

Agenda item:

Decision maker: Cabinet
City Council

Subject: Portsmouth City Council Revenue Budget 2013/14

Date of decision: 10 December 2012 (Cabinet)
11 December 2012 (City Council)

Report by: Head of Finance & Section 151 Officer

Wards affected: All

Key decision: Yes

Budget & policy framework decision: Yes

1. Executive Summary

1.1 In the current economic climate the Budget for the coming year 2013/14 will be extremely challenging for the City Council as it seeks to continue to support the local economy, protect core services and services to the vulnerable at the same time as facing significant funding cuts.

1.2 Added to this, Local Government is facing the biggest change to the funding system since the 1990's and this is creating significant uncertainty for future financial planning. What is known is that the amount of funding within the system, under the Comprehensive Spending Review Period 2011/12 to 2014/15 (CSR10), has been cut by circa 30% (although further Government decisions have increased this cut to around 33%) and funding from Council Tax is being constrained at levels significantly below inflation. In financial terms the effect of this will mean that the Council will have made successive savings as follows over the following periods:

- 2011/12 - £15m (CSR10)
- 2012/13 - £8m (CSR10)
- 2013/14 to 2014/15 - £19m (CSR10)
- 2015/16 – £8m

In cumulative terms, this amounts to total spending reductions of £163m over the whole period, of which £155m relates to the CSR10 period.

Savings in previous years were as follows:

- 2009/10 - £8m
- 2010/11 - £8.4m

- 1.3 Whilst the Council has made, and continues to make, some of these savings requirements through efficiencies via its Transformation Programme amounting to some £11m (or £40m cumulatively) over the 2011/12 to 2015/16 period, the Council will need to continue to make savings through service reductions also if it is to achieve all of the savings required. It is important that the Council responds to those funding reductions and uncertainties in order to ensure that its own financial health remains strong and resilient so that core services can continue to be delivered with confidence from a stable financial platform. To achieve this, the Administration is proposing that a Savings Requirement of £15m is set for 2013/14 which takes into account any implementation lead times but that in a full year that Savings Requirement amounts to £17m which must be ongoing into future years. Based on current financial forecasts (due to be revised in February 2013), a Savings Requirement at this level is likely to mean that Savings Requirements of £10m spread over the financial years 2014/15 and 2015/16 at £5m per annum will be needed.
- 1.4 To achieve the £15m in 2013/14, a number of savings proposals will need to be progressed in advance of the Annual Budget Meeting in February 2013. These high level savings proposals are set out in Appendix 1 and approval is sought to proceed to consultation with these. Similarly, to achieve these savings, some additional “one-off” investment will be required.

2. Purpose of Report

- 2.1 The report describes the challenging financial climate facing the City Council for 2013/14 and beyond and therefore for services to residents. It sets out the forecast level of savings that the Council will need to achieve over that period and the Savings Requirement in 2013/14.
- 2.2 The report also seeks approval to a number of savings proposals in order that any necessary consultation, notice and other implementation lead times can commence. Associated with the delivery of these savings are a number of proposals for “up front, one-off” funding and this is requested to be funded from the MTRS Reserve.
- 2.3 In particular, this report explains:
- (a) In broad terms the challenge for the City in the current economic climate
 - (b) The general financial constraints on the City Council both currently and in future years

- (c) The assumptions built into the City Council's forecasts for 2013/14 surrounding some key areas of funding including:
 - i. Formula Grant
 - ii. Other Non Ring fenced grants including the new Council Tax Support Grant (replacing Council Tax Benefits)
 - iii. The transfer of Funding for Public Health in 2013/14
 - iv. Council Tax
- (d) Other assumptions including the provision for inflation and budget pressures
- (e) In overall terms the Administration's proposed Revenue Budget Savings Requirement for 2013/14 and the consequential impact of this on future years savings requirements
- (f) A schedule of high level savings that are proposed at this early stage in order that any consultation, notice periods or other necessary lead times can commence
- (g) The spend to save investment required in order to deliver some of the proposed ongoing savings

3. Recommendations

3.1 That the following be approved:

- (a) The Budget Savings Requirement for 2013/14 be set at £15m which takes account of any part year effects associated with consultation periods, notice periods and other necessary implementation lead times.
- (b) The full year effect of the 2013/14 Budget Savings Requirement be set at £17m
- (c) £260,000 be released from the MTRS Reserve to fund the implementation costs of the savings proposals from Adult Social Care as set out in Appendix 1.
- (d) £273,000 be released from the MTRS Reserve to fund the revenue costs associated with the Children's Social Care strategy which is aimed at improving the effectiveness of the Children's Social Care Service and also mitigating future costs and/or making savings associated with Looked After Children. Details of the proposed strategy are set out elsewhere on the Cabinet Agenda in the report entitled "Social Work Matters".
- (e) That the funds released under Recommendations 3.1c) and 3.1d) be used flexibly across the 2012/13 and 2013/14 financial years and that the S151 Officer be given delegated authority to determine the annual allocations as necessary
- (f) The high level budget proposals amounting to £8,090,100 for 2013/14 and £9,089,600 in a full year as set out in Appendix 1 to enable

appropriate consultation and notice periods to be given to affected parties

- (g) It be noted that in response to any consultation, the relevant Portfolio Holder may alter, amend or substitute any savings proposal(s) set out in Appendix 1 with alternative proposal(s) amounting to the same value within their Portfolio
- (h) Managers be authorised to commence any necessary consultation process or notice process related to the savings proposals set out in Appendix 1.

4. Economic & Financial Context

- 4.1 Portsmouth, like other cities and areas of the UK, has been affected by the global economic downturn over the past 2 years. The impact has been felt in terms of overall employment levels, disposable incomes, economic prosperity generally and also the provision of Council services.
- 4.2 The national economic climate remains subdued with the economy re-emerging from recession in the last quarter but with relatively low projections of real growth over the next 2 years. Inflation has fallen in recent months to be broadly in line with the Bank of England's 2.5% target but real income is being eroded as inflation continues to outstrip earnings growth, this indicates that demand and therefore growth in the economy will remain slow with inflation likely to be relatively flat. As a consequence interest rates will also remain low for some time. Unemployment also remains relatively high (although falling) which places a strain on the public purse generally. The impact of Public Sector funding cuts will improve the public finances but that improvement will be offset to an extent by the unemployment that it creates unless the private sector is able to pick up the extra capacity created.
- 4.3 On the positive side, low interest rates are an incentive to borrow for investment. However, the availability of credit and business confidence will need to improve in order to kick start private sector investment to generate growth and jobs.
- 4.4 Without economic growth, public sector borrowing will increase beyond the Government's target. The latest indications are that the Public Sector borrowing targets set by Government are unlikely to be achieved in the original timescales. In the current year, the Government are likely to exceed their borrowing target by £10bn. This, along with the general slippage in reducing Government borrowing, is likely to result in further cuts in Local Government funding compared with those announced within the Comprehensive Spending Review 2010 (CSR10). More clarity around this may be announced as part of the Chancellor's Autumn statement which is to be made on December 5th 2012. In context, each additional £1bn cut in Local Government Funding, if evenly distributed nationally, is likely to result in a £4.3m reduction in Government Funding for Portsmouth.

4.5 In this context, economic growth and job creation are essential. The City Council has a role in regenerating the City and working with partners to kick start the local and sub regional economy. This will be a particular challenge to the City Council in the coming Budget. Savings proposals will need to consider how best to assist the economic recovery at a time when the Council's own funding is being reduced by circa 33% over the period 2011/12 to 2014/15 whilst still continuing to provide essential services at an acceptable standard.

5. Summary of Main Changes and Implications to the Financial Forecast 2013/14 to 2015/16

5.1 The last comprehensive review of the City Council's 3 Year Financial Forecast was reported in the Annual Budget Report in February 2012. This set out the City Council's underlying budget deficit and consequent forecast Budget Savings Requirement for the next 3 years as follows:

| | Underlying Budget Deficit | Annual Budget Savings Requirement | Total Savings Requirement |
|--------------------|--|--|--|
| | £m | £m | £m |
| 2013/14 to 2014/15 | 17.6 | 19.0 | 19.0 |
| 2015/16 | 26.7 | 8.0 | 27.0 |

5.2 Since that time, there have been a number of changes that we know will affect these forecasts. Others are unknown but have the potential to be significant.

5.3 Whilst we are aware of a number of changes to the assumptions underpinning these forecasts and therefore the savings requirement, the significant uncertainty associated with the Local Government Finance Settlement due to be announced on the 19th December 2012 means that a comprehensive revision at this stage would be premature and subject to significant uncertainty. The lateness of the Settlement is problematic for the Council's financial planning and the Local Government Association have lobbied Government to this effect.

5.4 In order to mitigate against adverse movements in the Council's forecasts, sums were included for Budget Pressures amounting to £2m. This sum therefore is available to set against some of those changes described in more detail below. Other changes will be included within the Budget 2013/14 and any ongoing effects reflected in the revision to future years Savings Requirements as part of the comprehensive revision to the Council's financial forecasts in February 2013.

Council Decisions

i) Council Tax Support – Replacement of Council Tax Benefit

Elsewhere on the Council Agenda is a report entitled “Council Tax Local Scheme”. As described in that report, Council Tax Benefit will be replaced by a Local Council Tax Support scheme. Council Tax Benefit is currently funded via a subsidy from the Government and broadly covers the cost of the benefits paid. The risk therefore of changes in caseload largely rested with Government. The new arrangements for Council Tax Support to be introduced in April 2013 will replace that subsidy with a non ring-fenced grant. The new grant however, will be circa 10% less than the previous subsidy given and will not necessarily change in the future in accordance with caseload. The financial impact of the circa 10% reduction is a loss of £1.9m but with the added risk that changes in caseload will not be recompensed by grant and will add to the Savings Requirements of the City Council.

The new Local Council Tax Support scheme that is being proposed for consultation is estimated to cost £1.0m more than the new Council Tax Support Grant

ii) Council Tax Discounts and Exemptions

As set out in the “Council Tax Local Scheme”, it is being assumed that in order to mitigate the reduction in funding associated with the replacement of Council Tax Benefit with the Council Tax Support scheme, the City Council will take a range of decisions in relation to withdrawing and reducing discounts and exemptions with the aim of increasing Council Tax income by £0.9m.

iii) Other

All other decisions made by the City Council with financial consequences for 2013/14 and future years will need to be funded from the £2m provision for Budget Pressures contained within the City Council’s forecasts for 2013/14.

Formula Grant

i) Business Rate Retention Scheme

From 2013/14, the Formula Grant system will change. The intention is that circa 56% of the Formula Grant will be driven entirely by need (similar to the current system) and provided for as Revenue Support Grant (RSG). The remaining 44% will be subject to change and influenced by the extent to which Business Rates have grown or contracted. Whilst this presents an opportunity for Local Authorities with strong business growth potential, it also presents risks for Authorities whose business rates base is in decline or subject to “shocks” such as closure (or relocation) of major businesses in an area. The new system is complex but some of the other key features are highlighted below:

- For business the NDR system will remain the same, Local Authorities will not have control over how the level of tax is determined for ratepayers
- Authorities whose business rate taxbase grows will be rewarded with increased funding but Authorities with a decline in their taxbase will have reductions in their funding
- In determining the level of business rate growth or contraction, a 2 year average will be used to establish the baseline position
- 98% of that Business Rates Baseline will be attributable to Portsmouth with the remaining 2% being attributable to Hampshire Fire & Rescue Authority
- Local Authorities that have significant business rate growth will pay a levy
- A safety net payment will come into effect if an Authority's income falls by more than 7.5% of the original baseline funding level. This is intended to be funded by both the Levy (described above) but also a general "top slice" on Local Government funding.

It is estimated that a 1% change in Business Rates will result in circa £400,000 change in Formula Grant. Any change to the estimated funding received from Formula Grant will be reflected in the comprehensive revision to the Council's overall financial forecasts in February 2013 and any consequent implications will be reflected in the Savings Requirements for future years.

ii) Academy Conversions (Local Authority Central Spend Equivalent Grant – LACSEG)

At present, Local Authorities receive an allocation within the Formula Grant for the central functions provided by Local Authorities to schools e.g. Strategic Management, School Improvement Services, Pupil Support, Education Welfare, Asset Management, Music etc. When schools transfer to Academy status, Government reduces that funding to Local Authorities and passes it to the new Academy. The risk is that the reduction in funding is greater than the reduction in the associated costs that can be achieved. This was the case for the current year although the City Council was prominent in successfully pursuing a judicial review and received a one-off payment of £450,000 in compensation. In the future, assumptions have been made that this change would have a negative financial effect on the Council. Any variance to this assumption will be reflected in the comprehensive revision to the Council's overall financial forecasts in February 2013 and any consequent implications will be reflected in the Savings Requirements for future years.

Transfer of Functions & Additional Burdens

i) Public Health

Considerable uncertainty exists regarding the amount of specific grant that will be provided to Local Authorities to deliver their new Public Health responsibilities from April 2013. The current assumption is that the current level of spending will be met entirely by the Public Health Grant. Should there be any shortfall in funding, then this will need to be met either by reducing Public Health Services or from the £2m provision set aside for Budget Pressures.

ii) Bus Services Operator Grant

In the current year, the Government reduced its grant payable to bus operators by 20% and to some extent this has been passed on to passengers. This has led to an increase in concessionary fare costs which is based on the income foregone by operators and amounts to £163,000. This overspend was met from contingency in the current year since the extent of the cost was unknown at the time of setting the budget. Since the contingency is not a continuing source of funding, this will need to be funded in 2013/14 on a permanent basis and met from the £2m provision for Budget Pressures.

iii) Healthwatch

The City Council has been passed additional statutory responsibilities under Health and Social Care Act 2012 to provide a Healthwatch service. Under the Act, the service must be delivered via a commissioned, independent body rather than by the City Council. The functions to be provided include :

- Advocacy (representing service users)
- Complaints (investigation of service users complaints)
- Sign-posting (making users aware of how to access Health & Social Care Services)
- Enter and View (an independent inspection of Health & Social Care Services)

The City Council has been given additional funding within the Formula Grant to support this and therefore this additional cost will need to be met from the £2m provision for Budget Pressures that was included within the forecast for such changes. It will be for the Council to determine at what level and cost this new service will be provided for.

Council Tax

The Council currently receives £5.5m per annum less in Council Tax than the average Unitary Authority. Contained within the Council's forecasts is an assumption of year on year Council Tax increases of 2.5% per annum. In October, the Department for Communities and Local Government (DCLG) announced that any Local Authority that wishes to implement a Council Tax rise in excess of 2% will be required to have that ratified by a referendum. At the same time, the DCLG announced that a further Council Tax Freeze grant will be made available to those Local Authorities that do not increase their Council Tax. The level of the Council Tax Freeze Grant however, will amount to the equivalent of a 1% rise and that will be provided to Local Authorities for a period of 2 years. A grant at that level will not be sufficient to cover the level of inflation faced by the Council (estimated at between 2.0% and 2.5%) and will have the effect of increasing the savings requirement by £1m in 2013/14 followed by a further £0.7m in 2015/16.

Whilst the decision on Council Tax will be made by the full Council at the Annual Budget Meeting on the 12th February 2013, for the purposes of forecasting the Council's financial position for 2013/14 and future years, it is now assumed that the Council will increase Council Tax by 2% in 2013/14. In contrast to an increase in the Savings Requirement of £1m in 2013/14 and a further £0.7m in 2015/16 arising from taking the Council Tax Freeze Grant, an increase in Council Tax of 2% will have the impact of increasing the Savings requirement of £0.3m in 2013/14 only.

Should the Council decide to accept the Council Tax Freeze grant, then the £0.7m additional cost will either need to be met from the £2m provision for Budget Pressures or by increasing the Savings Requirement by the same sum.

Inflation

An overall provision for inflation equating to 2.1% has been provided for within the forecast for 2013/14. At this stage it is anticipated that, taking account of Pay, Prices, Contracts and other specific inflation, that inflation will be within the range 2.0% to 2.5%. Any variation between the actual cost of inflation and the provision made for inflation will be provided for within the Budget for 2013/14 and leave the Savings Requirement for 2013/14 unaffected. It will however have an effect on future years Savings Requirements and will be reflected in the comprehensive revision to the Council's overall financial forecasts in February 2013.

Other

i) Commercial Ferry Port

Also reported elsewhere on this agenda in the "Budget & Performance Monitoring Report – Quarter 2" is the forecast reduction in income for the

Commercial Ferry Port. As a consequence, it is estimated that income at the Port will reduce by circa £1.0m in 2013/14. However, it had been assumed that net income would grow by £0.6m and therefore the impact on the budget forecast is a deterioration of £1.6m. This means that the trading surplus from the Commercial Ferry Port will stand at £6.3m in 2013/14. Similar to other assumptions (e.g. Formula Grant Levels, Inflation etc.) which are not directly influenced by / or as a result of Member decisions, any deterioration in Port income will be reflected in the comprehensive revision of the City Council's financial forecasts presented at the Annual Budget Meeting in February 2013 and will not add to 2013/14 Savings Requirement.

6. Budget Savings Requirement 2013/14

6.1 To mitigate against the uncertainty presented by the Local Government Finance Settlement as well as the general expectation that Local Government Funding is likely to reduce by amounts in excess of that set out in CSR10 over the coming years, it would be prudent and financially responsible for the Council to seek to achieve the maximum savings possible toward the current 3 year £27m requirement. Supporting the need to make savings as early as possible is the known prospect of continuing pressures on both Adults and Children's Social Care arising from increases in both demand for services and the complexity of the needs to be accommodated. So long as savings are deliverable and implemented in a managed way, significant savings now will provide a much more stable financial platform against which Services can plan their delivery of services in the future.

6.2 At the Annual Budget Meeting on 12 February 2012, the Council resolved that the Budget Savings Requirements for the next 3 years would amount to £27m (£56m cumulatively) and that £19m will be required to be made over the period 2013/14 to 2014/15. In the light of the likely further Local Government funding reductions set out above and the significant uncertainty surrounding the 2013/14 Local Government Finance Settlement itself, it is recommended that the Savings Requirement for 2013/14 be set at £15m. This sum has been determined in consultation with the Administration after considering the following:

- The general financial climate facing the Council both next year and in future years
- The extent to which savings can be delivered whilst still maintaining essential key services
- The confidence level in delivering proposed savings
- The time taken to consult, give notice and provide for any other necessary lead times and the extent to which that will lead to full or part year savings.

It is further recommended that the full year effect of the 2013/14 Savings Requirement also be set at £17m to provide assurance that the savings made are ongoing and therefore count permanently against the overall £27m (£56m

cumulative) Savings Requirement. Setting Savings Requirements at the levels described above, will enable the City Council to maintain strong overall financial health and a good degree of resilience against an uncertain climate.

- 6.3 In order for the City Council to be able to implement the Savings Requirement in good time to maintain that strong financial health and resilience, a number of savings proposals require that consultation take place and notice periods be given. Attached at Appendix 1 are a series of high level proposals that are recommended to the Council for approval. For those proposals that require consultation, the actual method of implementation or distributional effect will not be determined until the results of that consultation have been fully considered. Following consultation, the relevant Portfolio Holder may alter, amend or substitute any savings proposal(s) set out in Appendix 1 with alternative proposal(s) amounting to the same value.
- 6.4 Contained within the savings proposals are significant savings from Adult Social Care and Children's Social Care. In order to deliver those savings both early and in a properly planned and managed way, those Services will require additional capacity as described below.

Adult Social Care

To properly resource the consultation and implementation of the work associated with the £4.185m of proposed savings, additional temporary staff comprising 1 Senior Programme Change Manager, 1 Contracts Officer and 3 Social Workers will be required either to support the implementation itself or provide backfill for more senior staff. The cost of this over the next 15 months is estimated at £260,000.

Children's Social Care

The "Social Work Matters" report endorsed by the Cabinet on 10th December 2012 requires a sum of £273,000 in order to deliver the necessary improvements in effectiveness of the Children's Social Care Service as well as avoid and/or potentially save costs relating to Looked After Children in the future. The additional funding will be used to increase the overall establishment by 4.7 full time equivalents in order that the Service can be re-modelled such that it provides an enhanced level of experienced Social Workers to improve the management of risk but also to free up administrative tasks from Social Workers and pass them on to Administrators. The funding will also be used to enhance the Service's training and development programme.

To deliver this increased capacity to drive savings and avoid costs, it is recommended that £260,000 and £273,000 for Adult Social Care and Children's Social Care, respectively be approved and used flexibly over 2012/13 and 2013/14.

7. Conclusion

- 7.1 Given the degree of uncertainty that exists and the inevitable financial pressures that the Council will face, it is important that the Council continues its spending restraint and aims to maximise its income from all sources in future years in order to provide a degree of protection for all current Council Services.
- 7.2 The proposals for Savings Requirements and the approval of the package of early savings set out in this report will enable the City Council to properly plan for the impending funding reductions on the City Council. Savings Requirements of £15m in 2013/14 and £17m in a full year and ongoing will maintain the overall financial health of the Council. This will also mean that (subject to the comprehensive revision of the financial forecasts in February 2013) future years Savings Requirements estimated at £5m for 2014/15 and £5m 2015/16 will be needed.

8. Equality Impact Assessment (EIA)

- 8.1 The Savings Requirement proposed within this report will inevitably impact on service provision. Only some of the proposals to achieve the overall Savings Requirement are put forward for approval within this report. Whilst some are likely to be implemented, there will be others that require consultation and appropriate Equality Impact Assessments to be considered before any implementation can take place. For this reason, any savings proposal set out in Appendix 1 can be altered, amended or substituted with an alternative proposal following appropriate consultation.
- 8.2 Budget consultation meetings with a wide range of representatives from the Business Community, Voluntary Sector, Portsmouth Pensioners, the Trade Unions, the staff and public took place during the week commencing 3rd December 2012 to give these groups an opportunity to meet with the Leader of the Council and put forward their views and comments before any decisions were taken. Throughout the year the Leader has also met separately with many of these groups to discuss their views on the future.

9. City Solicitor's Comments

- 9.1 The Cabinet has a legal responsibility to recommend a Budget to the Council and the Cabinet and Council have authority to approve the recommendations made in this report.

10. Head of Finance's Comments

10.1 All of the financial information is reflected in the body of the report and the Appendices.

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Signed by: Head of Finance & Section 151 Officer

Appendices:

- 1 High Level Savings Proposals

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

| Title of document | Location |
|---|--------------------------------------|
| Budget Working Papers | Office of Head of Financial Services |
| Local Government Finance Settlement 2012/13 | Office of Head of Financial Services |

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the Leader of the City Council on 11 December 2012.

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Signed by: Leader of Portsmouth City Council