transformation programme is taking a pioneering and ambitious approach to addressing these challenges while improving services and outcomes for Plymouth citizens.

It means providing services in new ways, joining up with partners wherever possible, investing in ways of doing things more efficiently, making the most of our assets and raising income by taking a more commercial approach.

The transformation programme is investing £14.7 m over three years with the aim of delivering more than £55.35 m savings. There are four programmes that involve a wide range of projects touching every area of our work.

Our **Growth and Municipal Enterprise Programme** is investing in accelerating Plymouth's economic growth, which will raise income through business rates and council tax. It includes a wide range of initiatives are creating more jobs and deliver more homes in Plymouth, guided by the Plymouth Plan and the Plan for Homes.

We are maximising the opportunities to increase income by making best use of our assets and taking a more commercial approach to the way we commission and run services. This programme aims to deliver more than £26.18 m savings or income over three years at a cost of £1.8 m.

Our **Customer and Service Transformation Programme** is ensuring we provide services in new ways that are more efficient and better meet customer needs and preferences. It includes reviewing services in the context of how they work with other areas of the organisation and providing more services online. The programme will cost around £300,000 over three years and deliver savings of more than £4.5 m.

A large proportion of our revenue budget is spent on adult care services and the costs of providing health and wellbeing services are rising as demand increases. Our **Integrated Health and Wellbeing Programme** has been pioneering in combining our adult social care services with the health service to reduce costs and improve the health of Plymouth residents. The programme includes a more proactive approach to preventative and intervention services to improve health and therefore reduce demand for services.

This programme aims to deliver almost £19.8 m savings or income over three years at a cost of £1.3 m.

Creating an organisation and services that are fit for the future means developing the right staff skills and capabilities. Our **People and Organisational Development Programme** involves developing our workforce not just for the jobs way do today but for the jobs we need it to do tomorrow. Everyone who works for the Council is involved in our transformation and we are creating an organisation that can cope with continued and on-going change.

Growth, Assets and Municipal Growth (GAME)

Street Service operations:
The continued modernisation of the Street Cleansing & Grounds service will deliver further saving. A reduced reliance on overtime and agency workers plus changes in working patterns are at the centre of this proposal. The workforce and trade unions have been extensively involved in shaping the proposals and they do not conflict with any wider review of terms and conditions the Council may need to consider.

Highways re-procurement:
Our HM17 project has a clear objective of the Council re-establishing its management of roads and pavements. The in-sourcing of personnel from the current provider will see a review of the resource required to manage our infrastructure. It will involve the establishment of a client function that also draws in Highways, Parking & Marine and the Strategic Transport Planning teams; the latter area's inclusion provides an opportunity for further benefits realisation.

Asset Investment Fund:
In 2015/16 we established an Asset Investment Fund to deliver our objective to use the Council's resources wisely by creating a long term additional commercial property income stream while helping create jobs by providing high quality business accommodation.

We have a significant commercial property investment portfolio with a capital value of around £88m and a net income of circa £5m (5.7% net return). The portfolio supports around 2,400 jobs in property assets that local businesses occupy that contribute towards growth in the local economy.

We are in a unique position to benefit from access to long term fixed rate prudential borrowing at low interest rates and to create an Asset Investment Fund to start an investment programme to directly build and acquire additional economic development and job supporting investment properties. This includes re-purchasing long leases on assets where we hold the freehold title, such as the city centre shops. We re-purchased an industrial estate long lease earlier this year which is providing a 10 per cent return.

The adoption of the Asset Investment Framework will provide a sound basis and evaluation criteria on which future property investment acquisitions can be assessed and the performance of the existing commercial estate monitored. This will ensure that the Council's commercial estate will provide a secure long term income stream to help front line service delivery and support the economic development of the city.

Growth Dividend:
We will continue to be proactive in securing greater value from our assets and driving projects that deliver growth which brings long term economic and financial benefits for the city such as through securing New Homes Bonus, new council tax and business rate revenues and additional Community Infrastructure Levy.

These measures include:

- The Plan for Homes which provides a comprehensive delivery framework to respond to need to increase the supply and quality of new housing in the city. The updated **Plan for Homes** agreed by Cabinet in February 2016 extends the existing plan to 2021, with an £80m commitment to housing investment to deliver over 1,500 new homes in support of the overall delivery of 5,000 homes over the next 5 years.
- Reviewing the Community Infrastructure Levy to focus the funding secured from development on supporting the infrastructure needed for growth (a new charging schedule is due to be in place by April 2017)
- Focusing the delivery of major projects that will have the greatest impact on revenue such as Drake Circus Leisure, Civic Centre, Seaton Neighbourhood, Railway Station, Colin Campbell Court, Bath Street, Quality Inn Hotel and Millbay.
- Continuing the programme of Direct Development to drive rental income and NNDR across the Land Property portfolio.
- Continuing to drive housing developments on Council land

Plan for Waste:
The Council has a clear policy statement within the Plymouth Plan as to how it intends to manage its waste. A draft Plan 4 Waste outlines a number of measures that the Council could take to prevent waste, promote re-use and deliver increased recycling. With the anticipated housing growth in the City, estimated to be another 12,000 more properties by 2031, it is essential that there is a sustained focus on best practice, sustainable and efficient waste collection operations and increasing recycling levels before the anticipated need for investment in the service to cope with the housing growth.

Commercialisation:
In 2014 the Street Services department gained some success in increasing turnover and generating additional revenue in Street Cleansing & Grounds and Fleet & Garage.
During 2015/16, Commercialisation focused on further opportunities in the Place directorate with some success. Recognising the need now to extract much larger opportunities in services right across the Council, the Commercialisation initiative has gathered momentum in recent months with a focus on ensuring we have new capabilities and an approach that will achieve the targets laid out for sustainable income streams.

A Commercial Enterprise Board has been set up, chaired by the Strategic Director of Transformation & Change and consisting of the Strategic Director of Place, the AD for Finance and two co-opted senior members external to the Council (to bring external and entrepreneurial perspectives). A Head of Commercial Enterprise will be recruited during the summer and will also look to bolster relevant commercial and enterprise skills as well as engage market analysis and marketing capabilities. The target for net benefits from Commercialisation in 2016/17 is very tough with a further significant step-up in future years. We have to be serious about this initiative to achieve our desired targets.

Integrated Health and Wellbeing (IHWB) programme plus People Directorate

There are challenging savings and benefits targets across the People Directorate and Integrated Health & Wellbeing Programme.

The programme currently comprises three main projects, which include a wide range of work streams. The projects are: Integrated Commissioning, Children and Young People Services and System Enablers the changes being made through this next phase are summarised below:

Integrated Commissioning:

- Joining up planning and sharing resources
- Implementing the Integrated Commissioning strategies including:
- Working with Primary Care, Community Pharmacies, the voluntary sector and other partners to develop Health & Wellbeing hubs across the city
- Building on our integrated Health & Social Care offer:
    - To allow easier and earlier access to services promoting wellbeing or providing help in a crisis
    - Empowering people to take control of their own health and wellbeing
    - Helping older people who have come out of hospital to stay at home
    - Ensuring that families and carers will not have to chase professionals or ask them to talk to each other
- Working with NEW Devon CCG and Health partners to redesign Urgent and Planned Care across the city
- Redesigning commissioned advice and information services, and develop an implementation plan for a comprehensive 'One Help Plymouth' offer
- Launching a new Community Operations offer to join together housing, community youth and community safety services to work with partners to improve community engagement in Plymouth
- Reviewing other areas of the People Directorate to develop smarter and more seamless ways of working.

Children and Young People Services:

- Extending of the Gateway offer to widen the support for Children, Young People and Families
- Remodelling SEND services across the system to deliver a joined up approach making use of mobile working technology
- Redesigning targeted support to ensure children and young people get the right help at the right time to ensure services provide early help and support during crisis
- Extending the Permanency team to widen the support for Children in Care
- Developing an improved quality assurance response for children's services
- Launching a new multi-agency hub with partners to safeguard children across the city
- Implementing new ways of working across Children's Social care, which will make use of mobile working to deliver timely assessments and support for children in need
- Reviewing and remodelling the services for Education, Learning and Skills to improve our offer to students, parents and schools across the city.

System Enablers:
- Working with Firmstep team to embed our digital advice and information offer currently delivered through the on line directory
- Remodelling and rationalising existing systems in line with ICT Strategy
- Preparing digital systems to allow for Integrated Digital Health and Care Record functionality by 2020
- Implementing new technology to support business redesign

The **People Directorate** review will accelerate the review of all areas not within the scope of Integrated Delivery, Commissioning or Children's and Young People. Efficiencies and a reduction in headcount will be achieved through the opening of EVRS and then the subsequent remodelling of teams and services across the directorate.

The Directorate will also continue to seek to maximise all available grant funding and additional income opportunities.

People and Organisational Development (POD)

Modernising the way we work and developing our workforce to reflect the changing needs of the Council is at the heart of our ongoing transformation. The aim is provide the organisation with support services that reflect our changing needs, to make sure we are making the most efficient use of all our assets that our staff work in modern, efficient and flexible way.

It includes:

AgileHR – Modernising the way we provide HR and OD services by restructuring the service, introducing a business partner model and improving and expanding the way we use our self-service workforce management system, iTrent. It is also about developing our workforce to reflect the future needs of the organisation, using technology, empowering managers and providing staff with the tools they need to meet the challenges in their areas.

Finance FIT – Improving the way we deliver financial services to the organisation, ensuring we work in the most efficient way possible and that opportunities for self-service, automation and streamlining processes are maximized.

SMART working – Introducing flexible ways of working, using modern IT to enable staff to work more efficiently, while saving money by making the most efficient use of our buildings and assets.

Modern Government - Modernising the Council House as a centre for democracy and bringing it in line with current standards and quality.

One Public Estate – Working with public sector partners to deliver savings by better and more efficient and joined up use of public sector land and property. This includes modernising the railway station and surrounding area, creating a Health and Wellbeing hub at Douglass House and master planning the Mount Gould Hospital site. We secured £0.420m central government funding for One Public Estate Phase 3.

Asset Management – Investigating the Council's office requirement for the future and rationalising the way we use our estate and delivering savings enabled by SMART working. So far we have moved out of the Civic Centre into more efficient offices at Ballard House, removing a large liability. We have separated the Council House from the Civic Centre and are modernising it to making it more flexible. We have opened the new 1st Stop shop (in conjunction with Customer Services) and the new Central Library in Armada Way. We have also moved staff from Douglass House to Windsor House. These changes have included creating a new Concierge Service to modernise the way we manage our buildings and support staff in the most efficient way.

Systems Review

A key element of our transformation is breaking down service silos and joining up the way we work both internally and with partners to deliver better and more efficient services.

Reviewing services in the context of the bigger organisational picture helps to identify opportunities to:

- significantly reduce the number of times citizens have to contact us for the same service request
- Standardise the way we deal with citizens regardless of how they contact us
- Make is quicker and easier for citizens to contact us and to measure how we are performing against consistent standards
- Use our customer insight and organisational intelligence to improve outcomes from citizens
- Enable customers to access more services online at any time and using any device
- Use intelligence and customer insight to add value to interactions with citizens

This will help ensure we have a consistent approach across the organisation to the way we service Plymouth citizens.

So far our transformation programme has delivered significant improvements to the way we deal with customers. For example, the new 1st Stop Shop in New George Street offers customers a completely different experience of dealing with the Council, which has led to positive feedback.

The Future of Transformation

Our vision is for all Council services to work as one system together with our partners to deliver the most efficient services possible and better outcomes for Plymouth residents.

This involves collaborating with our public sector partners, providing services in new ways, simplifying our systems and processes, delivering transactional services through one point, maximising the use of digital channels and adopting an entrepreneurial culture.

We will follow three key principles that we will:

- Collaborate
- Enable
- Achieve

PCC aims to be the sought after public sector professional services provider in the region.

We are moving towards PCC's Future Operating Model and focusing on:

- Delivering better outcomes for our residents
- Driving down our costs
- Improving our services

This ambitious approach has a three-phase implementation;

Phase 1 – Transform

To modernise and upgrade our services and systems by comprehensive review, breaking down silos and maximising the opportunity to simplify, standardise and share systems. This will enable PCC operations to become lean, agile and scalable.

Phase 2 – Consolidate

This we will do by collaborating and sharing. We will look continually and proactively for internal opportunities for improvement. Essential to this is a better understanding of our costs, improved performance monitoring and an understanding of how we compare to other external organisations.

Phase 3 – Opportunity Fulfilment

We visualise PCC as the sought after public services provider, working in partnerships to achieve the best service provision for our citizens and positively impacting outcomes for citizens within the city.

Value Drivers

The value drivers that inform our approach are;

> To benefit from economies of scale. We will review all services and centralise those activities that can better be performed universally within a central, consolidated Service Centre.
>
> To embrace the digital capability and maximise its use. To enable maximum contact via digital channels and service as many requests as possible at point of contact. Automation and further streamlining of processes and optimal self-service ability for all routine interactions.
>
> To benefit from a consolidated 360 degree view of each customer based on a centralised data repository and intelligence. To provide a joined-up service to customers using shared business processes (e.g. invoicing, debt collection, marketing).
>
> To provide a joined-up and intelligent service offering. The offering will be enabled by a single point of contact for wider servicing of public service needs within the region.
>
> We endorse that all functions need to be included within a system review. The reviews will explore potential benefits of delivering services by alternative means. The alternative means will focus on consolidation, collaboration and sharing – both internal and external.

Figure 18: Summary of Transformation Stretch Savings

Stretch Savings	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
New Homes bonus	1.319	0.018	0.144	-0.018
ODPH Directorate savings	0.200			
Chief Executive Office	0.050			
Place Directorate	1.085	0.970	0.050	0.000
Investment Portfolio	0.100	0.500	0.250	
Place 15/16 one off savings b/f	0.335			
Reduced Insurance premiums	0.200			
Street Service operations	0.250			
City Deal re-profiling	0.200		-0.200	
Highways re-procurement		0.250		
Real time passenger information		0.020		
Economic Development Service to break even		0.200		
GAME - Waste	0.000	0.358	0.750	0.000
Close Weston Mill		0.100		
Introduce alternate weekly collection		0.100	0.750	
charge for garden waste		0.158		
strategic options review for trade waste				
GAME - Commercialisation	1.559	1.301	3.228	0.500
Commercialisation and income reviews	0.656			
Procurement	0.400	0.300	0.300	
Fees & Charges in accordance with Policy		0.500	0.500	0.500
Commercial Enterprise Board		0.501	2.428	
Place Directorate Review	0.503			
PEC				
ASDV's dividends				
IHWB	9.215	6.000	0.500	0.000
Integrated delivery	0.830			
Integrated commissioning	2.331	5.500	0.500	
Children, young people, youth and families	2.400	0.500		
People directorate review	1.435			
Efficiencies People Directorate	2.219			
relocate libraries to Wellbeing hubs				
Stretch services to schools				
commercial health operations (Bariatric)				
Leisure service review				

POD	2.400	2.326	0.690	0.234
Finance Transformation	1.500	0.000		
HR Transformation	0.300			
Corporate Fraud Debt recovery	0.100			
Transformation Portfolio	0.500	0.500	0.500	
smart working and service centre		1.388	0.190	0.234
Systems and IT infrastructure		0.338		
move to 4 yearly elections		0.000		
Review of public toilets				
Further reduction in cost of transformation		0.100		
Systems Review	1.398	1.199	0.152	0.000
Customer Service Transformation	0.360			
Council wide systems reviews		1.199	0.152	
Library review	0.048			
CST Cross cutting	0.990			
FM service review				
Corporate Items	6.646	3.500	1.500	1.000
Treasury Management/MRP/LOBO	1.245	0.500	0.500	1.000
Strategic Asset review	0.070			
Sale of annual leave	0.200			
Corporate items review	0.255			
Reduction in Working balances	0.950			
MRP	3.926			
Flexible use of capital receipts		3.000	1.000	
Total reward package				
Total Savings	23.622	15.672	7.014	1.716

5. Capital Budget and Programme

Over recent years the Council has reviewed its management of the capital programme. This entailed moving from a departmental build programme linked to specific funding streams, to produce a more strategic capital budget. This capital budget now represents an overall affordability envelope within which a capital programme of projects for delivery sits.

The level of capital resource available has also been diminishing and will continue to do so for some time. Less is now available through direct capital allocation with increased need to bid for specific pots of funding linked to specific outcomes, for example, major road infrastructure projects and large cultural projects such as the History Centre etc. The council's ability to maximise investment into the city through vehicles such as the Growth Fund and the Heart of the South West Local Enterprise Partnership has become an increasing priority.

We continually challenge and update all capital income streams in order to estimate the total resources at our disposal. Maximising developer contributions, under Section 106 (S106) of the Town and Country Planning Act 1990, and forecasting for the future generation of capital receipts through planned and structured asset disposals, remain vital income streams. There are a number of risks inherent within the calculation of forecast resources, the majority of which are reflected by the use of an appropriate RAG rating. A summary of all capital income assumptions to 2020 is detailed in *Figure 19*.

Figure 19: Five Year Capital Resource Assumptions

Funding Source	2015/16	2016/17	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m	£m	**£m**
Un-ring fenced Grants	14.628	10.749	6.585	5.315	5.315	**42.592**
Ring fenced Grants	20.721	28.986	23.675	21.724	14.914	**110.020**
Developer Contributions	18.380	9.014	7.872	6.486	6.192	**47.944**
External Contributions	0.500	2.279	0.500	0.500	0.525	**4.304**
Capital Receipts	11.815	6.151	1.943	0.502	2.540	**22.951**
Loans repaid	1.621	0.696	0.251	0.300	0.300	**3.168**
Borrowing (Plan for Homes)	15.000	47.500	17.500	0.000	0.000	**80.000**
Borrowing (Asset Investment Fund)	0.000	20.122	0.000	0.000	0.000	**20.122**
Borrowing - other	28.761	27.824	10.739	7.000	7.000	**81.324**
Revenue/ funds	2.113	2.594	0.928	0.528	0.528	**6.691**
Total	**113.539**	**155.915**	**69.993**	**42.355**	**37.314**	**419.116**

Income Assumptions

Capital Receipts

Capital receipts arise from the sale of an asset. Usually the sale of an asset cannot be used to fund ongoing revenue purposes, without exceptional rules in place (i.e. capitalisation directions, or for one off transformational purposes), thus the sale of assets is used to re-invest in capital investment. Furthermore capital receipts can be ring-fenced or un-ring-fenced subject to specific circumstances or agreed decisions to earmark a specific capital receipt.

The current methodology for predicting capital receipts is obtained from the Capital Receipts working group which tracks progress against scheduled sales of capital receipts. This results in a relatively straight forward forecast of known assets for sale which is then RAG rated based on expected timing and value.

Un-ring fenced Grants

Un-ring-fenced Grants are best described as the "block allocation" of capital grants awarded to the Council by Central Government, based on a needs assessment. The blocks typically cover education and transport. Historically, the Council allocated the blocks to the applicable services and the services have drawn down against these funds with projects, in essence there has been a ring-fencing of sorts internally. The position is now changed with the Council deciding that all un-ring-fenced resources should first be available to the relevant service area, and if unused be held in a central pool with all priorities being considered. This may mean that funds passed to the Council by the government for transport may be used for anything else.

The method of prediction is aligned to the spending reviews and settlements. In immediate years the block allocations tend to be announced as confirmed. This is often accompanied by indicative future year announcements (based on an assessment of need). As we move into the future we are using the information provided within these settlements and from central government announcements. For the 2018/19 and also 2019/20 period for example this is made up from:

Figure 20: Un-ring fenced Grant Assumptions

Source	Grant name	£m
Department for Transport	Integrated Transport Block	1.944
Department for Transport	Highway maintenance	1.871
Department for Education	School Capital Maintenance	1.500
TOTAL		**5.315**

Investment Fund loans repaid

The Investment Fund of £20m was created from a "top slicing" from a range of all un-ring-fenced income sources. A number of investments were awarded as repayable loans. Approved business cases demonstrated that these initiatives could repay the investment. There is therefore an income stream representing the repayment of these investments back to be recycled as a future un-ring-fenced resource. The monitoring of loan repayments is based on a scheme by scheme basis. Each cash-flow and return on investment varies.

Ring-fenced Grants

These grants are paid to PCC to deliver schemes, or outcomes, which will be defined in the terms and conditions from the funder, and may include time barring and future obligations for the Council. There will be penalties for the terms and conditions not being met.

Our income assumptions include mandated projects in our pipeline.

Borrowing

Loans are taken out to fund capital expenditure from approved lenders based on the Treasury management knowledge on interest rates & borrowing. The repayment of the loan principle and interest is paid for from revenue.

Developer Contributions

Our Planning department forward forecast this based on known future developments. This is then RAG rated based on expected timing and value.

Community Infrastructure Levy (which replaced the S106 Tariff). The levy is used to support new developments by funding infrastructure needs – for example, new road schemes, park improvements or improvements to local school capacity. This is charged on a £ per square meterage rate of the proposed new development.

Section 106 – Negotiated Obligations and tariff

Negotiated Element - this is negotiated with the developer and is used to fund specific works, normally linked to the development

Planning Development Tariff - pooled into categories to be used in such areas such as Transport, Education, Libraries. Regime has been replaced by CIL but resources continue to be collected.

External Contributions

Sum provided by a funder, but not specifically as a grant. This is a direct award of resources for a specified purpose; for example the £2.1m contribution from British Land towards the new Mayflower Coach Station.

Revenue

The use of revenue budget to directly fund capital spend: This is known as an RCCO (Revenue Contribution to Capital Outlay)

Officers will remain proactive at securing external grant funding wherever possible in order to continue to deliver significant, ambitious capital investment in the city. The budget will be continually updated as further details of funding are made available. Projects utilising funding are submitted and approved by our City Council Investment Board (CCIB).

Projects seeking to fund proposals from borrowing will be required to meet the principle of "Invest to save". Business cases will evidence that a loan to fund capital spend can be repaid from the net revenue benefits achieved from the investment, as evidenced in a discounted cash flow. This ensures a net present value of a capital project over the life of the asset. The repayment of the loan principle and interest is paid for annually from the revenue account. The repayment of loans taken out based on approved capital projects is reported through regular revenue monitoring, until the loan is repaid. There is an expectation in forecasting the need for future borrowing, that proposed projects will continue to have to meet this "Invest To Save" criteria, and that the revenue impact of this will continue to be met from the relevant service revenue accounts. Included in the capital resources above is unsupported borrowing totalling £98.8m over the next 5 years.

The revenue costs associated with this borrowing will be charged to the revenue account the year after the asset is fully commissioned. - see MRP Policy below. Where it is not possible to apply the "Invest to Save" principle, in order to meet the revenue costs a provision of £0.250m for each year of the strategy is proposed and has been included in the section above dealing with risks.

Un-ring-fenced grants, capital receipts and any other non-ring fenced funding sources are combined, and their use is applied to projects for the corporate good irrespective of the service area which has secured the funding. The approved use of these forecast un-ring-fenced resources in the 2015 – 2020 programme has resulted in an over programming of these resources as at December 2015. The December 2015 forecast indicates a potential over-programming pressure of £5.4m. This funding pressure has been approved, with the option to be met from service funded borrowing. Business cases will continue to be presented in this way to ensure that any exposure to risk surrounding the over allocation of un-ring fenced resources is mitigated. Should alternative un-ring-fenced (or otherwise) resources become available by the end of the financial year, then this borrowing will not be required.

It is noted that resource forecasts for the period 2017 – 2020 are reducing, as RAG rated estimates become less certain. The capital programme is also front loaded to deliver the greatest proportion of projects utilizing 2015 – 2020 resources in the period 2015 – 2017. There is also a considerable pipeline of potential future projects **(£195m)** not included in the capital programme, with an aspiration to deliver, prior to 2020. The current approved Capital Programme for 2015-20 is **£145m.**

We remain committed to a significant capital investment programme despite the current economic climate. The Council, engaging with partners in major regeneration of the city, will not only contribute towards delivering improvement priorities, but will also help to sustain much needed work opportunities in the local area (for example, the construction industry).

However, with resources at a premium, we need to ensure that we maximise the outcomes and revenue savings generated through capital investment. For example, growing businesses in the city and building more houses will generate much needed business rate income, new homes bonus and extra council tax.

We have created a unique investment fund of £20m to specifically focus on supporting and growing the local economy, creating local jobs for local people. This has now been fully committed, and the scheduled repayment of loans awarded, are creating a resource return to the budget, as set out in the table above. Projects being delivered include £2.1m to create a Social Enterprise Fund, which awards grants and loans to local social enterprises whose proposals are scored and awards made based upon an agreed eligibility criteria. This includes job creation, bringing redundant buildings back into use, and leverage of other match funding. The commitment to invest an additional £20m over 10 years into our road infrastructure also continues. In addition we introduced an £80m affordable Housing Loan scheme for social and co-operative housing associations to encourage growth and improve the choice of affordable housing in the city (subject to due diligence). Initial offers have been made and we continue to work with partners on this.

As ever, the demand and need for capital investment significantly outweighs the level of resources available. The Council's constitution permits the Leader of the Council to add or amend prioritised schemes to the capital programme, which is governed through the Cabinet Member / Senior Officer City Council Investment Board (CCIB).

The Chancellor's Autumn Statement included a relaxation of the rules governing the use of capital receipts. It was announced that to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their fixed asset receipts (capital receipts) on the revenue costs of reform projects. We are considering the flexibility and will prepare a strategy once we have fully considered and ask Cabinet to agree that a strategy be considered at a future meeting for agreement by Council.

Our Capital Resources to 2019/20 are £419.1m, and our Capital Programme includes:

Investment in Road infrastructure

We will continue with our £20m capital investment in our road infrastructure with planned carriageway resurfacing to repair pot holes and improve road junctions and traffic flows.

Investment in schools

- We will continue to invest in providing improved schools and additional capacity for the increasing the number of school age children in the city, ensuring there is a school place for every child and education opportunities which will improve their quality of life.

Plan for Homes

- £80m investment to escalate much needed house building across the city. Individual draw down against this scheme will be subject to due diligence and outcomes delivered in terms of number and types of dwellings to be built.

Derriford Transport Scheme

- £12.7m investment will provide new and enhanced transport infrastructure in the form of two major junction upgrades in the Derriford area on the Northern Corridor at Derriford Roundabout and the Tavistock Road / William Prance Road junction.
- The scheme seeks to optimise the existing transport network and provide additional capacity to improve journey times and reliability whilst freeing up capacity in order to allow large scale development to come forward in the Derriford area and along the Northern Corridor. Public transport is at the heart of the proposals in order to encourage more sustainable journeys to be made and opportunities to improve pedestrian and cycle links and crossings will also be maximised within the scheme.

Mayflower Coach Park

- £4.6m investment to build a modern and welcoming coach station built on the existing site of the city's Mayflower West Car Park. A surface level car park will also be provided.
- The scheme seeks to enhance the existing coach travel network and local connections, in and out of the city. The scheme has been designed against a challenging backdrop of quite significant level differences across the site, primarily north to south. This will also provide commercial development opportunity on the old bus station site.

Forder Valley Link Road

- £31m will be invested to provide a direct link to Derriford and to support future housing developments at Seaton neighbourhood.

Asset Investment Fund

- £25m has been allocated for investment into strategic investments that will help grow the local businesses.

Strategic Cycle Network

- Northern and Eastern Corridors Strategic Cycle Network investment programme and seeks to deliver a network of routes, designed for both experienced and inexperienced cyclists, linking each of the neighbourhoods in Plymouth, allowing cyclists to travel conveniently and more safely across the city. The works on the ground will also seek to make improvements for pedestrians and people with mobility and other impairments.

New Central Library

- £1.5m has been invested into the new central library which will offer a new modern library service. Taylor Maxwell House has been refurbished and links directly into the new bus station.

Plymouth History Centre

- £30m is being invested to transform the current museum to a cutting–edge cultural centre, three times its existing size, providing 86 per cent more exhibition space and 100 per cent more flexible learning space.

South Yard Investment

- £20m is being invested in 32,400 square metres of new and converted workspace.

Plymouth City Market

- £3.5m is being invested to revitalise this integral part of the West End of the City Centre and an important link to the regeneration of this area, linking with the new Mayflower Coach Park.

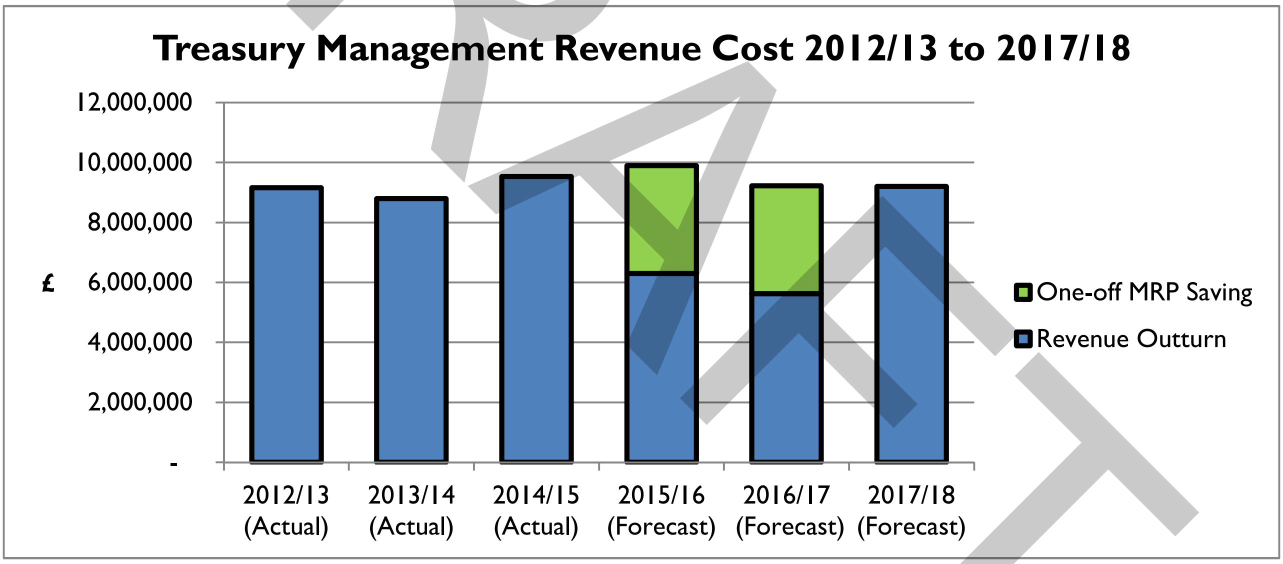
6. Treasury Management

The council's approach to Treasury Management has been significantly revised due to the global economic environment. Despite being risk adverse, we continue to explore opportunities for generating significant revenue returns through close management of the business's turnover, (more than £500m), and associated cash flow.

Throughout the last two years we have reduced the net cost of our treasury management activities, i.e. the cost of long term borrowing minus return received from investments, by more than £1.5m. This has mainly been achieved through restructuring long term loans at relatively high rates that were taken out in the late 90s / early 2000s, into shorter term debt with much more favourable rates. Repaying £30m of market loans to Barclays and £18m of loans to the Public Works Loans Board, (PWLB), has significantly changed the shape of our borrowing portfolio and will deliver revenue savings for at least the next seven financial years. However, it should be noted that, when future interest rates rise above a certain level, the amount of principal that the council has to pay over a number of years to exit these loans could return a deficit.

With falling interest rates on the council's main bank and call accounts, we have also been proactive in seeking alternative investment vehicles for money that we are able to put aside for a longer time period. For example, our £15m investment in property funds generated a return of more than 6% in 2014/15 and a similar return is forecast for2015/6.

Figure 21: Reducing Net Spend on Treasury Management Activities as at March 2016



The Council's published [Treasury Management Strategy]() details our borrowing limits and specifies approved institutes for investment, (with maximum limits), based on credit ratings and other pertinent factors. We maintain regular engagement with our Treasury Management advisors, ArlingClose, and constantly seek their advice on our strategic direction and key operational decisions.

6.1 Borrowing Limits

The Council is required to set out its annual Borrowing and Investment Strategy recognising its implications on the Council's revenue budget. It is a statutory duty under the Local Government Act 2003 for the council to determine and keep under review how much it can afford to borrow. The Council must have regard to the Prudential Code when setting its Authorised Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council Tax and Council rent levels is acceptable.

The Council approved its revised Treasury Management and Investment Strategy for 2016/17 in February 2016. In this Strategy we have approved the authorised borrowing limits from April 2016 as:

- 2016/17 £338m
- 2017/18 £358m
- 2018/19 £378m

The Council will consider the use of borrowing if evidenced by a robust business case which clearly details financial and non-financial outcomes achievable through the proposed capital investment. Such cases require approval through the City Council Investment Board (CCIB) with the associated revenue cost of borrowing the money charged against the relevant service department to which the investment relates.

To ensure that the Council is not over-exposed to risk in terms of the extent of long term borrowing, we have set a target that the overall revenue cost of borrowing must not exceed 10% of the Council's entire net revenue budget in any given year. With future year resources anticipated to fall further over coming years, this target needs to be closely monitored by the Council's Section 151 Officer and Treasury Management Board.

6.2 Treasury Management Targets

Our Strategic Treasury Management Board, (constructed of Section 151 Officer, Deputy S151 officer, Cabinet Member for Finance and Shadow Cabinet Member), oversees strategic decision making on all investment and borrowing activities. The Board seeks to manage risk whilst optimising investment rates of return and minimising our borrowing costs. Ultimately, the Board is accountable to the council's Audit Committee which approves the annual Treasury Management Strategy.

Despite low interest rates, the Council will still require to undertake a number of investments in each financial year which is linked to the timing of core income being received and payments being made. The Board has set itself clear targets for financial returns for new investments which have been built into the MTFS. Central Government funding continues to fall and the Council intends to increase its level of borrowing in order that it can invest in capital projects in the city.

Figure 22: Targets for Investment Returns & Borrowing Costs (Percentages)

Financial year	Rate of return for new investments	Average borrowing as at 31 March
2015/16	1.40%	3.53%
2016/17	1.14%	3.40%
2017/18	1.0%	3.50%
2018/19	1.0%	3.60%

6.3 Minimum Revenue Provision (MRP) Policy

The Council is required to make a revenue charge each year to provide for the repayment of loans taken out to finance capitalised expenditure. Government's Capital Financing Regulations places the duty for an authority each year to make an amount of Minimum Revenue Provision which it considers to be "prudent". The prudent provision is to ensure that debt is repaid over a period reasonably in line with that over which the capital expenditure provides benefits.

Under the regulations, the authority is required before the start of each financial year to prepare a statement of its policy on making MRP and submit it to the Full Council.

During 2015/16 the Council has undertaking a review of its MRP calculation method and accounting assumptions. The Council's calculations were driven by a very complex spreadsheet that needed a full overhaul. The Council therefore engaged its TM advisors, Arlingclose to review and advise best practice. The main conclusions were that, due to the way we were calculating our annual MRP charge has resulted in an over-provision for many years and it also recommended a change in the calculation method.

The Council wants to match the economic benefits from its assets with the life of those assets. Therefore the Council wants to use the annuity method which not only spreads the cost of the borrowing over the life of the assets but it also takes into account the time value of money.

The council's previous method of calculating MRP was to spread the cost of borrowing in a straight line over a maximum of 25 years. The current council tax payers would therefore pay a relative higher charge than council tax payers in the future. For example, if an asset cost £20m to build and has a life of 20 years then there would have been a £1m charged each year on the straight line basis. The annuity method takes into account the time value because £1m today has a higher value (NPV) than £1m in 20 years' time.

The approved policy for 2015/16 and 2016/17, within the Treasury Management Strategy, is as follows:

For all borrowing which is self-financed, the Minimum Revenue Provision (MRP) will be calculated using the annuity method over the life of the asset.

Under the regulations, the authority is required before the start of each financial year to prepare a statement of its policy on making MRP and submit it to the Full Council. The amended and approved policy for 2016/17 is set out within the Treasury Management Strategy 2016/17.

7. Financial Governance, Performance and Risk Management

The Council has been working on improving its financial and governance arrangements for a number of years. Financial Management has improved, performance management has improved, scrutiny has developed and an independent audit committee is operating well.

Finance managers are an integral part of Department Management Teams. They offer financial advice and challenge to Senior Management as part of the process. We also have two Senior Financial Analysts, one supporting our GAME transformation programme, the other our Integrated Health & Wellbeing programme.

The council's medium term strategy focuses on joining up the individual elements to ensure effective, integrated monitoring and management of:

- Corporate Plan and Priorities
- Benchmarking spend and key performance indicator information
- Revenue budget and spending linked to priorities
- Delivery against revenue delivery plans
- Cost and Volume analysis for Children's and Adult Social Care expenditure
- Delivery of the capital programme

We will continue to build upon the existing reporting template which joins up these core elements. In 2010/11 we introduced quarterly integrated reports (supplemented by monthly scorecards) which will continue to be presented and challenged by:

- Corporate Management Team
- Cabinet
- Scrutiny

In addition, we will be producing a joint Plymouth City Council and Clinical Commissioning Group monthly finance report to monitor our performance against our aligned budget for health and wellbeing of circa £482m for 2015/16. This report will be a management tool for Cabinet and the Clinical Commissioning Group Board and also the Integrated Commissioning Board.

The **Audit Committee** will continue to provide an essential role in ensuring that we provide effective governance. In particular, their quarterly meetings will challenge progress made against the annual governance statement, internal and external audit plan, reports and recommendations. In addition, the audit committee has now assumed the lead member role in challenging and placing assurance on the Council's Treasury Management arrangements. To ensure that our financial procedures and practices are reviewed, up to date and reflect the operational business requirements and risks that the council faces, Financial Regulations and levels of Delegated Authority will be submitted to, and approved by our audit committee on an annual basis.

Our internal audit service continues to be provided through the Devon Audit Partnership, a shared service arrangement with Devon County and Torbay councils. The core objective of this arrangement is to improve the quality and efficiency of audit services.

The Council has created a number of specific reserves and provisions in order to plan in advance for known and anticipated future revenue costs. We will regularly review the appropriateness and use of these reserves throughout each financial year. As a minimum, **all** specific reserves will be reviewed on an annual basis in March as part of the end of year accounting closedown.

A brief description of the purpose of each of our significant reserves and provisions is as follows:

Redundancy Costs

Over recent years, a number of management actions and budget delivery plans have relied on restructuring staffing and/or rationalising management. Whereas the Council is committed to minimising the number of compulsory redundancies unfortunately, on occasions, this is not feasible. This specific reserve is set aside to meet with the Council's corporate redundancy costs.

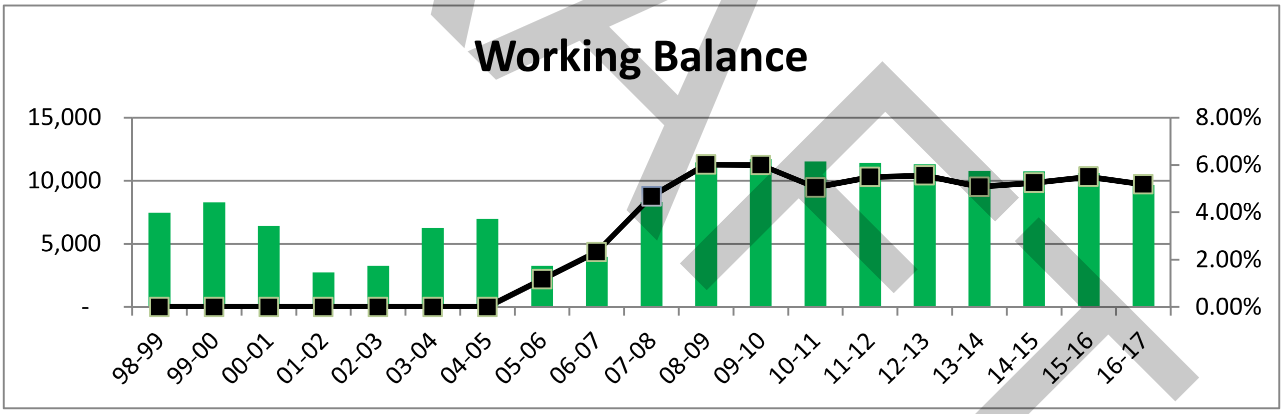
Insurance Fund Reserve

A provision that has been set up to meet the cost of anticipated future insurance claims based on existing known liabilities and estimated future liabilities. It enables the Council to reduce its payments to external insurance providers by transferring some of the risks of small claims to the authority. A review of all insurance commitments in February 2015 enabled a 'one off' release of £1m which was utilised, in part, to offset 2014/15 overspending.

Working Balance

The council's Working Balance is the revenue reserve that is put aside to cover any significant business risks that might arise outside of the set budget. This reserve has been steadily built up over the years and stands at £10.620m as at March 2015. This equates to approximately five point five per cent of the council's net revenue budget which is about the average for unitary councils. In order to balance the budget for 2016/17 we have used £0.950m of this reserve, reducing the balance to a level closer to the five per cent value of the council's net revenue budget. We continue with our policy of maintaining adequate reserves giving consideration to the significant constraints that will be placed on public sector spending for the foreseeable future.

Figure 23: Working Balance



The Council's reserves should be adequate to cover potential risks. Plymouth has significantly improved the approach to risk management over recent years. Our strategic and operational risk registers are comprehensive and are regularly reported to, discussed and challenged by senior officers and members. Given the size of the financial challenges in 2016/17 and beyond it is even more appropriate that we are maintaining this value in our working balance.

For the MTFS period to 2019/20 we are not anticipating any further draw down against our Working Balance, although with the continuing reduction in our core funding we need to revisit our percentage holding.