

Portsmouth City Council

Efficiency Plan 2016/17 to 2019/20

1. Background

- 1.1. In response to the Local Government Sector's request to Government for increased funding certainty over the medium term, Government has made an offer to all local authorities of a guaranteed minimum grant envelope to be paid to councils for a four year period from April 2016. This is an important step to enable Local Authorities to be able to make informed plans to meet the further austerity measures announced by Government in the Comprehensive Spending Review for the period to 2020.
- 1.2. In return for funding certainty over the forthcoming period, Government require Local Authorities to have an Efficiency Plan in place which describes the way in which Local Authorities will approach the necessary savings required arising from the 4 year Settlement.
- 1.3. To take advantage of this offer, each authority is required to submit an Efficiency Plan by 14th October 2016.
- 1.4. This Efficiency Plan and the accompanying 4 year Settlement is important for future financial and service planning although, in itself, does not guarantee that both the cost pressures facing the Council and funding reductions from Government can be achieved through efficiencies alone without significant detriment to service provision.

2. Economic & Financial Context

- 2.1. The global economic downturn and subsequent recovery has had a significant detrimental effect on the public finances nationally. The overall welfare bill increased at the same time as tax revenues fell causing the national debt to rise from £0.5 trillion in 2008 to £1.5 trillion or 85% of Gross Domestic Product (GDP) currently.
- 2.2. Part of the response from Central Government has been to reduce spending (and funding) across the public sector. Over the past 5 years (since 2011/12), Central Government funding to Portsmouth City Council has reduced by over £59m (amounting to 38%). This has primarily been through reductions in Revenue Support Grant and has made no allowance for the differing council tax levels and tax bases of Councils meaning that those Councils with low Council Tax bases, such as Portsmouth, have suffered greater relative funding reductions than those with higher Council Tax bases. Taken together with other financial pressures that

have been experienced by the City Council (mainly relating to inflation, the effects of an ageing population on care services and the increased requirements for the safeguarding of vulnerable children), the City Council has had to make overall savings over the same period of over £75m. In context, this represents circa 38% of the Council's controllable spending.

- 2.3. Historically Children & Education, Health & Social Care and Environment & Community Safety have received significant protection from savings. Importantly, these Portfolios account for 66% of the Council's total controllable budget from which savings can be made. Looking forward beyond 2016/17, the scale of the future savings requirements will be such that the Council will no longer be able to afford the same levels of protection that has been provided in the past for these services without severe cuts to all other Services.
- 2.4. It remains a particularly challenging time for the Council, the future savings required are significant and the risks to the delivery of savings are substantial. Uncertainty remains over future cost pressures in the essential care services as well as funding levels, particularly business rates. To deliver the scale of the savings required and to maintain the Council's financial health, the Council should regard the savings process as a continual one rather than a "once a year" planning exercise. Correspondingly, the Council may need to receive budget proposals more frequently throughout the year
- 2.5. The scale of future reductions announced in "Spending Review 2015" highlights the need for continued and effective medium term planning. Historically, uncertainty surrounding the phasing of reductions in central government funding to local authorities has made it harder for councils to plan strategically over the entire spending review period due to the short term funding horizons traditionally announced within the Local Government Finance Settlement each year.
- 2.6. The Council's rolling three year financial forecasts were comprehensively reviewed in February 2016 incorporating the funding reductions announced in "Spending Review 2015". The forecast budget deficit for the period 2017/18 to 2019/20 amounts to £24m as set out below.

	Original Budget 2016/17	Forecast 2017/18	Forecast 2018/19	Forecast 2019/20
Total Net Expenditure	157,992,700	164,306,800	170,724,400	179,784,000
Financing	159,418,700	155,068,800	186,455,600	155,859,700
Underlying Budget (Surplus) /Deficit	(1,426,000)	9,238,000	15,731,200	23,924,300

2.7. To effectively manage the impact of such a reduction, City Council approved that the required further savings, totalling £24m, be smoothed out as follows:

Financial Year	In Year Saving Requirement £m	Cumulative Saving £m
2017/18	9.0	9.0
2018/19	8.0	17.0
2019/20	7.0	24.0

3. Efficiency Plan Framework

3.1. The Efficiency Plan set out below includes five key themes:

- Working together to shape the great waterfront city - "Plan on a page"
- Our Medium Term Financial Strategy to delivering efficiencies and revenue savings to achieve £35m in savings over the remaining spending review period 2016/17 to 2019/20
- Partnership working
- Capital Strategy (including Prudential Borrowing)
- Financial Resilience and Managing Risk

4. Working together to shape the great waterfront city - "Plan on a page"

4.1. The Council has set in place guiding principles and ways of working to provide a framework to achieve the Council's goal of "working together to shape the great waterfront city".

4.2. In order to shape a city with the opportunities for all residents to live the best lives possible, the council as a priority is:

- Raising education standards so children and young people achieve their full potential
- Encouraging investment within the city by creating economic prosperity
- Empowering residents to live independently and make the most of their opportunities

4.3. To facilitate the achievement of the Council's goal and to meet these challenging priorities the Council recognises its greatest strength is its staff and has established a framework of guiding principles which set out how staff can maximise their effectiveness. These are to:

- put customers first
- provide value for money
- be ambitious
- use evidence to shape services
- simplify, strengthen and share processes
- get it right first time
- support councillors as strategic leaders
- value and support staff
- listen and learn

4.4. The plan is about how we can meet the challenge of reducing demand for our services in the longer term, doing the things that have the greatest impact and achieving our priorities.

5. Delivering Efficiencies

5.1. Portsmouth City Council has a proven track record of delivering savings and efficiencies.

- In the five years to 2015/16 it has delivered savings totalling £75m,
- Has implemented further efficiencies and savings totalling £11m in 2016/17
- Is currently developing additional savings and efficiencies proposals totalling £24m over the 3 year period to 2019/20.

5.2. The Council is therefore currently planning to have achieved savings and efficiencies of £110m by the end of 2019/20.

5.3. The Medium Term Financial Strategy sets out the high level financial objectives the Council wishes to fulfil and underpins the budget setting process for the forthcoming year and over the strategy period.

5.4. As the Council's high level financial planning tool, the strategy is reviewed and updated at least annually and is regularly reviewed by the Management Team.

- 5.5. The Council also has the opportunity through its capital programme and borrowing powers to invest both in the regeneration of the City (to raise the prosperity generally as well as improving the Council's financial position) and cost reduction schemes for the Council itself.
- 5.6. The Medium Term Financial Strategy, which seeks to achieve these aspirations whilst delivering the necessary savings of £11m in 2016/17 and a further £24m over the period 2017/18 to 2019/20 is described below:

OVERALL AIM

"In year" expenditure matches "in year" income over the medium term whilst continuing the drive towards regeneration of the City and protecting the most important and valued services

STRAND 1

Reduce the City's dependency on Central Government Grant:

- Entrepreneurial activities
- Income Generation
- Capital investment for jobs and business growth (increased Business Rates)

STRAND 2

Reduce the extent to which the population needs Council Services

- Re-direction of resources towards preventative services (avoid greater costs downstream)
- Design fees & charges policies to distinguish between want and need
- Capital investment towards jobs and skills to raise prosperity

STRAND 3

Increase the efficiency & effectiveness of the Council's activity:

- Contract reviews
- Rationalisation of operational buildings
- Support to the Voluntary Sector
- Targeted efficiency reviews in "resource hungry" services
- Capital investment for on-going savings or cost avoidance

STRAND 4

Withdraw or offer minimal provision of low impact Services:

- Strong focus on needs, priorities and outcomes
- Use the insights of Councillors to inform priorities
- Use the results of public consultation to inform priorities

5.7. The strategy has a strong regeneration focus with a presumption that Capital investment will be targeted towards economic growth and Invest to Save Schemes once the Council's statutory obligations have been met.

6. Partnership Working

6.1. The Council embraces the benefits of Partnership working in terms of cost, capacity and overall resilience. This results in better outcomes for service users from:

- Improved strategic planning and priority setting
- Access to, and enhancement of, staff skills and experience
- Better use of information and evidence
- Sharing of costs and risks

6.2. The City Council already experiences these benefits from a number of established shared service arrangements along with the sharing of senior staff between organisations. Examples of arrangements already entered into by the City Council include:

- Sharing of the Flood Management Service with Havant Borough Council
- Sharing the Director of Finance and Section 151 Officer role with the Isle of Wight Council
- A partnership for the provision of Building Control Services between Fareham and Gosport Borough Councils
- Appointment of a Director of Adult Services as a shared post with Portsmouth Clinical Commissioning Group
- Joint working with Gosport Borough Council to provide support and advice on housing services within the Gosport geographic area

- 6.3. In addition to the above arrangements with effect from 1st October 2016 the City Council has entered into a major shared management agreement with Gosport Borough Council.
- 6.4. This arrangement involves the sharing of Chief Executive, Deputy Chief Executive and Director of Finance roles (including statutory duties of Head of Paid Service, Monitoring Officer and Section 151 officer) along with a number of third tier roles. The gross joint saving from this arrangement is circa. £600,000 per annum.
- 6.5. The Council will continue to seek opportunities to extend current partnership working with other public sector partners which provide innovative, efficient and cost effective services to residents and visitors to the City.

7. Capital Strategy

- 7.1. The Council also has the opportunity through its capital programme (and borrowing powers) to support its Medium Term Financial Strategy by investing in:
- Regeneration of the City (to raise prosperity generally as well as improving the Council's financial position)
 - Schemes that can provide an income to the Council
 - Schemes that can reduce the cost base of the Council
- 7.2. The Council has adopted a Capital Strategy with a particular focus on the continued delivery of essential services but with equal emphasis on meeting the austerity and savings challenge facing the Council. The Capital Strategy is a high level plan that sets out the Council's approach to capital investment over the short, medium and long term. The Capital Strategy sets out the key capital investment plans over the next ten years that are required to deliver the Councils objectives as well as setting the financial framework and planning process to support their delivery.
- 7.3. The following categories of schemes are priorities for attracting capital funding:
- **Category 1** - Programmes of a recurring nature that are essential to maintain operational effectiveness
 - **Category 2** - Specific schemes that:
 - Have a significant catalytic potential to unlock the regeneration of the City
 - Are significant in terms of the Council strategies that they serve
 - Are significantly efficiency generating

- If not implemented would cause severe disruption to Service delivery

- 7.4. In accordance with the Capital Strategy and Medium Term Financial Strategy the Council will continue to prioritise those schemes that meet the Council's statutory responsibilities and those that are most likely to drive cost reduction for the Council and economic growth for the City.
- 7.5. The 2016/17 Local Government Finance Settlement confirmed that it would allow councils the flexibility in 2016/17, 2017/18 and 2018/19 to use capital receipts to fund revenue costs of service reform and transformation that generates ongoing revenue savings in the delivery of public services.
- 7.6. Whilst the Council welcomes the new flexibility in the use of capital receipts, the Council has already set aside revenue funding for transformation schemes within the Medium Term Resource Strategy Reserve and will continue to do so over the short to medium term. This will enable capital receipts to continue to be used to fulfil the Council's Capital Strategy to drive the economic growth of the City and "invest to save" schemes for the Council, but will continue to bear this flexibility in mind as opportunities to generate savings are explored and progressed.
- 7.7. Prudential Borrowing is an important source of financing available to the Council in meeting the savings challenge. To take advantage of this borrowing, Local Authorities must comply with the Prudential Code for Capital Finance. The key objective of the Prudential Code is to ensure that the capital investment plans of local authorities are Affordable, Prudent and Sustainable. The Prudential Code sets out a governance procedure for those matters as follows:
- Affordability e.g. implications for Council Tax and Council housing rents
 - Prudence and Sustainability e.g. implications of external borrowing
 - Value for money e.g. options appraisal
 - Stewardship of assets e.g. asset management planning
 - Service objectives e.g. strategic planning for the authority
 - Practicality e.g. achievability of the forward plan
- 7.8. The Council will continue to pay close regard to this governance procedure when determining the most appropriate methodology of capital financing.
- 7.9. Prudential Borrowing requires that the capital investment of the Council remains within sustainable limits and that the revenue consequences, including both debt financing and other revenue costs, are affordable over the long term. In considering the affordability of its Capital plans, the Council will consider all of the resources currently available to it and estimated for the future, together with the totality of its

capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years as a minimum. The Council will also consider known significant variations beyond this timeframe and pay due regard to risk and uncertainty.

8. Financial Resilience and Managing Risk

- 8.1. In accordance with Best Practice, the level and nature of all revenue reserves and balances are reviewed each year during the formulation of the revenue budget and medium term financial forecast. The review identifies and assesses all of the City Council's potential financial risks over the forecast period in order to determine the prudent level of minimum balances that should be retained, based on the Council's risk profile. Each risk is considered alongside the probability of it happening in arriving at the minimum level of balances.
- 8.2. The outcome of the most recent review, considered by City Council at its meeting on 9th February 2016, identified that a prudent minimum level of balances in 2016/17 should be £7m, rising to £7.6m over the period of the medium term financial forecast. Revenue balances as at 31st March 2017 are forecast to be £17.6m. This amount is needed in order to retain funds which will be used to smooth the phasing of savings required over the period of the Medium Term Financial Forecast and to provide a level of comfort against future uncertainties.
- 8.3. Furthermore, the City Council is pursuing a number of initiatives that will rely temporarily on the use of the Council's reserves generally in order to deliver them in a more cost efficient way (i.e. as opposed to borrowing). Examples include, the PCC City Deal for the regeneration of a large area of land located within the City, property development at Dunsbury Hill Farm and the establishment of an Investment Property Fund which will generate an ongoing revenue income stream for the Council. In the current climate where borrowing rates are significantly greater than investment rates, it makes financial sense to utilise General Balances and Reserves (that would otherwise be invested until required) and defer any borrowing decisions to a later date once investment rates recover. Retaining Balances therefore is an extremely important element of delivering the Council's Regeneration Strategy that will ultimately result in increased jobs, new homes and improved prosperity for the City.
- 8.4. In order to meet the challenging financial circumstances facing the City Council it has set in place a suite of Financial Rules which encourages responsible spending, removes financial barriers to the delivery of savings and promotes medium term financial and service planning whilst providing Services with increased levels of financial autonomy.

8.5. In order to encourage strong financial and service planning and to be successful in the delivery of the financial savings it is required to make over the medium term the Council has operated a much more flexible financial framework. Flexibilities within the financial framework have been achieved by amendments to Budget Guidelines and Financial Rules including:

- Each Portfolio being able to retain 100% of any year-end underspending with it being held in an earmarked reserve for the relevant Portfolio
- The Portfolio Holder being responsible for approving any releases from their earmarked reserve in consultation with the Director of Finance & S151 Officer
- Any retained underspend (held in an earmarked reserve) being used in the first instance to cover the following for the relevant Portfolio:
 - I. Any overspendings at the year-end
 - II. Any one-off Budget Pressures experienced by a Portfolio
 - III. Any on-going Budget Pressures experienced by a Portfolio whilst actions are formulated to permanently mitigate or manage the implications of such on-going budget pressures
 - IV. Any items of a contingent nature that would historically have been funded from the Council's corporate contingency provision
 - V. Spend to Save schemes, unless they are of a scale that is unaffordable by the earmarked reserve (albeit that the earmarked reserve may be used to make a contribution)

Once there is confidence that the instances in i) to v) can be satisfied, the earmarked reserve may be used for any other development or initiative

8.6. The Council also holds a number of Earmarked Reserves in order to:

- i) Provide for future known liabilities such as the Highways PFI Reserve
- ii) Provide for likely future liabilities including the Insurance Reserve and Business Rate Appeals
- iii) Provide for transformation and spend to save schemes through the MTRS Reserve (see below)

8.7. The MTRS Reserve was established to support transformational activity including:

- Spend to Save and Spend to Avoid Cost initiatives
- Invest to Save capital schemes
- Feasibility Studies where there is likely to be an efficiency gain

- One-off redundancy costs arising from proposed savings
- The funding of expenditure of a “one-off” nature that is critical to the successful achievement of the outcomes that the residents of Portsmouth value most highly and where no other alternative funding source is available

8.8. Additionally, the Council makes central contingency provision within its annual revenue budget for both costs of uncertain amount and/or uncertain timing as well as provision for potential non achievement or delay in the implementation of savings proposals.

9. Summary

9.1. By the end of 2016/17 the Council will have implemented revenue savings totalling £86m. However, the City Council continues to face a particularly challenging financial climate, the future savings requirement totalling £24m over the three financial years to 2019/20 is significant and the risks to the delivery of savings are substantial. Uncertainty remains over future cost pressures in the essential care services as well as funding levels, particularly in relation to Business Rates.

9.2. The Efficiency Plan set out above summarises City Council strategies, frameworks and policies which form a co-ordinated and cohesive package of measures.

9.3. The Council's "Plan on a page" sets the strategic context of how the City plans to shape itself so that all residents have the opportunity to live the best lives possible.

9.4. In order to achieve this objective the Council acknowledges that its staff are its greatest strength and has established a framework of guiding principles to ensure that staff effectiveness in the achievement of the "Plan on a page" is maximised.

9.5. The overarching Medium Term Financial Strategy sets out how available revenue and capital resources are utilised with the stated aim that:

"In-year" expenditure matches "In-year" income over the medium term whilst continuing the drive towards the regeneration of the City and protecting the most important and valued services.

9.6. This MTFs strategy is underpinned by a suite of Financial Rules which encourages responsible spending, removes financial barriers to the delivery of savings and promotes medium term financial planning whilst providing services with increased financial flexibility and autonomy.

9.7. Financial resilience is assured through the identification and assessment of potential financial risks over the forecast period and the establishment of minimum levels of reserves based on that risk assessment as well as a central contingency provision for known liabilities of unknown cost or timing. In addition, the Council maintains Earmarked Reserves for some of its most significant future liabilities. By

the end of 2016/17 General Reserves are forecast to exceed the assessed minimum level by £10m. This amount will be used to smooth phasing of savings and to provide a level of comfort against future financial uncertainties.