MEDIUM TERM FINANCIAL STRATEGY

2017/18 to 2019/20

PLYMOUTH
CITY COUNCIL

The Medium Term Financial Strategy takes a 3 year view from April 2017 to 2019/20 and looks at how the Council will fund Plymouth's ambitions and priorities.

Foreword

Councillor Ian Bowyer
Leader of Plymouth City Council

"Plymouth is an ambitious City with huge growth potential and is undergoing exciting changes. The City Council is committed to improving value for money. We want to listen to our citizens and businesses about how we spend the resources we have. This Medium Term Financial Strategy sets out our approach to the financially challenging but exciting times ahead."

Councillor Ian Darcy
Cabinet Member for Finance and ICT

"As Portfolio Holder for Finance I am determined to maximise efficiency and draw in the highest value of external funding Plymouth can achieve. We will strive to maintain services despite reducing funding. The Medium Term Financial Strategy is one of the key stages in finding the answers to this challenge."

Tracey Lee
Chief Executive of Plymouth City Council

"Since 2013 the Council has improved its services whilst delivering £65m of efficiency savings. The Council is committed to further service improvements whilst delivering £37m of efficiencies over the next 3 years. The Medium Term Financial Strategy shows how our improvements link to the City; people's jobs, homes, health and how we will pay for the services we provide."

Andrew Hardingham
Assistant Director for Finance

"The Medium Term Financial Strategy is a core part of the Council's strategic framework. The Strategy has a vital role to play in funding the City's ambition set out in the Plymouth Plan. It enables the priorities of the Corporate Plan to be put into action. Essentially it helps us balance the books."

Contents

Introduction

The MTFS links the revenue budget, capital programme and treasury management strategy.

- A central document in our financial planning
- A key role in the budget setting process
- Ensures the budget is prepared in line with Plymouth priorities
- Covers a 3 year period and is updated and approved annually
- Balancing the books and best use of Council assets
- Identify sustainable, alternative and increased sources of income
- Deliver the Asset Management Plan and maximise the community value of our assets

The MTFS is based on a set of financial principles and objectives. These are set out below.

Financial Principles

Managers must contain their expenditure within budget.

The Council will achieve a balanced budget year on year.

Services will be charged for under the Council's Fees and Charges Policy. Charges will be increased for inflation.

Provision for pay inflation will be made centrally. Available resources will be allocated to service budgets following the local government pay settlement.

Specific grants will be included in service budgets. Any later reduction in a grant must be absorbed by the service budget, except in exceptional circumstances.

If appropriate, cross cutting savings may be held centrally. In-year savings will be reported separately. Savings will be deducted from service budgets the year after implementation.

Service departments are expected to meet the capital financing costs of projects. Corporate or cross cutting schemes may be funded centrally.

ICT expenditure is financed by service departments. Corporate or cross cutting schemes will be funded centrally.

Financial Objectives

To generate the maximum possible funding towards delivering the priorities as set out in the Plymouth Plan and our Corporate Plan 2016 – 19.

Prioritise capital schemes based on deliverability of tangible outcomes whilst considering the context of the overall capital and revenue affordability.

To support the local Plymouth economy working in partnership with local businesses.

Council Tax increases will be below the level to trigger a referendum.

Maximise income opportunities primarily through structured growth of the City and proactive partnership working.

To continue to maximise savings from our Transformation Programme and seek new opportunities where possible.

Achieve a return on investment of 0.8% in 2017-18, and 1% in later years.

Borrowing not to exceed £300m in 2017-18.

Provide for borrowing costs in the MTFS.

Retain a revenue balance of at least 5% of net expenditure.

Plymouth
Britain's Ocean City

THE PLYMOUTH PLAN 2011-2031

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

WHAT WE WANT TO ACHIEVE...

LEADING CITY
A city fulfilling its strategic role as a major economic driver and provider of services in the region

HEALTHY CITY
People live in happy, healthy, safe and aspiring communities

GROWING CITY
A city which has used its strengths to deliver a prosperous city with a strong economy and quality places

INTERNATIONAL CITY
Plymouth is internationally renowned as Britain's Ocean City and is the UK's premier marine city, famous for its waterfront

HOW WILL WE KNOW WE'RE SUCCESSFUL?

Leading City	Healthy City	Growing City	International City
Plymouth is recognised as a **key regional economic** driver	People get the **best start to life,** enjoy a better quality of life and increased life expectancy	Plymouth's population has grown to more than **300,000**	Plymouth offers a diverse **cultural experience** with a major events programme
Plymouth has **high quality strategic** services and facilities	More people are taking care of themselves or **finding care** within their community	Plymouth continues to be recognised as a **leading Green City**	Plymouth is internationally renowned as a leading UK **tourist destination**
The quality and resilience of Plymouth's **transport and digital connectivity** has improved	More residents are contributing to and **involved in their community**	Plymouth has more vibrant, productive and **innovative businesses**	Plymouth is recognised internationally for **marine science** and high technology manufacturing
Plymouth's strategic **defence role** has been safeguarded and strengthened	There is **good quality health** and social care for people who need it	People have the skills to be **school ready and work ready** to meet the needs of the city	Plymouth has a reputation for **world class universities** and research institutions
Plymouth's stunning setting and **natural assets** have been enhanced	Plymouth has good quality neighbourhoods where people feel **safe and happy**	Plymouth has the right environment for **growth and investment**	Plymouth has a reputation as a **welcoming and multicultural city** with diverse communities

WHAT PRINCIPLES WILL GUIDE US?

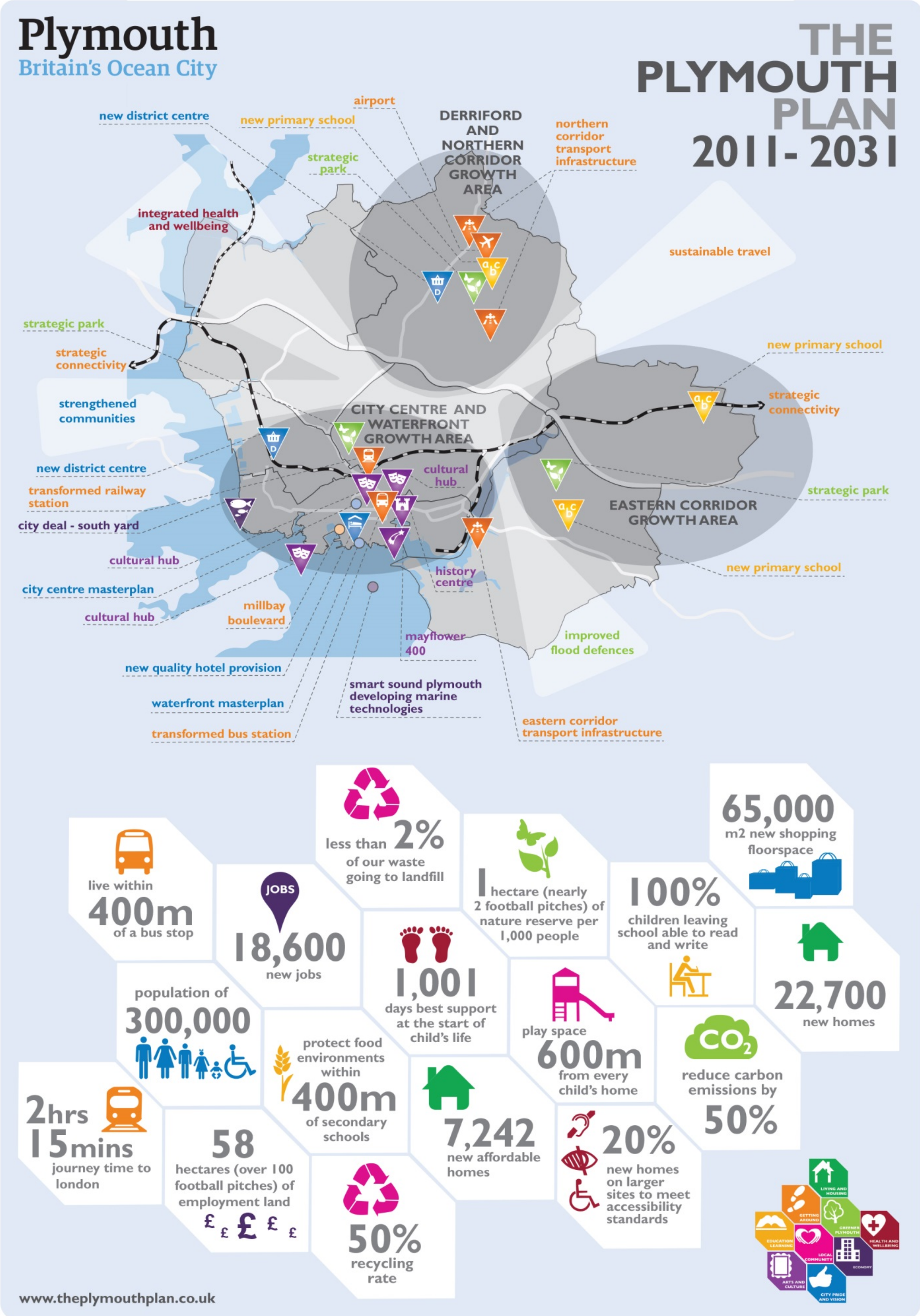
POWER
People have confidence that they can influence decisions that affect them

OPPORTUNITY
People can contribute to and benefit from being part of the city's future

ROOTS
People belong and care about Plymouth's future and their own

CONNECTIONS
People mix, learn from each other and work together

FLOURISH
People, communities and businesses thrive in a creative and diverse city



Plymouth
Britain's Ocean City
THE PLYMOUTH PLAN 2011- 2031
new district centre
new primary school
airport
strategic park
DERRIFORD AND NORTHERN CORRIDOR GROWTH AREA
northern corridor transport infrastructure
integrated health and wellbeing
sustainable travel
strategic park
strategic connectivity
new primary school
strengthened communities
CITY CENTRE AND WATERFRONT GROWTH AREA
strategic connectivity
new district centre
cultural hub
transformed railway station
strategic park
city deal - south yard
EASTERN CORRIDOR GROWTH AREA
cultural hub
history centre
new primary school
city centre masterplan
millbay boulevard
cultural hub
mayflower 400
improved flood defences
new quality hotel provision
smart sound plymouth developing marine technologies
waterfront masterplan
eastern corridor transport infrastructure
transformed bus station
less than 2% of our waste going to landfill
65,000 m2 new shopping floorspace
live within 400m of a bus stop
JOBS
18,600 new jobs
1 hectare (nearly 2 football pitches) of nature reserve per 1,000 people
100% children leaving school able to read and write
1,001 days best support at the start of child's life
22,700 new homes
population of 300,000
play space 600m from every child's home
protect food environments within 400m of secondary schools
CO_2
reduce carbon emissions by 50%
2hrs 15mins journey time to london
58 hectares (over 100 football pitches) of employment land
7,242 new affordable homes
20% new homes on larger sites to meet accessibility standards
50% recycling rate
LIVING AND HOUSING
GETTING AROUND
GREENER PLYMOUTH
HEALTH AND WELLBEING
EDUCATION LEARNING
LOCAL COMMUNITY
ECONOMY
ARTS AND CULTURE
CITY PRIDE AND VISION
www.theplymouthplan.co.uk

Corporate Plan

The Corporate Plan 2016 to 2019 sets out our vision to be 'one team serving our city' and retains our ambition to be a Pioneering, Growing, Caring and Confident City.

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

National Context

Reform of local Government funding

The Government is undertaking a fundamental review of how local authorities are funded.
This is likely to prove the biggest change to local Government finance in decades.

In July 2016 DCLG issued two consultation papers - *Fair Funding* and *100% Business Rates Retention*. The Council's response to Government is summarised in the box below. The Council expects more detailed proposals for consultation will be issued by Government in 2017. The changes could have a significant impact on the Council's budgets from 2020-21 onwards. The level of financial risk faced by the Council might be increased.

The Council will be working to protect its financial position by lobbying and as a member of SIGOMA and the Unitary Authority Treasurers Group.

Fair Funding and Business Rates

The Council already has significant pressures.

Spending need should be measured by multi-level modelling. Regression analysis of past expenditure should not be used as it is unfair and self-fulfilling.

New burdens are to be devolved to local Government. But Councils must also be given the powers to set service policy and run the devolved services to meet local needs.

Local authorities should not be expected to take on responsibilities where high demographic growth or rapidly increasing demand can be expected.

The Council supports business rates growth being used to support devolution deals.

The system should be re-set periodically to protect individual authorities.

All combined authorities should enjoy the additional powers proposed for Mayoral Combined Authorities.

Appeals risk and safety nets should operate nationally.

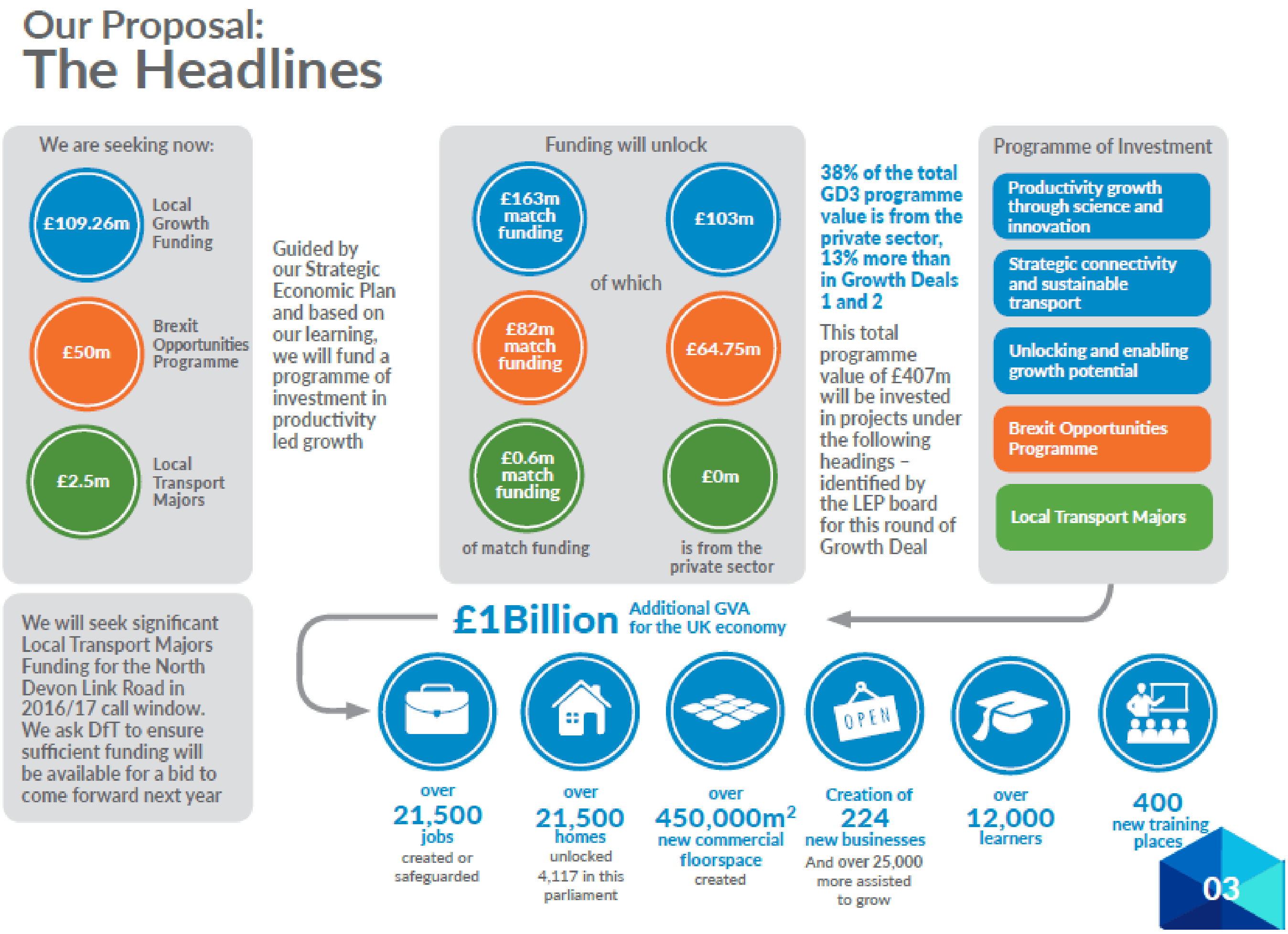
All Combined Authorities should have the power to levy a 2p supplementary rate.

Existing powers to levy a business rates supplement should be retained.

Devolution

Since the 2015 election, the Government has reiterated its commitment to devolving power out of Whitehall. Plymouth and Partner Authorities have agreed in principle a combined Authority 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 focused on driving up productivity levels by securing greater powers and longer term funding to invest in more housing, jobs and strategic infrastructure.

The Heart of the South West has submitted a bid to Government in July 2016 for Growth Deal 3. The proposal if taken forward will achieve gross value added in relation to Growth Deal 3 of £1bn to the UK economy.



Four Year Local Government Finance Settlement

In order to assist Local Authorities in their financial planning, the Government offered a four year settlement in 2016. The Council submitted its Efficiency Plan to Government 14 October 2016 in order to lock in Plymouth's Revenue Support Grant entitlements to 2020.

The Government is consulting on the 2017/18 funding settlement. This proposes to offer a four year settlement for other grants. The City Council would support this on the grounds of reducing financial risk and uncertainty.

Flexible use of Capital Receipts

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.

A Flexible Use of Capital Receipts Strategy will be submitted to Council as part of the 2017 budget process.

New Homes Bonus and Better Care Fund

Government is consulting on New Homes Bonus. The system of incentives is being reviewed, and entitlements are being reduced from 6 years to 4 years. Nationally, the reduction in New Homes Bonus is being re-directed to the Better Care Fund. Provisional Better Care Fund allocations are assumed in the savings table in the Medium Term Financial Strategy. Student accommodation – whilst not subject to Council tax – attracts new Homes Bonus.

Leaving the European Union

The financial and service implications of leaving the European Union are being carefully monitored.

- A downturn in the housing market and new starts could impact on New Homes Bonus.
- Reduction in interest rates could reduce the Council's investment income.
- Reduced development of business premises could impact on Plymouth City Council (PCC) business rates income.
- The Council has significant industrial and commercial holdings and any fall in rental levels or demand for premises could have an adverse impact on income budgets.

Leaving the European Union will also provide opportunities for Plymouth City Council. Reliance on EU support could be replaced by increased devolution to local authorities. This would create increased opportunities for the Heart of the South West Combined Authority.

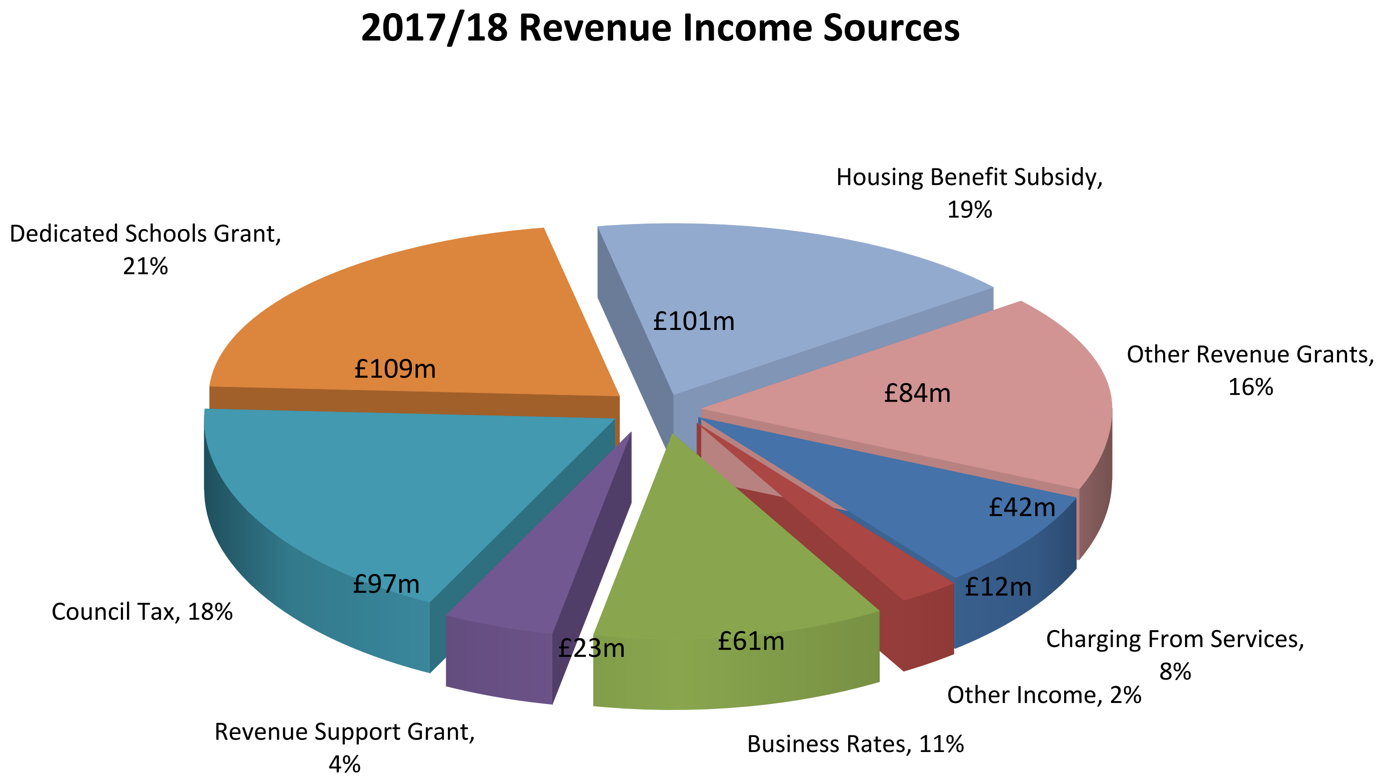
Local Economy

With a population of approximately 262,700, an economic output of £5.2 billion and 108,000 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. Following the economic recovery, Plymouth's economy continues to gain strength; there has been a reduction in public-sector dependency (although it is still higher than in other cities) and unemployment is decreasing. House prices are rising in line with the national average and full-time median wages compare favourably with other similar cities.

- Plymouth's total GVA annual total value now exceeds £5 Billion - the highest value ever (2014). GVA per Hour Worked is 92.3% of the national average;
- Plymouth's (2014) Gross disposable household income rises to a record high of £4,059 per household;
- Gap in pay between Plymouth & the HotSW (Annual-Resident full-time) = -2.5% (2015);
- 1,289 new jobs were created in the city (2015).

Resources available

Although our budget is expressed in net terms of £186m, 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.



Medium Term Financial Forecast

	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 brought forward		4.876		
Plus identified additional costs	17.564	10.736	7.357	6.403
Overall spend requirement	**210.573**	**202.314**	**188.133**	**185.207**
In-year shortfall to be found	**23.871**	**21.538**	**9.329**	**8.287**
Cumulative shortfall		**45.409**	**54.738**	**63.025**
Transformation stretch savings	**23.871**	**19.297**	**8.647**	**9.017**
REVISED SPENDING FOR YEAR	**186.702**	**183.017**	**179.486**	**176.190**
Budget Gap	**0.000**	**2.241**	**0.682**	**-0.730**

- Funding is reducing year on year from £187m in 2016/17 to £177m in 2019/20;
- Most of the increasing costs are outside of the control of the Council such as the National Minimum Wage and the cost of Adult and Children's Social Care;
- Transformation stretch savings offset the gap delivering savings of £37m over the next 3 years.

Transformation Stretch Savings Summary

Transformation Stretch Savings	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
New Homes Bonus	1.319	0.768	0.144	-0.018
Better Care Fund Gain		0.764	2.522	4.377
Council Tax Support			0.250	
ODPH Directorate	0.202	0.040	0.003	0.002
Chief Executive Office	0.073	0.255	0.035	0.022
Place Directorate including GAME 2	1.715	2.896	0.598	0.176
People Directorate - One System One Aim	9.882	7.117	4.039	3.656
Transformation & Change Directorate (Transformation of Corporate Centre)	3.627	2.645	1.870	0.421
Corporate items	7.054	4.812	-0.814	0.382
Total Savings	**23.871**	**19.297**	**8.647**	**9.017**

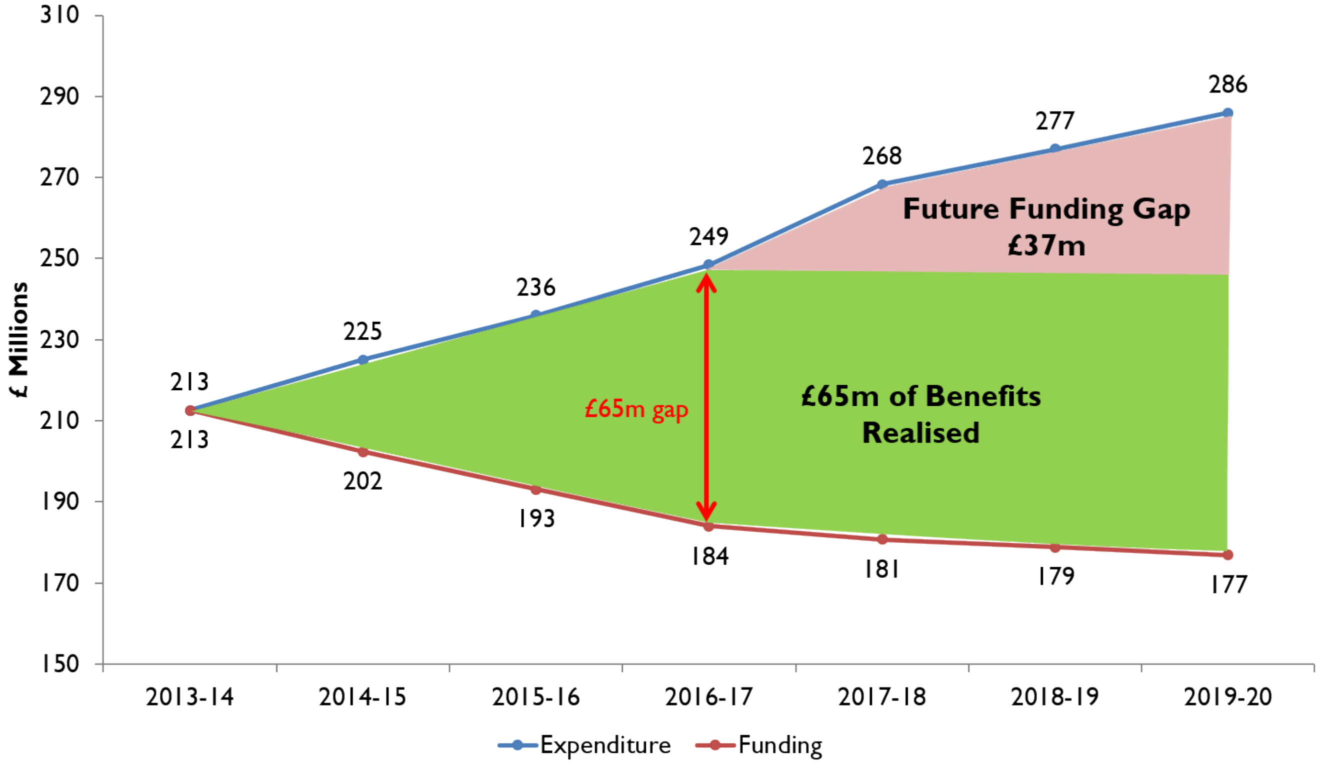
Transformation Stretch Savings Detail

Transformation Stretch Savings	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
New Homes bonus	1.319	0.768	0.144	-0.018
Better Care Fund Gain		0.764	2.522	4.377
Council Tax Support			0.250	
ODPH Directorate	0.202	0.040	0.003	0.002
Chief Executive Office	0.073	0.255	0.035	0.022
Place Directorate including GAME 2				
Place 15/16 one off savings b/f	0.335			
Reduced Insurance premiums	0.200			
City Deal re-profiling	0.200	0.100	-0.500	
Real time passenger information		0.024		
Economic Development Systems Review - moving towards cost neutrality		0.200		
Commercial Events			0.150	0.050
Energy-Related Initiatives: Dividend from Ernesettle Solar Farm		0.043		
Energy-Related Initiatives: Additional Capitalisation of Low Carbon Team Posts		0.025		
Parking Modernisation Plan		0.500		
Additional Efficiencies	0.127	0.213	0.198	0.126
GAME2 - Asset Investment Fund	0.100	0.750	0.250	
GAME2 - Street Service operations	0.250	0.275		
GAME2 - Highways re-procurement		0.250		
GAME2 - Strategic Planning and Infrastructure Systems Review		0.266		
GAME2 - Waste Modernisation		0.250	0.500	
GAME2 - Commercialisation - Place Directorate Review	0.503			

Transformation Stretch Savings	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
People Directorate - One System One Aim				
Integrated delivery	0.830	0.775	0.400	0.650
Integrated commissioning	2.331	2.225	0.850	1.000
Children, young people, youth and families	2.100	1.500	0.750	0.750
Learning and Communities	0.300		0.250	0.250
People Directorate review	1.435	0.500	0.250	0.250
Efficiencies People Directorate	2.886	2.117	1.539	0.756
Transformation and Change Directorate (Transformation of Corporate Centre)				
Finance Transformation	1.500			
HR Transformation	0.300			
Legal Department Transformation		0.200		
Corporate Fraud Debt recovery	0.100			
Transformation Review	0.500	0.835	0.500	
Smart working		0.305	0.543	0.234
Administration and Facilities Management		0.125		
Systems Review - Community Facilities	0.048	0.470	0.033	
Systems Review - CST Cross cutting	0.990			
Further Efficiency Savings	0.189	0.317	0.294	0.187
Service Centre			0.500	
Corporate Items				
Systems and IT infrastructure		0.338		
Corporate Training		0.055		
Procurement	0.400	0.300	0.300	
Fees and Charges in accordance with Policy		0.500	0.500	0.500
Treasury Management/MRP/LOBO	1.245	0.500	0.500	1.000
Treasury Management Savings	0.008	0.512	-0.114	-0.118
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	-2.000	-1.000
Total Savings	**23.871**	**19.297**	**8.647**	**9.017**

Our Financial Position – what we projected

In 2013 we worked out what the estimated gap by 2016 would be if we did nothing.



Due to transformation savings the Council has overcome the £65m gap identified in 2013. The efficiency challenge moves forward and the chart re-sets the position for setting the 2017/18 budget.

Financing the Council

Financial Planning Assumptions

The Medium Term Financial Strategy is based on national and local economic context and local strategic direction.

Key Financial Planning Considerations

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.

Key Assumptions

Benefit from the Devon-wide Rates Pool continues in 2017/18 and future years.

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. 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.

Revenue Resources

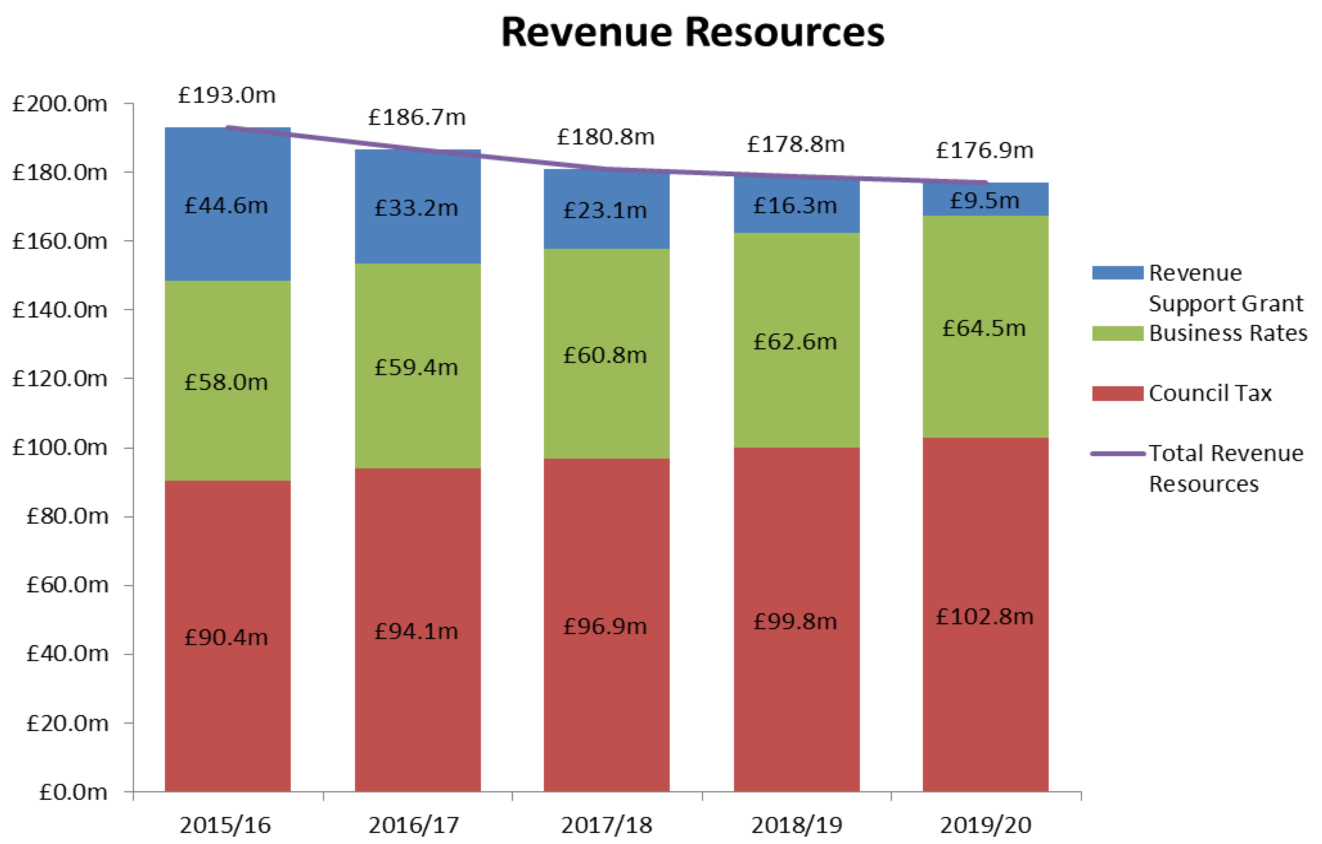
Plymouth City Council, in line with all other Local Authorities, continues to face diminishing resources and increasing demand and costs.

Our Council tax assumptions reflect a steadily increasing tax base, and the levying of an additional 2% Adult Social Care precept in each financial year.

The Business Rates forecast assumes a full growth dividend. It is expected that Devon Business Rates pooling gains will continue. A moderate RPI increase has been assumed.

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Budget	Forecast		
	£m	£m	£m	£m	£m
Revenue Support Grant	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	**193.009**	**186.702**	**180.776**	**178.804**	**176.920**

The scale of the funding reductions is the financial challenge facing the Council over the next four years. The Council therefore faces a continuing reduction in core central funding from the Revenue Support Grant.



Treatment of Specific Grant Funding

Housing Benefit Subsidy

Normal housing benefit payments are subsidised at 100%. Housing Benefit Subsidy Grant is estimated to be **£101m** in 2016/17. However overpayments attract only a 40% subsidy rate.

Increased levels of claimant error are being notified to Councils by DWP under Real Time Information. An additional £0.5m has been provided to address the subsidy implications.

Dedicated Schools Grant

The largest specific grant that the Council receives is the Dedicated Schools Grant (DSG) which is **£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 authority's 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.

Pupil Premium

In addition to the Dedicated Support Grant 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;
- Looked after by the City Council;
- Have parents who are currently serving in the armed forces.

Public Health Grant

This Government Grant supports the Council's public health responsibilities. Grant conditions apply including responsibilities for 0-5 children services which was transferred in October 2015.

For 2016/17 the Public Health grant was **£16.133m**. Plymouth City Council's Public Health Grant was cut by over £0.374m with the provisional 2017/18 allocation being cut by a further £0.398m in 2016/17.

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

Grant funds may only be spent on activities whose main purpose is to improve the public health of our local population. Local Authorities should have regard to the need to improve the take up of and outcomes from their drug and alcohol misuse treatment services.

New Homes Bonus/Better Care Fund

The New Homes Bonus 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 New Homes Bonus funding for housing development. The scheme was introduced in April 2011. 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;
- Empty homes coming back into use.

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

It was announced that the New Homes Bonus scheme would be extended indefinitely, however Government has issued a consultation to consider how the incentive element may interact with potential full retention of business rates and devolution.

Under the current scheme Local Authorities receive New Homes Bonus for a six year period. Government's preferred option is to reduce legacy payments from 6 years to 4. 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.

New Homes Bonus projections are detailed below. Government consultation on the redistribution of the national reduction in New Homes Bonus as Better Care Fund CF was issued in October 2016. The net impact is shown in the Medium Term Financial Strategy savings table.

Movement in Schemes	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m
New Homes Bonus					
Existing 6 Year Allocations	4.197	5.516	6.284	6.428	6.411
NHB Year on Year Change		1.319	0.768	0.144	-0.018
Better Care Fund					
New Homes Bonus Proposed DCLG 4 Year Allocations	4.197	5.516	6.284	4.371	4.619
Shortfall – 6 Year to 4 Year Scheme				-2.057	-1.792
Better Care Fund – Additional Funding			0.764	5.343	9.454
Net Change in Funding			0.764	3.286	7.662
Year on Year Change			0.764	2.522	4.377

The Plymouth Integrated Fund

As part of a collaborative transformation programme, Plymouth City Council and NHS North East and West (NEW) Devon Clinical Commissioning Group (CCG) continue to draw on the Plymouth Integrated Fund. This has been created 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. Implemented via a Section 75 Agreement under the NHS Act 2006, the Plymouth Integrated Fund has a combined net budget of £490m and was established specifically to create an integrated population based system of health and wellbeing for Plymouth.

Our four integrated commissioning strategies, developed in conjunction with the NEW Devon CCG, continue to provide the direction and guidance for a place-based, whole system approach to health and social care outcomes in Plymouth and help identify how the Plymouth Integrated Fund will be used to optimum effect. Each of the two partners contributes to the fund as follows:

- NHS N.E.W. Devon Clinical Commissioning Group: £353m
- Plymouth City Council: £137m

The Plymouth Integrated Fund also incorporates the Better Care Fund, which is a national programme aimed at accelerating 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, 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 both partners. The Plymouth Integrated Fund is supported on the basis of a 72% Clinical Commissioning Group 28% Council share of financial benefits and risks. This agreement limits the transfer of any over or under spends between the partners to a defined prudent maximum. The development of the Plymouth Integrated Fund has created greater opportunity to deliver improved outcomes and financial savings, recognising the existing budget pressures in both organisations, which have developed plans to address underlying overspends in the Plymouth Integrated Fund. Livewell Southwest - a Community Interest Company (CIC) - deliver community, physical and mental healthcare to people living in Plymouth, South Hams and West Devon and is an example of how the transfer of the adult social care staff enabled a fully integrated approach to both health and social care assessments for the people of Plymouth.

Council Tax

The Council increased Council Tax in 2015/16 by 1.99%. Council Tax is assumed to be frozen through to 2019/20 in the MTFS. A 2% Adult Social Care precept has been applied in all years. 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
- An increase up to the referendum limit of 1.99% in each year.

Every 1% movement in the Council Tax base equates to £0.950m.

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Adult social care precept assumed	94.080	96.927	99.842	102.845
		0.969	0.999	1.029
Based on 1.00% increase 2017/18 only	94.082	97.896	100.841	103.874
		0.960	0.988	1.018
Based on 1.99% increase 2017/18 only	94.082	98.856	101.829	104.892

Income Collection

The 2016/17 revenue budget and MTFS assumptions are based on achieving the collection targets. Bad debt provisions are kept under regular review by the Assistant Director of Finance.

Type of debt	Target % 15/16	Target % 16/17	Target % 17/18	Target % 18/19	Target % 19/20
Council Tax	98.5	98.5	98.6	98.7	98.8
Business Rates	98.5	98.5	98.6	98.7	98.8
Commercial Rents	97.0	98.0	98.5	98.5	98.5
Sundry Debt	97.0	97.5	98.0	98.0	98.0

The targets for Council tax collection and business rates are stretched for 17/18 onwards. These are ambitious targets and the increase is not currently assumed in the MTFS. The average in-year Council tax collection rate for unitary authorities was 96.9% in 2015/16. The average in-year business rates collection for unitary authorities was 98.0% in 2015/16.

Additional costs

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. A clear business case must 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 the 2017-18 MTFS are detailed on page 22. Additional costs are kept under constant review as part of on-going budget monitoring.

Item / area	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Salary and Pension Inflation	0.900	0.900	0.900	0.900
Pension actuarial review		0.600	0.900	0.100
Adult Social Care – Care Packages	3.562	2.756	1.854	1.374
Children, Young People and Families – Care Package		1.800		
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			
Specific grants reduction	0.719			
Plymouth Plan (one-off)		0.210	(0.210)	
ICT re-provisioning		0.300	0.300	0.300
Apprenticeship Levy		0.250		
Revenue costs arising from capital investment decisions		0.250	0.250	0.250
Staff costs (EVRS / redundancy)			0.500	
Housing Benefit Subsidy		0.500		
Neighbourhood Initiatives		0.100		
Total	**17.564**	**10.736**	**7.357**	**6.403**

Salary and 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 and 2018/19 with additional funding towards our pension deficit review.

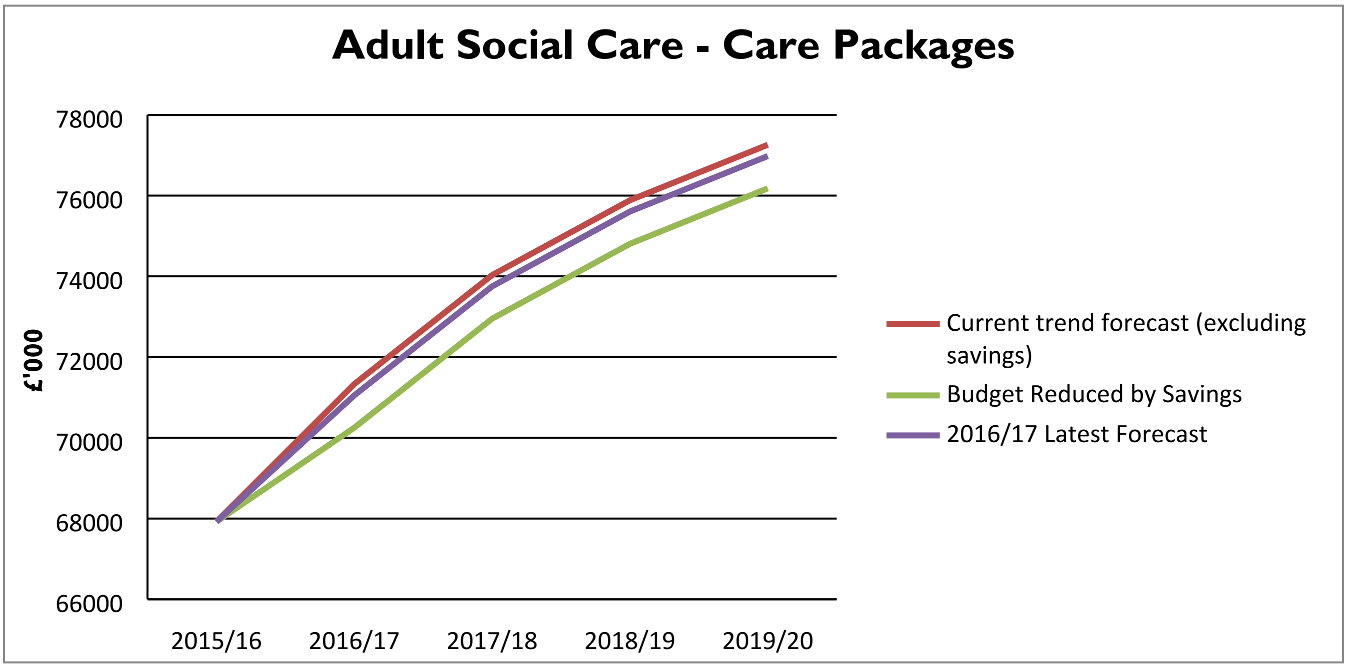
With the move towards alternative service delivery vehicles such as DELT (www.deltservices.co.uk) and CaterEd (www.plymouth.gov.uk/catered), future one off costs will need to be quantified in terms of ensuring that there is no pension deficit at the point of transfer.

Pensions Actuarial Review

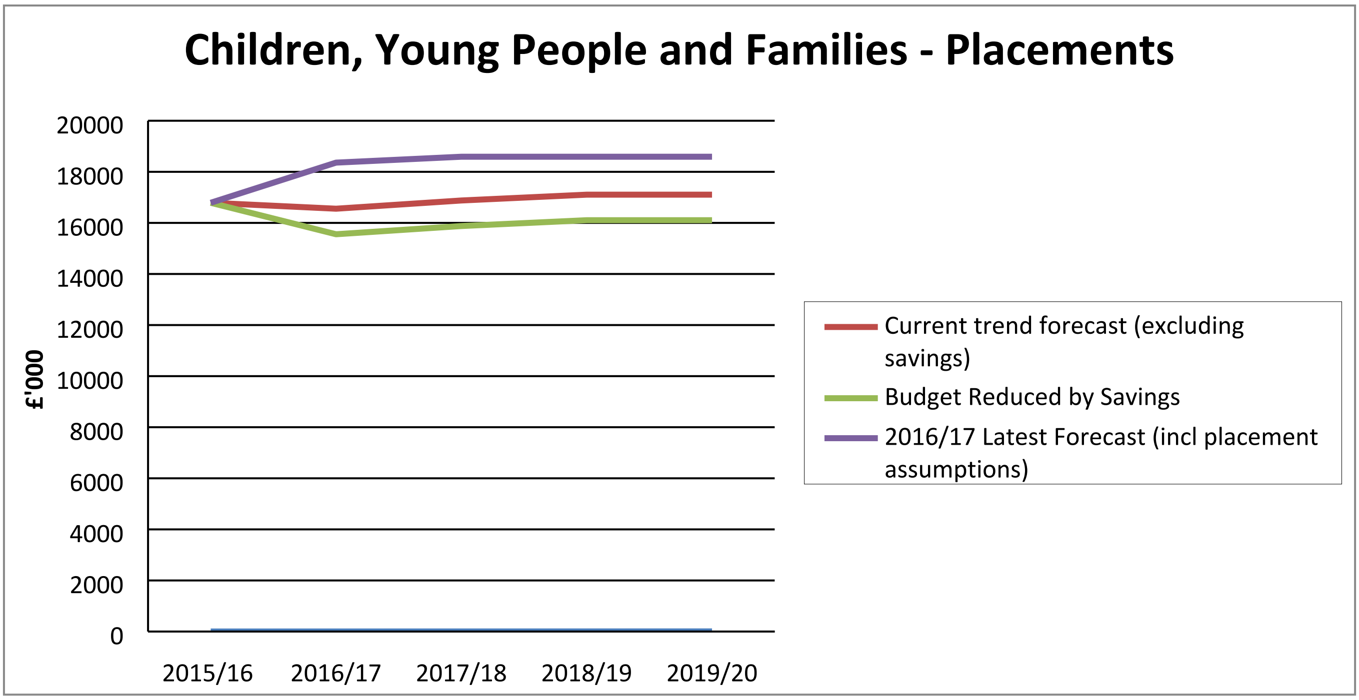
Provision has been made for the impact of the actuary revaluation of the Devon Superannuation Fund. New Rates come in to force in 2017/18.

Adult and Children Social Care

The Medium Term Financial Strategy allocates additional revenue funding to match core spending requirements. Due to diminishing resources, these allocations are exceptional in nature.



	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	74.087	75.991	77.365
Additional MTFS provision			2.756	1.854	1.374



	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	18.849	18.849	18.849
Additional MTFS provision			1.800		

A further allocation in the 2017-18 MTFS for children's packages has been made in respect of the Quarter 1 variation identified. Initial analysis suggested the increase in the total of Looked After Children, a rise of 21 against the 386 costed in the budget (an increase of 7%) was a spike rather than a new base. However, as the year has progressed it is evident that this number is the new base. The number of children in residential care has risen from 20 to 27 with additional costs of £0.900m; children placed with independent foster carers has risen fron the budget assumption of 70 to 107 with additional costs of £0.970m.

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 £0.850m in 2016/17 to cover start-up and running costs with an additional £0.550m allocated in 2017/18. This reduces back to £1.000m 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.

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 new National Living Wage of £7.20 per hour was introduced in April 2016. The MTFS has provided £2.217m in 2016/17 rising by £2.520m in 2017/18; £3.263m in 2018/19; and £3.479m in 2019/20. The Council pays the Foundation Living Wage (currently at £8.25) and this will be reviewed or capped for affordability in future years whilst the new National Living Wage catches up.

2015/16 Savings (one-off)

This was a technical adjustment in 16/17 to build ongoing savings in the base.

Plymouth Plan (one-off)

This covers the anticipated consultation costs in 2017/18.

ICT re-provisioning

The MTFS provides £0.300m in 2017-18, 2018-19 and 2019-20 for ICT re-provisioning. The cost of replacing our current stock of ICT equipment, covering desktop and laptop equipment and printers etc. will fall on revenue resources rather than the capital programme.

Apprenticeship Levy

An Apprenticeship Levy applies from April 2017 and is payable at 0.5% of payroll cost.

Revenue costs arising from capital investment decisions

£0.250m is included 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. 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. Such investment will be met from allocations.

Council Staff costs (Employee Voluntary Redundancy Scheme (EVRS)/Redundancy)

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 MTFS period. £0.500m is included in 2018/19 to cover the **Council Staff costs (EVRS / redundancy)**.

Housing Benefit Subsidy

Normal housing benefit payments are subsidised by Department for Work and Pensions (DWP) at 100%. Claimant error is subsidised at 40%, but is recoverable from the claimant. If the claimant is still in receipt of housing benefit there is a regulatory limit to the amount that can be recovered of £10.95 per week.

Since 2014 DWP has compared its database of payroll and family credit information with monthly extracts of Local Authority housing benefit records. Benefits authorities are notified of any claimant error by DWP. Given the increased scale of claimant error and the difficulties of recovering overpayments in many cases, it is prudent to provide £0.5m in the revised MTFS for loss of housing benefit subsidy.

Neighbourhood Initiatives

£100k has been added to the MTFS for this important development.

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 £37m 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.

There are three programmes that involve a wide range of projects touching every area of our work. The transformation programme comprises:

Transformation of the Place Directorate (Growth, Assets and Municipal Growth Programme - GAME 2)

This 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 to create more jobs and deliver more homes in Plymouth, guided by the Plymouth Plan and the Plan for Homes.

We are also 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.

Street Service operations
The continued modernisation of the Street Cleansing and Grounds service will deliver further savings. A reduced reliance on overtime and agency workers plus changes in working patterns are at the centre of this proposal.

Waste
The Council has a clear policy statement within the Plymouth Plan as to how it intends to manage its waste. 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.

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 and 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 five 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.

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.

One System, One Aim - Transformation of the People Directorate

A significant 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. The programme has already delivered pioneering changes to our adult social care services by combining them with health services to reduce costs and improve the health and wellbeing of Plymouth residents.

The programme emphasises the need for preventative and early intervention services to improve health, thus reducing demand for services in the longer term to develop a sustainable system.

It comprises multiple work streams currently embedded across:

- Integrated Delivery
- Integrated Commissioning
- Integrating services for Children and Young People and Families
- People Directorate Review
- Efficiencies

As the programme moves into its next phase of aligning to the One System, One Aim programme of activity the projects take on a different shape and feel and will need to subsume the following areas of development and delivery, utilising resources across PCC, CCG, Livewell Southwest, Plymouth Hospitals NHS Trust and other partners to achieve the following aims:

- Review and redesign the Urgent Care System
- Transform services for Children and Young People
- Redesign and remodel the system for Elective Care
- Remove the amount of spend on individual High Cost packages of Care
- Develop an integrated system of Health and Wellbeing Hubs
- Implement the 5 Year Forward View for Mental Health
- Develop and redesign Primary Care as part of the system of Health and Wellbeing

In parallel, the People review will continue to maximise grant funding, identify additional income opportunities and deliver operational efficiencies through the remodelling of teams and services across the whole directorate.

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:
- Embedding 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.

Transformation of the Corporate Centre

This programme has been established to:
- Define and deliver an organisational service centre to deliver universal services and transactions with consistency and commonality
- Deliver digital service transformation across the entire organisation to enable channel shift and process commonality to support delivery to the transformation outcomes
- Implement the Customer Service Strategy and the customer and channel elements of the blueprint through the system review process

The programme is supporting the delivery of the following agreed outcomes:
- Supporting cost effective, easy to use and highly accessible services
- Enabling informed decision making by joining up systems within PCC to create integrated views of Citizens, Costs, Services and outcomes and Performance
- Automating manual/paper tasks to reduce costs and improve quality
- Enabling smart/mobile working to allow services to be delivered where they are needed and reducing accommodation costs
- Delivering modern, high productivity technical tools to staff meeting the needs of a professional workforce and helping to attract and retain talent to the authority

Service Centre – this will support all Council departments who manage customer (including internal customer) requests and enquiries. The highest volume of customer contacts are the least complex and it is these transactions that will be managed by the Service Centre. Customer interactions will be simplified and standardised and will provide clear and transparent performance metrics. The Service Centre's capacity to support will increase as System Reviews are completed when suitable high volume, low complexity processes will be migrated and deliver economies of scale.

Digital Services - This project is an enabler for channel shift and automation; giving an organisational capability to deliver transformational change in service delivery, assisting with a reduction in call demand, enabling customers to self-serve and reducing paper-based transactions and the manual transfer of information.

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.

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. Ensuring the Corporate Office buildings are fit for purpose and used in the most efficient way. We will be rationalising the estate by consolidating our office space need into the most efficient size/number of buildings and either releasing unused buildings for sale or leasing freed up space to generate income. The Councils depots will be consolidated to reduce the number and size to meet current and forecast needs with surplus depots sold for alternative uses.

Other Transformation Activity

Systems Reviews - 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 it 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.

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.

Our aim as we continue to transform the organisation is 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.
- Enable maximum contact through digital channels and service as many requests as possible at point of contact and to automate and further streamline processes and opportunities for increase self-service.
- Benefit from a full picture of each customer and their needs based on a centralised data repository and intelligence and to provide a joined-up service to customers using shared business processes.
- Provide a joined-up and intelligent single point of contact for wider servicing of public service needs within the region.
- Explore potential benefits of delivering services by alternative means through a systems review focusing on consolidation, collaboration and sharing –internally and externally.

Capital Budget and Programme

Over recent years the Council has reviewed its management of the capital programme and is based on 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.

Funding Source	2016/17	2017/18	2018/19	2019/20	2020/21	Total
	£m	£m	£m	£m	£m	£m
Un-ring fenced Grants	10.037	6.540	5.315	3.815	3.815	**29.522**
Ring fenced Grants	36.421	51.399	44.230	18.555	10.942	**161.547**
Developer Contributions	19.296	9.381	6.558	6.154	6.153	**47.542**
External Contributions	2.223	0.500	0.500	0.572	0.500	**4.295**
Capital Receipts	9.316	1.834	0.619	2.006	0.500	**14.275**
Investment funds Loans repaid	1.734	0.222	0.326	0.906	0.380	**3.568**
Borrowing (Plan for Homes)	15.000	47.500	17.500	0.000	0.000	**80.000**
Borrowing (Asset Investment Fund)	45.204	3.686	0.000	0.000	0.000	**48.890**
Borrowing - other	47.469	9.994	9.031	6.381	7.000	**79.875**
Revenue/ funds	1.794	1.3920	1.868	0.300	0.100	**5.454**
Total	**188.494**	**132.448**	**85.947**	**38.689**	**29.390**	**474.968**

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.

Non 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.

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 and 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 (CIL) (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 metre 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.

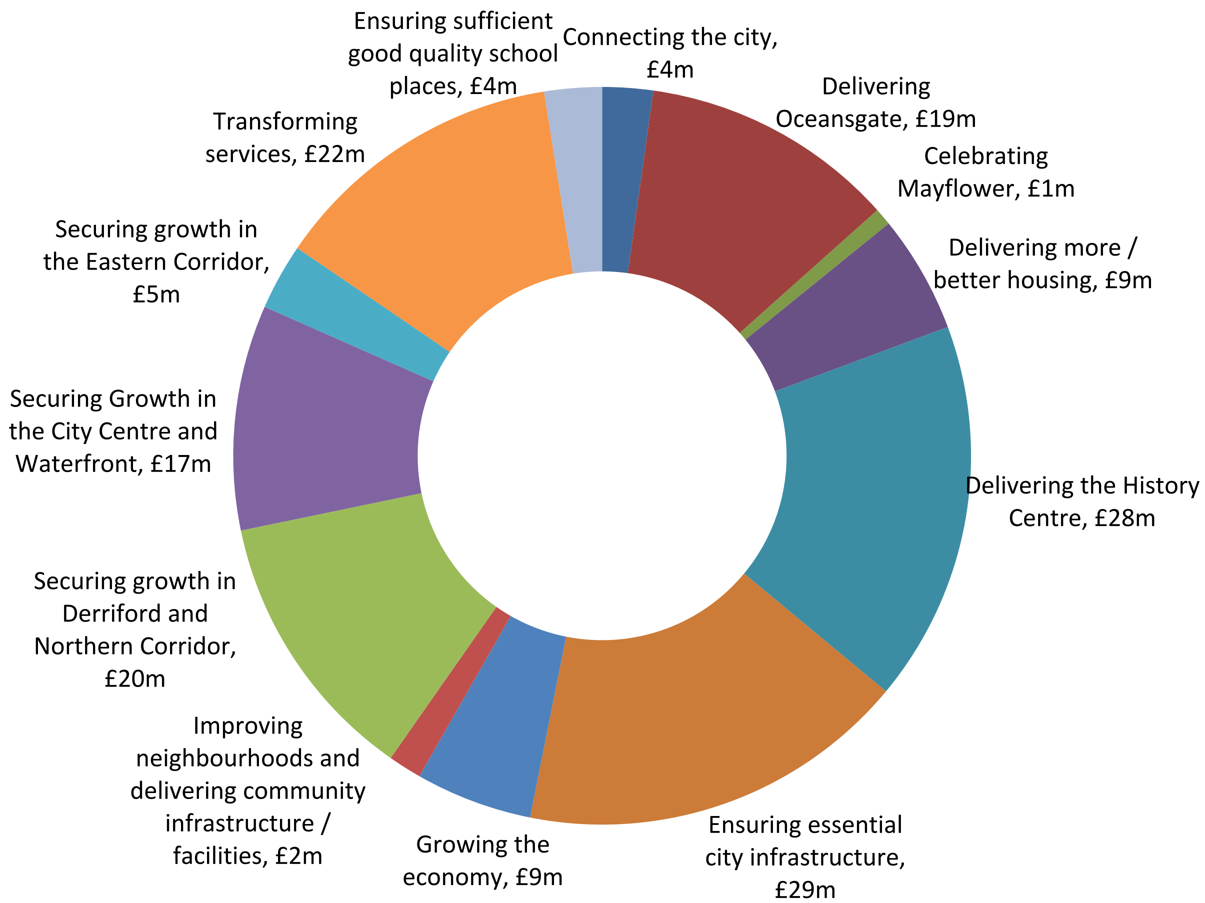
Revenue

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. 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.

It is noted that resource forecasts for the period 2017 – 2021 are reducing, as RAG rated estimates become less certain. The capital programme is also front loaded to deliver the greatest proportion of projects utilising 2017 – 2021 resources in the early periods. The current approved Capital Programme for 2017-21 is £168m.



We remain committed to a significant capital investment programme. The Council will engage with partners in major regeneration of the city, not only contributing towards improvements, but also to sustain local work opportunities, for example, the construction industry. We will ensure that we maximise the outcomes and revenue savings generated through capital investment. For example, we will grow businesses in the city and build more houses to generate business rate income, New Homes Bonus and Council tax. Our Capital Resources to 2020/21 are £475m, 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 for 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 to encourage sustainable journeys to be made. Opportunities to improve pedestrian and cycle links and crossings will also be maximised.

Forder Valley Link Road
£33.4m will be invested to provide a direct link to Derriford and to support future housing developments at Seaton neighbourhood**.**

Asset Investment Fund
£50m is being invested into strategic property investments that will help grow the local businesses and will create income to support the Council's revenue budget.

Strategic Cycle Network
£8.3m is being invested in the Northern and Eastern Corridors Strategic Cycle Network. This will deliver a network of routes for experienced and inexperienced cyclists that will link each of the neighbourhoods in Plymouth. This will benefit pedestrians and people with mobility and other impairments.

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% more exhibition space and 100% more flexible learning space.

Oceansgate
£20m is being invested in the first phase with 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.

Treasury Management

The Council's approach to Treasury Management has been significantly revised due to the global economic environment and by the recent decision to leave the European Market. These events have led to the Bank of England reducing the bank rate to an all-time low.

Despite being risk adverse, we continue to explore opportunities for generating significant revenue returns through close management of the business's working capital and associated cash flows.

The Asset Investment Fund has been investing in local property by borrowing at unprecedented low interest rates. This will enable the Council to increase its investment income as well as supporting its revenue budget.

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 £20m investment in property funds generated a return of more than 4% in 2016/17 and a similar return is forecast for2017/18.

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 also publish Prudential Indicators which set investment and borrowing performance indicators to ensure that we stay within these guidelines. We maintain regular engagement with our Treasury Management advisors, ArlingClose, and constantly seek their advice on our strategic direction and key operational decisions.

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 £400m
- 2017/18 £440m

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.

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.

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 changed its MRP policy 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.

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 and 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 Panels

In addition, we will be producing a joint PCC and CCG 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 CCG 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

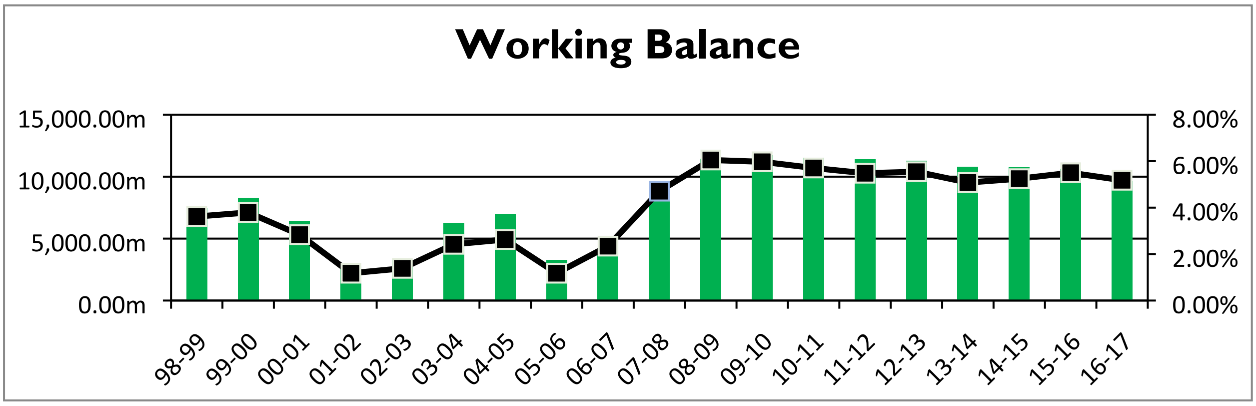
Over recent years, a number of management actions and budget delivery plans have relied on restructuring staffing and/or rationalising management. Whereas the Council is committed to minimising the number of compulsory redundancies unfortunately, on occasions, this is not feasible. This specific reserve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

Working Balance

The Council's Working Balance is the revenue reserve that is put aside to cover any significant business risks that might arise. This reserve has been steadily built up over the years and was £10.652m as at March 2016. The significant constraints that will be placed on public sector spending for the foreseeable future.



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.

Risk Register

Risk	Mitigation	Likelihood	Impact	Score
Leaving the European Union impact on New Homes Bonus	Proactive approach to new development	3	3	9
Leaving the European Union impact on NDR income	Proactive approach to new development and promoting business investment in PCC	3	3	9
Leaving the European Union investment returns	Ongoing review of investment policy and use of property fund to maintain returns	3	3	9
New Homes Bonus reallocation to Better Care Fund	Further details of Government proposals awaited to enable full consideration of the risk	3	3	9
Change of Government - 4-year RSG settlement at risk	Work with partners and local governemnt bodies to protect the settlement	2	3	6
Fair funding review disadvantages PCC	Work proactively to lobby for increased PCC resources that recognise the particular needs of the City	4	5	20
100% business rates retention does not direct a fair share of resources to PCC or does not allow the benefits of rates growth to be fully retained	Work proactively to lobby for increased PCC resources and promote a system that is not unduly favourable to authorities with a high business rates base	4	5	20
Volume of demand and demographics beyond MTFS assumptions- adults	Although provision has been made in the MTFS for additional costs in this area, the position will need careful monitoring	3	3	9
Volume of demand beyond MTFS assumptions - children	Although provision has been made in the MTFS for additional costs in this area, the position will need careful monitoring	4	5	20
Risk to Council tax collection rates following the roll out of Universal Credit	The MTFS is based on realistic collection assumptions, but the position will need to be carefully monitored and additional resources allocated for collection activity as necessary	3	3	9
Risk of additional costs through pension fund deficits beyond MTFS assumptions	Some provision has been made in the MTFS for additional pension costs, but the position will need to be carefully monitored. The Government Actuary is to have a new role in signing off deficit reduction timescales	3	3	9
Delivery of planned savings	The achieved value of Transformation Stretch savings is part of regular budget monitoring. Corrective management action is taken where adverse variations are identified	3	3	9
Revaluation Risk	Revaluation changes not fully compensated in Government top-up funding	3	3	9
Commercialisation Debt Risk	Borrowing to invest in commercial projects exposes PCC to additional credit risk, as the revenues that flow from these projects are inherently uncertain	2	4	8

Medium Term Financial Strategy

Published by:

Plymouth City Council
Ballard House
West Hoe Road
Plymouth PL1 3BJ

Tel 01752 312560

Email andrew.hardingham@plymouth.gov.uk

www.plymouth.gov.uk