

Agenda item:

Decision maker: City Council

Subject: Portsmouth City Council - Budget & Council Tax 2017/18
& Medium Term Budget Forecast 2018/19 to 2020/21

Date of decision: 9 February 2017 (Cabinet)
14 February 2017 (City Council)

Report by: Director of Finance & Information Services (Section 151
Officer)

Wards affected: All

Key decision: Yes

**Budget & policy
framework decision:** Yes

1. Executive Summary

- 1.1 The proposals within this report recommend a Budget for 2017/18 that provides for £9m of savings, a Council Tax increase of 4.99% (3% of which is raised specifically to be passported to Adult Social Care) and forecasts that the 3 year period beyond 2017/18 will require a further £12m in savings.
- 1.2 These proposals are made in the context of an improving economy but where the public finances of the country still need to be repaired and, as a consequence, funding reductions to Local Government will continue to 2020. In parallel, the largest spending services of Local Government services (such as Adult Social Care and Children's Social Care) face continued and significant cost pressures.
- 1.3 Over the past 6 years (since 2011/12), Central Government funding to Portsmouth City Council has reduced by over £68m (amounting to a funding reduction of 44%). Taken together with other financial pressures, total savings over the period of £86m have been made by the Council, representing circa 42% of the Council's controllable spending.
- 1.4 The Government published the provisional Local Government Finance Settlement 2017/18 in December 2016 and it is in line with the accepted 4 Year Settlement. In overall terms, the Settlement includes a further reduction in Government Funding over the three year period 2017/18 to 2019/20 of £16.5m representing a further

funding reduction of 36%. Whilst a £16.5m funding reduction remains of serious concern, it is broadly in line with the Council's forecasts and therefore there is no need to seek any further savings beyond those approved at the December 2016 Council meeting.

- 1.5 The City Council made a series of Budget decisions in December 2016 that were strongly aligned with the new Medium Term Financial Strategy. The approved savings proposals were focussed on an "Avoidance to Cuts" approach with a strong emphasis on efficiency and entrepreneurial activities as a means to generate income. In overall terms, the proposed £9m of savings comprised:
- Efficiency Savings (little or no reduction in Services) £6.7m (74%)
 - Additional Income £1.4m (16%)
 - Service Reductions £0.9m (10%)
- 1.6 The approved savings also provided significant protection to the spending of Adults Social Care and Children's Social Care although cost pressures remain significant in those areas.
- 1.7 Taking 2017/18 together with the savings in previous years will mean that the Council will have achieved £95m of savings and efficiencies equating to 47% of the Council's controllable spending.
- 1.8 The decisions made by Council in December 2016 were predicated on an increase in Council Tax of 3.99% in 2017/18 (comprising 1.99% for General Purposes and 2.0% for Adult Social Care).
- 1.9 The Council is a low taxing Authority and currently taxes at a level that is approximately £6.0m per annum less than the average Unitary Authority within its statistical neighbour group, a gap which if closed would reduce the Savings Requirements of the Council by the same sum. Importantly however, Council Tax now represents almost 45% of the Council's total revenue funding and as Government funding has reduced, this has become an increasingly more important and dependent funding source for the Council. Council Tax rises alone however, are not sufficient to meet even the basic inflationary cost increases of the Council's services.
- 1.10 Government have announced that the general allowable threshold for a Council Tax increase in 2017/18 will be 2%, any increase for General Purposes beyond this will be the subject of a "yes" vote in a local referendum.
- 1.11 Government have also recognised that there are significant cost pressures facing Adult Social Care and whilst Local Government will continue to be subject to further funding reductions, the level of Council Tax increase for the Adult Social Care precept for 2017/18 and 2018/19 has been confirmed at 3% (compared with the announcement in the Comprehensive Spending Review in December 2015 of 2% for each year). Whilst the threshold for 2017/18 and 2018/19 has been increased, the overall increase over the 3 year period to 2019/20 remains intact. Therefore, it is for Local Councils to agree how to profile the available 6% increase over the 3 year period 2017/18 to 2019/20 within an overall cap of 6% and an annual cap of 3% (for example 2%, 2% and 2% or alternatively 3%, 3% and 0%).

- 1.12 There remain unfunded cost pressures, both present and emerging, in Adult Social Care which amount to far in excess of the 3% precept flexibility (i.e. amounting to £2.0m). Setting a precept at a lower sum will inevitably result in additional service reductions to Adult Social Care services in 2017/18 and this decision therefore will be critical for Adult Social Care services and the wider health system in the City
- 1.13 Looking forward beyond 2017/18, the Council's future financial forecasts indicate a challenging position but, as a consequence of prudent financial management throughout previous years, the overall deficit is now improving with a forecast Budget Deficit over the period 2018/19 to 2020/21 of £12m. Government funding reductions and demand led cost pressures in the essential care services of Adult Social Care and Children's Social Care continue to be the driving forces contributing to the £12m forecast Budget Deficit.
- 1.14 The £12m forecast Savings Requirements for future years are proposed to be phased to have regard to a managed reduction in spending and service provision over a realistic period as set out below:

	Revised Underlying Budget Deficit	Revised In Year Target	Revised Cumulative Saving
	£m	£m	£m
2018/19	3.9	4.0	4.0
2019/20	8.9	4.0	8.0
2020/21	11.4	4.0	12.0

- 1.15 Despite funding reductions and cost pressures and the need to protect core services to residents, the Council still has an important role in stimulating the local economy.
- 1.16 The Council has the opportunity through its capital programme and borrowing powers to invest in both the regeneration of the City (to raise prosperity generally as well as improving the Council's financial position) and cost reduction schemes for the Council itself.
- 1.17 There are significant proposals within this report to supplement the capital resources available for investment, including the transfer of £3.5m from the Revenue Budget in 2016/17 by bringing forward the implementation of the Council's strategy to take a "Debt Repayment Holiday" (originally planned for 2017/18). This saving amounts to £3.1m and is proposed to be used to contribute additional funding for the Council's commitments to schemes such as the Southsea Sea Defences (total scheme value of £89m), School Places and the City Centre Re-development.
- 1.18 Furthermore, with generally available annual capital funding of £10m versus core capital investment obligations and aspirations over the next 1 to 2 years of between £22m to £39m, there is a huge shortfall to be met. Proposals within the report therefore provide for any further underspendings that arise at year end to be

transferred to supplement the Council's capital resources to enable the Council to meet its statutory obligations and also to transform the City's growth potential.

1.19 The proposals contained within the December 2016 report and this report, now culminating in the proposed Budget for 2017/18, will:

- Provide a suite of savings amounting to £9m of which the vast majority relate to either efficiency savings (£6.7m) or additional income (£1.4m) leaving just £0.9m, or 10%, to be achieved through service reductions
- In accordance with the Budget Consultation, provide significant protection from savings to both Adults Social Care and Children's Social Care
- Provide for an overall Council Tax increase of 4.99% in 2017/18 comprising 1.99% for General Purposes and 3.0% (amounting to £2.0m) to be passported direct to Adult Social Care (ASC) services.
- Provide assurance that with a 3% increase in Council Tax for Adult Social Care, that existing and emerging cost pressures can be met therefore avoiding any further reductions to those services in 2017/18 which is critical for Adult Social Care services and the wider health system in the City
- Provide real growth in funding to Adult Social Care (after passporting the ASC Precept and New Burdens Funding)
- Require that for 2018/19 a minimum on-going savings sum of £4.0m be made
- Transfer £3.0m (from 2016/17 underspendings) to the MTRS Reserve recognising this as the Council's primary vehicle for providing funding for Spend to Save initiatives
- Supplement the Capital Resources available in 2017/18 by making a £3.5m transfer from Revenue in 2016/17 from savings achieved from the early implementation of the "Debt Repayment Holiday" to support the Capital Programme where there remains an enormous gap between Service needs, regeneration aspirations and the associated level of capital resources available
- Provide for any further underspendings in 2016/17 arising at the year-end (outside of those made by Portfolios) to be transferred to Capital Resources in order to provide funding for known future requirements such as Secondary School Places, Sea Defences and enabling infrastructure for the City's development

1.20 It remains a particularly challenging time for the Council, the future savings required are substantial and funding risks remain. Nevertheless, the proposals contained within this report ensure that the Budget for 2017/18 is financially balanced and that resources are targeted in accordance with the Council's Medium Term Financial Strategy. This provides the Council with assurance that its financial health will remain sound and that it can maintain a good degree of resilience against an uncertain future.

2. Purpose of Report

- 2.1 The primary purpose of this report is to set the Council's overall Budget for the forthcoming year 2017/18 and the associated level of Council Tax necessary to fund that Budget.
- 2.2 The report makes recommendations on the level of Council spending for 2017/18 and the level of Council Tax in the context of the Council's recently refreshed Medium Term Financial Strategy with its stated aim as follows:



OVERALL AIM

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

- 2.3 The recommended Budget for 2017/18 has been prepared on the basis of the decisions taken by the City Council on the 13th December 2016 relating to:
 - The Council Tax proposals for the general increase as well as the additional flexibility to increase Council Tax for Adults Social Care Services
 - The approved budget savings amounting to £9m
- 2.4 This report also provides a comprehensive revision of the Council's rolling 3 year financial forecast for the new period 2018/19 to 2020/21 (i.e. extending the forecast to 2020/21) considering the future outlook for both spending and funding. In that context, wider recommendations are made regarding the levels of reserves to be maintained and additional contributions to the Capital Programme in order to meet the Council's aspirations for the City as well as maintaining the Council's overall financial strength.

2.5 In particular, this report sets out the following:

- (a) The challenging but improving financial climate facing the City Council in 2017/18 and beyond and the consequential budget deficits that result
- (b) A brief summary of the Medium Term Financial Strategy for achieving the necessary savings as refreshed by the Council in December 2016
- (c) A brief recap of the budget decisions taken by the City Council at its meeting of the 9th December 2016
- (d) The Revised Revenue Budget and Cash Limits for the current year
- (e) The Local Government Finance Settlement for 2017/18 to 2019/20
- (f) The Business Rate income for 2017/18 and future years
- (g) The Council Tax base and recommended Council Tax for 2017/18
- (h) The forecast Collection Fund balance as at 31 March 2017 for both Council Tax and Business Rates
- (i) The proposed Revenue Budget and Cash Limits for 2017/18
- (j) The forecast Revenue Budget and revised Savings Requirements for 2018/19, 2019/20 and 2020/21
- (k) Estimated General Reserves over the period 2016/17 to 2020/21
- (l) The Medium Term Resource Strategy (MTRS) Reserve, its financial position and proposed use to achieve cashable efficiencies
- (m) The statement of the Section 151 Officer on the robustness of the budget in compliance with the requirements of the Local Government Act 2003.

3. Recommendations

3.1 That the following be approved in respect of the Council's Budget:

- (a) The revised Revenue Estimates for the financial year 2016/17 and the Revenue Estimates for the financial year 2017/18 as set out in the General Fund Summary (Appendix A)
- (b) The Portfolio Cash Limits for the Revised Budget for 2016/17 and Budget for 2017/18 as set out in Sections 7 and 9, respectively
- (c) That £3.5m be transferred to the Revenue Reserve for Capital to supplement the resources available for the Capital Programme in order to ensure the Council can properly meet its statutory responsibilities including School Places, Sea Defences and potential match funding commitments for the City Centre Road
- (d) That £3.0m be transferred to the MTRS Reserve to restore it to a level sufficient to enable the Council to pursue both Spend to Save schemes, Invest to Save schemes and fund redundancy costs, all aimed at facilitating the Council's savings strategy

- (e) That £1.9m is carried forward from 2016/17 to 2017/18 in respect of contingent items that were expected to arise in 2016/17 but are now expected to occur in 2017/18
- (f) Any further underspendings for 2016/17 arising at the year-end outside of those made by Portfolios be transferred to Capital Resources in order to provide funding for known future commitments such as Secondary School Places, Sea Defences and the enabling transport infrastructure necessary for the City's development and growth which have, as yet, insufficient funding
- (g) Any variation to the Council's funding arising from the final Local Government Finance Settlement be accommodated by a transfer to or from General Reserves.
- (h) The S.151 Officer be given delegated authority to make any necessary adjustments to Cash Limits within the overall approved Budget and Budget Forecasts
- (i) That the level of Council Tax be increased by 1.99% for general purposes in accordance with the referendum threshold¹ for 2017/18 announced by Government (as calculated in recommendation 3.4 (d))
- (j) That the level of Council Tax be increased by a further 3.0% beyond the referendum threshold (as calculated in recommendation 3.4 (d)) to take advantage of the flexibility offered by Government to implement a "Social Care Precept"; and that in accordance with the conditions of that flexibility, the full amount of the associated sum generated of £2,022,300 is passported direct to Adult Social Care
- (k) Managers be authorised to incur routine expenditure against the Cash Limits for 2017/18 as set out in Section 9
- (l) That the savings requirement for 2018/19 be set at a minimum on-going sum of £4.0m
- (m) That the S.151 Officer be given delegated authority to make transfers to and from reserves in order to ensure that they are maintained as necessary and in particular, adjusted when reserves are no longer required or need to be replenished
- (n) Directors be instructed to start planning how the City Council will achieve the savings requirements shown in Section 10 and that this be incorporated into Service Business Plans
- (o) The minimum level of General Reserves as at 31 March 2017 be maintained at £7.0m (£7.0m in 2016/17) to reflect the known and expected budget and financial risks to the Council
- (p) Members have had regard for the Statement of the Section 151 Officer in accordance with the Local Government Act 2003 as set out in Section 13.

¹ Council Tax increases beyond the referendum threshold can only be implemented following a "Yes" vote in a local referendum

3.2 That the following be noted in respect of the Council's Budget:

- (a) The Revenue Estimates 2017/18 as set out in Appendix A have been prepared on the basis that the 3% tax increase for the "Social Care Precept" (amounting to £2,022,300) is passported to Adult Social Care in order to provide for otherwise unfunded budget pressures including the cost of the new National Living Wage and demographic pressures arising from a "living longer" population
- (b) The decision on the amount at which to set the Adult Social Care precept will be critical for the Social Care and wider Health system in the City; in the event that the additional flexibility of the "Social Care Precept" and associated 3% tax increase (amounting to £674,100 for each 1%) is not taken, then equivalent savings will need to be made in Adult Social Care in 2017/18
- (c) In general, any reduction from the 4.99% Council Tax increase proposed will require additional savings of £674,100 for each 1% reduction in order for the Budget 2017/18 to be approved
- (d) The Revenue Forecast for 2018/19 onwards as set out in Section 10 and Appendix B
- (e) The estimated Savings Requirement of £12m for the three year period 2018/19 to 2020/21, for financial and service planning purposes, be phased as follows:

Financial Year	In Year Savings Requirement £m	Cumulative Saving £m
2018/19	4.0	4.0
2019/20	4.0	8.0
2020/21	4.0	12.0

- (f) The MTRS Reserve held to fund the upfront costs associated with Spend to Save Schemes, Invest to Save Schemes and redundancies will hold an uncommitted balance of £4.4m² and will only be replenished in future from an approval to the transfer of any underspends, contributions from the Revenue Budget or transfers from other reserves which may no longer be required
- (g) The Council Tax element of the Collection Fund for 2016/17 is estimated to be a surplus of £1,743,962 which is shared between the City Council (85%), Police & Crime Commissioner (11%) and the Hampshire Fire & Rescue Authority (4%)
- (h) The Business Rate element of the Collection Fund for 2016/17 is estimated to be a surplus of £3,017,262 which is shared between the City Council (49%), the Government (50%) and the Hampshire Fire & Rescue Authority (1%)
- (i) The Retained Business Rate income³ for 2017/18 (excluding "Top Up") based on the estimated Business Rate element of the Collection Fund surplus as at March 2017, the Non Domestic Rates poundage for 2017/18 and estimated rateable values for 2017/18 has been set at £43,648,937

² Including the transfer into the reserve of £3.0m contained with the recommendations in this report

³ Including the Portsmouth City Council element of the Collection Fund surplus of £1,478,458, S31 Grants of £2,217,322 and excluding the "Top Up" grant from Government of £5,984,004.

- 3.3 That the S.151 Officer has determined that the Council Tax base for the financial year 2017/18 will be **55,329.9** [item T in the formula in Section 31 B(1) of the Local Government Finance Act 1992, as amended (the “Act”)].
- 3.4 That the following amounts be now calculated by the Council for the financial year 2017/18 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992:

(a)	£463,193,930	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act.
(b)	£392,420,348	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	£70,773,582	Being the amount by which the aggregate at 3.4 (a) above exceeds the aggregate at 3.4(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year. (Item R in the formula in Section 31B(1) of the Act.
(d)	£1,279.12	Being the amount at 3.4(c) above (Item R), all divided by Item 3.3 above (Item T), calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year.

(e) Valuation Bands (Portsmouth City Council)

A £	B £	C £	D £	E £	F £	G £	H £
852.75	994.87	1,137.00	1,279.12	1,563.37	1,847.62	2,131.87	2,558.24

Being the amounts given by multiplying the amount at 3.4(d) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in Valuation Band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings in different valuation bands.

- 3.5 That it be noted that for the financial year 2017/18 the Hampshire Police & Crime Commissioner is consulting upon the following amounts for the precept to be issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Valuation Bands (Hampshire Police & Crime Commissioner)

A £	B £	C £	D £	E £	F £	G £	H £
110.31	128.69	147.08	165.46	202.23	239.00	275.77	330.92

- 3.6 That it be noted that for the financial year 2017/18 Hampshire Fire and Rescue Authority are recommending the following amounts for the precept issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Valuation Bands (Hampshire Fire & Rescue Authority)

A £	B £	C £	D £	E £	F £	G £	H £
42.56	49.65	56.75	63.84	78.03	92.21	106.40	127.68

- 3.7 That having calculated the aggregate in each case of the amounts at 3.4(e), 3.5 and 3.6 above, the Council, in accordance with Sections 31A, 31B and 34 to 36 of the Local Government Finance Act 1992 as amended, hereby sets the following amounts as the amounts of Council Tax for the financial year 2017/18 for each of the categories of dwellings shown below:

Valuation Bands (Total Council Tax)

A £	B £	C £	D £	E £	F £	G £	H £
1,005.62	1,173.21	1,340.83	1,508.42	1,843.63	2,178.83	2,514.04	3,016.84

- 3.8 The Council determines in accordance with Section 52ZB of the Local Government Finance Act 1992 that the Council's basic amount of Council Tax for 2017/18, which represents a 4.99% increase, is not excessive in accordance with the principles approved by the Secretary of State under Section 52ZC of the Act.

The 4.99% increase includes a 3% increase to support the delivery of Adult Social Care.

As the billing authority, the Council has not been notified by a major precepting authority (the Police and Crime Commissioner for Hampshire or the Hampshire Fire & Rescue Authority) that its relevant basic amount of Council Tax for 2017/18 is excessive and that the billing authority is not required to hold a referendum in accordance with Section 52ZK of the Local Government Finance Act 1992.

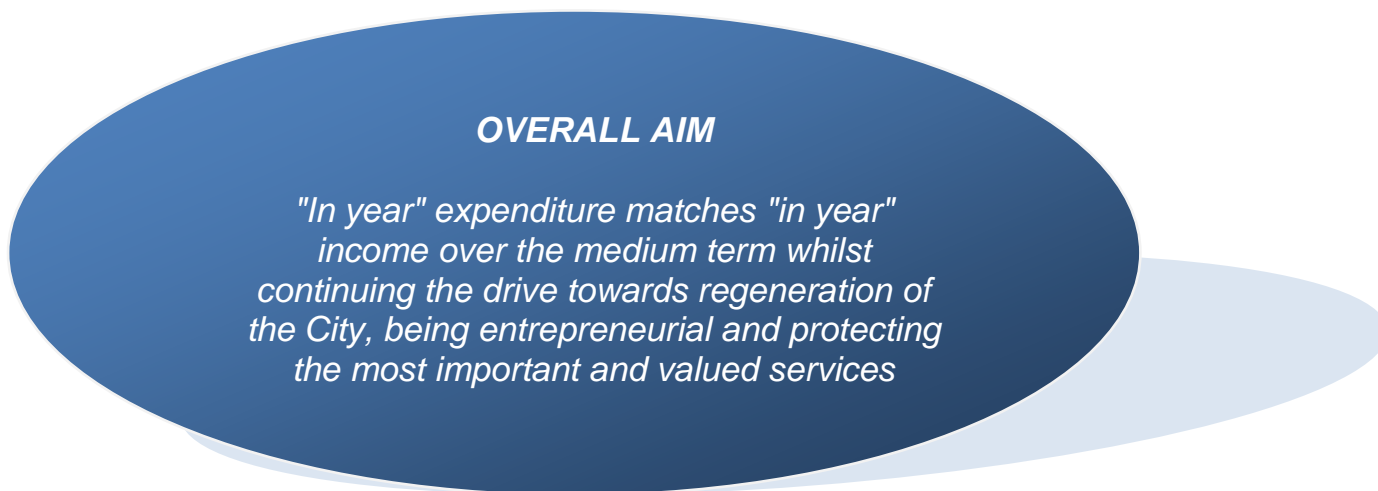
- 3.9 The S.151 Officer be given delegated authority to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire Police & Crime Commissioner and Hampshire Fire and Rescue Authority precepts.

4. Economic & Financial Context

- 4.1 The previous Budget report to the City Council in December 2016 described the overall national picture for public finances, the overall financial position for the Council currently and the forecast position for future years.
- 4.2 The Government continue to address the deficit in the national public finances but provided some relaxation versus the previous fiscal rules which required a Budget Surplus by the end of this parliament. The Government have now stated that the Country will return to a Budget Surplus "as early as possible in the next parliament.....but should be below 2% by the end of this parliament".
- 4.3 The Autumn Statement did not seek any further reductions in Government Departmental Spending limits which implies that the 4 year Government Finance Settlement that the Council applied for (and has now been approved by Government) will remain intact.
- 4.4 Over the past 6 years (since 2011/12), Central Government funding to Portsmouth City Council has reduced by over £68m (amounting to 44%). This has primarily been through reductions in Revenue Support Grant. 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 £86m. In context, this represents circa 42% of the Council's controllable spending.
- 4.5 This report includes a new financial forecast for the next 3 year period (covering both expenditure and funding) to 2020/21 after taking account of the £9.0m savings decisions made by the City Council in December 2016. Taking 2017/18 together with the savings in previous years will mean that the Council will have achieved £95m of savings and efficiencies equating to 47% of the Council's controllable spending.

5. Medium Term Financial Strategy and Budget Decisions 2017/18

- 5.1 In response to the considerable financial challenge, the City Council recently refreshed its Medium Term Financial Strategy (for both revenue and capital) extending its reach with a stronger focus on entrepreneurial activities leading to income generation as a means to make savings and avoid cuts to services. This is illustrated below:



STRAND 1 - Short / Medium Term

Transforming to an Entrepreneurial Council - through income generation

STRAND 2 - Medium / Long Term

Reduce the Extent to which the Population Needs Council Services - through improving prosperity and managing demand

STRAND 3 - Short / Medium Term

Increasing Efficiency & Effectiveness - by improving value for money across all services

STRAND 4 - Short Term

Withdraw or Offer Minimal Provision for Low Impact Services

- 5.2 The Strategy has a strong entrepreneurial and regeneration focus with a presumption that Capital investment will also be targeted towards income generation and economic growth once the Council's statutory obligations have been met.

- 5.3 Despite the challenging financial circumstances, the City Council made a series of Budget decisions in December 2016 that were strongly aligned with the new strategy.
- 5.4 The Administration's proposals were focussed on an "Avoidance to Cuts" approach in line with the Medium Term Financial Strategy. In overall terms, the proposed £9m of savings related to:

- Efficiency Savings (little or no reduction in Services) £6.7m (74%)
- Additional Income £1.4m (16%)
- Service Reductions £0.9m (10%)

- 5.5 The key Budget decisions made included:

- A balanced suite of savings amounting to £9.0m (of the original forecast £24.0m⁴ required over the 3 year period 2017/18 to 2019/20) which, in accordance with the Budget Consultation, provided some measure of protection to the vulnerable. By way of example, the average saving required across the Council was 4.7% of spending but to protect Children's Social Care (at 1.1% spending reductions) and Health & Social Care - Adult Social Care (at 2.6% spending reductions), it has been necessary to make spending reductions in other valued Portfolios of up to 11.7% as described below:

Portfolio / Committee	Savings Proposal	
	£	% Budget
Children's Social Care	300,000	1.1%
Culture, Leisure & Sport	343,600	3.7%
Education	212,000	3.3%
Environment & Community Safety	87,000	0.6%
Governance, Audit & Standards	30,000	4.1%
Health & Social Care - Adult Social Care	1,382,000*	2.6%
Health & Social Care - Public Health	602,000	4.4%
Housing	179,000	3.3%
Planning, Regeneration & Economic Development	928,000	11.7%
Resources	961,400	3.0%
Traffic & Transportation	330,000	2.5%
Other Expenditure (incl. Debt Repayment)	3,645,000	52.2%
Grand Total	9,000,000	4.7%

* Excludes the additional funding passported through the Adult Social Care Precept of £2.0m and additional funding for the Care Act of £1.4m and an inflation provision meaning that in overall terms there is a real budget increase to Adult Social Care of £2.0m

- To prepare the 2017/18 Budget on the basis of a Council Tax increase of 3.99% in 2017/18 (comprising 1.99% for General Purposes and 2.0% for Adult Social Care)

⁴ Assuming a general Council Tax increase of 1.99%. Should the Council Tax not be increased by 1.99%, then each 1% change will add £0.674m to the savings requirement

- That in the event that the Council has the ability to increase the level of Council Tax beyond 2% in order to fund Adult Social Care pressures, and if the Council elects to do so, that any additional funding that arises is passported direct to Adult Social Care to provide for otherwise unfunded cost pressures.

5.6 The combined effect of all of these decisions has enabled the Council to:

- Meet its £9.0m savings requirement whilst largely avoiding service reductions
- Provide real growth in funding to Adult Social Care (after passporting the ASC Precept and New Burdens Funding)
- Provide protection for the Council's services to the vulnerable and highest priority activities
- Maintain the overall financial health of the Council for the future financial challenge and uncertainties ahead

6. Revised Budget 2016/17

- 6.1 The original revenue Budget approved by the City Council on 9 February 2016 was £157,992,700.
- 6.2 The Council has received regular quarterly Budget Monitoring reports on the 2016/17 Budget throughout the year which have consistently reported an improving financial position. The improvement that has been reported has largely resulted from improved returns from Treasury Management activities and the improvement in the trading surpluses at the Commercial Port.
- 6.3 Whilst significant progress has been made in addressing the underlying budget deficits of both Adult Social Care and Children's Social Care, it has also been reported that there were forecast overspendings in those Portfolios of £0.6m and £1.3m, respectively. This has been offset by contingency provision specifically set aside for this eventuality of £0.75m. The underlying deficits (i.e. that part of the overspending anticipated to continue into future years) in aggregate for both Portfolio's is forecast to be £1.1m and this will need to be remedied in 2017/18.
- 6.4 In overall terms taking account of the forecast under and overspendings described above, the 2016/17 Budget is forecast to be in balance.
- 6.5 The Original Budget has now been comprehensively revised and it is proposed to reduce the Budget to £156,997,300, a reduction of £995,400 with the overall reduction transferring into General Reserves to fund the recommended carry forward proposals in the next financial year.
- 6.6 Significant changes to the Original Budget now being proposed as part of the Revised budget are as follows:
- Earlier implementation of the Council's strategy to take a "Debt Repayment Holiday" (originally planned for 2017/18) amounting to a saving of £3.1m in

order to provide funding for the Council's Capital Expenditure commitments, including a remaining Council commitment to fund £4.75m in relation to the Southsea Sea Defences Scheme, (total scheme value of £89m) - see Revenue Contribution to Capital below

- Reduction in the Council's Contingency provision of £1.9m in 2016/17 which is related to contingent risks that were expected to arise in 2016/17 but are now expected to occur in 2017/18 and therefore this sum is proposed to be carried forward into the 2017/18 Budget
- Improvement in Treasury Management activities of £1.2m
- Improvement in both the Port and MMD trading surpluses amounting to £1m
- A contribution to the Revenue Reserve for Capital of £3.5m to enable the Council to increase the Capital Resources available to properly fund its statutory responsibilities including School Places, Sea Defences and potential match funding commitments for the City Centre Re-development
- A contribution to the MTRS Reserve of £3.0m to restore it to a level sufficient to enable the Council to pursue both Spend to Save schemes, Invest to Save schemes and fund redundancy costs, all aimed at facilitating the Council's savings strategy. Without this transfer, the uncommitted balance on the reserve by 2020/21 is estimated at just £1.4m

6.7 Additionally, the Council's remaining contingency provision for 2016/17 has been set at a level that provides some cover for any likely overspendings that may arise in Children's Social Care and Adult Social Care.

6.8 As described in the Capital Programme 2016/17 to 2021/22 report contained elsewhere on this agenda, there are very significant future capital obligations and aspirations. These include schemes both of a statutory nature plus schemes aimed at protecting and transforming the City's economy. These schemes are presently unfunded but will likely require funding in the short and medium term:

Capital Scheme - Significant Obligation / Aspiration	Unfunded Requirement £m
Secondary School Places 2019/20 to 2021/22	9.0 - 11.0
Special Educational Needs Re-modelling	4.0 - 5.0
School Condition (roofs, boilers, electrics, windows etc.)	2.0 - 3.0
Sea Defences Contribution to £89m Scheme	4.8 - 10.5
Enabling Transport Infrastructure match funding - City development	0 - 5.0
Landlords Repairs & Maintenance	1.0 - 2.0
Local Transport Plan - Road safety and traffic improvement schemes	1.5 - 2.0m
Total Funding Requirement	22.3 - 38.5

- 6.9 The scale of the funding required for these obligations and aspirations is such that it far outstrips the annual capital grant funding, capital receipts and CIL contributions that the Council receives (circa £10m per annum) plus any Government funding which may be available for school places. With potentially available capital funding of £10m versus core obligations and aspirations of between £22m to £39m of Capital Investment, there is a hugely significant shortfall to be met.
- 6.10 Given that this Capital Investment is necessary for both the Council's statutory obligations and also to transform the City's growth potential, it is vital that the Council makes the proposed Revenue Contribution to Capital for 2016/17 of £3.5m (as previously described) and also transfers any further underspendings for 2016/17 arising at the year-end to Capital. Without this funding, essential Capital Investment into School Places, Sea Defences and the City Centre Development will be in jeopardy.
- 6.11 The Revised Revenue Budget is set out in the General Fund Summary (Appendix A).

7. Revised Cash Limits 2016/17

7.1 The Cash Limits relate to that element of the Budget that is Portfolio and Service related and is controllable. Cash Limits are allocated to Portfolio Holders and Managers to spend so that there is clear accountability for spending decisions.

7.2 The Cash Limits for 2016/17 have been revised to take account of:

- Items released from Contingency in the current year
- Windfall savings and windfall costs
- Passporting of grants that were received for new burdens or specific purposes
- Adjustments to reflect forecast underspends, transfers to Portfolio reserves, additional unavoidable costs and other City Council decisions throughout the year

7.3 The table below sets out the revised Cash Limits for 2016/17 and those items outside the Cash Limit (e.g. capital and similar charges, levies and insurance premiums), which together form the Revised Budget for each Portfolio.

PORTFOLIO	Revised Cash Limits 2016/17 £'000	Items Outside the Cash Limit £'000	Revised Budget 2016/17 £'000
Children's Services	23,949	105	24,054
Culture Leisure & Sport	6,553	3,870	10,423
Education	6,118	18,989	25,107
Environment & Community Safety	13,978	1,781	15,759
Health & Social Care	42,042	3,314	45,356
Housing	3,546	5,743	9,289
Leader	122	20	142
Planning Regeneration Economic Development	(10,219)	13,041	2,822
Resources	18,209	4,231	22,440
Traffic & Transportation	15,338	684	16,022
Governance & Audit Committee	278	47	325
Licensing Committee	(235)	16	(219)
PORTFOLIO EXPENDITURE	119,679	51,841	171,520

7.4 The current policy is that any overspend against the cash limit will in the first instance be deducted from any Portfolio reserve or if that is exceeded from the following financial year's cash limit.

8. Revenue Budget 2017/18

8.1 At last year's Annual Budget Meeting in February 2016, forecasts for this coming financial year 2017/18 and the subsequent two financial years estimated that an overall 3 year savings requirement of £24m would be necessary to meet the budget deficits over that period⁵. The forecasts for the 3 year period were prepared on the basis of the following:

- A reduction in Government Funding of £12.2m
- Adult Social Care pressures of £11.2m
- Inflationary costs of £11.0m

Offset by:

- Additional income from Council Tax of £8.4m (4.0% per annum)
- Other net improvements amounting to £2.0m

8.2 Since those forecasts were prepared in February last year, the Council has now received the 4 Year Settlement applied for in October 2016 and received the provisional Local Government Finance Settlement for 2017/18. Alongside this all other elements of the forecast have now been comprehensively reviewed. This includes the following:

Funding

- Central Government Funding (Local Government Finance Settlement)
- Business Rate Income
- Council Tax Income

Expenditure

- Savings proposals (agreed by the City Council on 13th December 2016)
- Inflationary Costs
- Other cost pressures (including "new burdens" passed down from Central Government)
- Port and MMD trading results
- Debt Financing costs and interest rates
- Contingencies

8.3 As reported to the City Council in December 2016, the advice of the S.151 Officer was that "whilst it is likely that the overall financial forecasts will change, the savings requirement for 2017/18 at £9.0m (with a Council Tax increase of 3.99%) remains robust and prudent. Given what is known, or reasonably expected, regarding future funding reductions and given future uncertainties, a savings requirement of less than these sums would not be prudent". Now that the Local Government Finance Settlement has been received and the Council's forecasts for future years have been comprehensively revised, that advice still holds.

⁵ This assumed Council Tax increases of 4.0% per annum from 2017/18 to 2019/20. Each 1 % reduction in Council Tax will add £674,100 to the forecast deficit.

8.4 Details of the Local Government Finance Settlement are set out below.

Local Government Finance Settlement 2017/18 to 2019/20

8.5 The Local Government Finance Settlement is the term used to describe the main non-ring-fenced Revenue and Capital grant funding allocations from Government. The provisional settlement was announced on 16 December 2016 and the final settlement will be announced in early February 2017.

Provisional Settlement 2017/18

8.6 The Council resolved to apply for the Government's 4 year Settlement in October 2016 which has now been accepted by Government. Whilst providing some certainty of future Government Funding, the funding reductions for the Council remain significant and challenging.

8.7 The Government published the provisional Local Government Finance Settlement 2017/18 in December 2016 and it is in line with the accepted 4 Year Settlement.

8.8 In overall terms, the Council expects a further reduction in Government Funding over the three year period 2017/18 to 2019/20 of £16.5m representing a funding reduction of 36%. Of most significance are the reductions in Revenue Support Grant and the New Homes Bonus. There is a rise in "Other Grants" totalling £2.4m, this relates to additional funding through the "Improved Better Care Fund" allocations which commence slowly at £0.5m for 2017/18 and rise to £6.2m in 2019/20 but offset by other grant reductions, most notably the New Homes Bonus amounting to a reduction of £2.0m. This is all summarised in the table below:

Funding Stream	2016/17	2017/18	2018/19	2019/20	Total Reduction
	£m	£m	£m	£m	£m
Revenue Support Grant	30.4	22.3	17.0	11.5	(18.9)
Other Grants	18.8	18.0	18.8	21.2	2.4
Total Government Grants	49.2	40.3	35.8	32.7	(16.5)

8.9 Whilst the Revenue Support Grant forms part of the 4 Year Settlement, the Other Grants do not and therefore these funding streams will remain a risk for the Council in future years.

8.10 The overall impact of the provisional Local Government Finance Settlement on the Council's future forecast Budget Deficit over the 3 year period to 2019/20 is broadly neutral and whilst the overall reduction of funding to 2019/20 amounting to £18.9m is a serious concern to the Council, it had been largely predicted within the Council's financial forecasts.

8.11 Other key announcements as part of the provisional Local Government Settlement are:

- Overall Funding - There is no new money in the settlement compared with that announced in the Comprehensive Spending Review in December 2015

- Revenue Support Grant - There is no change to the distribution methodology for 2017/18
- The Settlement confirmed that additional funding of £1.4m has been provided for the additional new burdens associated with the implementation of the Care Act (and this has been passported within the proposed Budget for 2017/18 to Adult Social Care).
- There is an additional "one-off" grant for Adult Social Care Support grant, funded by accelerating the reduction in the national New Homes Bonus scheme (see below). The addition of the new grant and the reduction in the New Homes Bonus have largely offset each other
- Council Tax:
 - The basic referendum principle of a 2% increase is confirmed
 - Adult Social Care Precept - More flexibility has been allowed to fund Adult Social Care pressures by bringing forward the ability to raise Council Tax for the Adult Social Care Precept earlier than set out in the Comprehensive Spending Review. Options now include:
 - i) 2% per annum for the next 3 years (as originally allowed in the Comprehensive Spending Review)
 - ii) 3% for 2017/18, 3% for 2018/19 and Zero for 2019/20
 - iii) 3% for 2017/18, 2% for 2018/19 and 1% for 2019/20
 - iv) Other permutations adding up to 6% over 3 years but "back loaded"
- The announcement of the revised New Homes Bonus scheme (described below)

8.12 The new scheme for the New Homes Bonus was intended to "sharpen the incentive" but also to reduce the overall amount available nationally by £593m (almost 40%) and re-direct funding towards Adult Social Care through the "Improved Better Care Fund". This was to be phased but commencing slowly from 2017/18

8.13 The proposed scheme now announced is summarised below:

- A threshold of a 0.4% increase in new homes (or "deadweight") before any New Homes Bonus (NHB) will be paid (i.e. 0.4 % growth will need to be achieved before any NHB funding will be paid - for Portsmouth this amounts to circa 294 new homes)
- A reduction in the length of time payments will be made from 6 years to 5 in 2017/18 and then a further reduction to 4 years from 2018/19 and thereafter

- From 2018/19 payments will not be made for residential development allowed on appeal

The introduction of the 0.4% threshold ("deadweight") is significant, and a change from the 0.25% threshold consulted upon. The "deadweight" threshold is a concern to those Authorities where there is more limited potential for housing growth (either through lack of land supply such as Portsmouth or limited opportunities for business growth). Nevertheless, it does emphasise the need to continue the drive towards regeneration and high quality employment in the City as a mechanism to stimulate the Council Tax base.

- 8.14 The Government will publish a response to the Fair Funding review consultation (i.e. the review of the 'needs element' embedded with the Revenue Support Grant and the Business Rates Retention system). This is to be implemented in 2020/21 as part of the overall move to the 100% business rates retention system.
- 8.15 The final grant settlement should be available by early February, it is not expected to vary significantly from the provisional settlement and it is recommended that any variation should be accommodated by a transfer to or from General Reserves.
- 8.16 Whilst the Local Government Finance Settlement is a significant factor in determining the Council's overall financial position and therefore any necessary savings, other significant factors that will affect the Council's future Savings Requirements include Business Rates income, Council Tax income, inflation, interest rates and any new unfunded burdens passed down from Government.
- 8.17 Given that the 2017/18 Local Government Finance Settlement is broadly in line with the Council's forecasts upon which the minimum £9m savings requirement was based, there is no need to seek any further savings beyond those approved at the December 2016 Council meeting.

Retained Business Rates 2017/18 & Future Years

- 8.18 As explained in previous reports, the City Council now retains 49% of all Business Rates received. This system was introduced for the first time in 2013/14 and was accompanied by a broadly equivalent reduction in Government Grant and therefore at commencement did not represent any additional funding. The new system of retained Business Rates does however present both opportunities and risks. Authorities with strong business rates growth will benefit and be able to retain 49% of that growth, whereas Authorities whose business rates decline, or are subject to "shocks" such as closure (or relocation) of major businesses in an area, will see a reduction in their funding.
- 8.19 The new system is complex but some of the other key features are highlighted below:
 - For businesses the National Non Domestic Rates (NNDR) system will remain the same. Local Authorities will not have control over how the level of tax is determined for ratepayers

- If the business rate tax base grows the City Council will be rewarded with increased funding, but if it declines Council funding will reduce
- Estimates of likely successful appeals (both known and as yet unknown) must be taken into account when determining the amount of business rates that can be retained
- A 1% change in Business Rates will result in circa £400,000 change in funding
- Local Authorities that have very 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 baseline funding level (for Portsmouth this would require a fall in Business Rates retained to £41.9m).

- 8.20 In 2017/18 the National Non Domestic Rate system was subject to a re-valuation. This revised both the rateable values and the multiplier. The entire re-valuation is financially neutral at a national level with the increase in rateable values overall offset by a reduction in the multiplier.
- 8.21 Retained Business Rates system for Local Authorities is likewise intended to be financially neutral. Inevitably, this will not be the case and there will be "winners" and "losers" across the country. The key risk is the extent to which successful appeals are greater or less than the assumed allowance for appeals contained within the new multiplier set by Government.
- 8.22 For 2017/18, Retained Business Rates⁶ are estimated at £49.6m which includes a surplus relating to previous years of £1.5m arising from lower than anticipated losses due to appeals. Future estimated Business Rates have been assumed to increase by the rate of inflation only (as estimated by the Office for Budget Responsibility) since revaluation appeals and applications for mandatory business rate reliefs (e.g. charitable relief) can easily offset any growth.
- 8.23 The estimation of business rate receipts is extremely complex, with the potential to be volatile and with many of the factors outside this Council's control. In particular, the Valuation Office Agency will both determine whether a rating appeal is successful and the level of reduction granted with the Council having no right of challenge. To help mitigate against this risk, the Council maintains a reserve to provide the Council with a degree of funding stability in the event of fluctuations within and between years.
- 8.24 Despite the complications and risks associated with appeals, there remains the financial incentive within the system for many Local Authorities (including Portsmouth⁷) to generate economic growth and job creation. Irrespective of the financial incentive, the Council's Medium Term Financial Strategy is aimed at reducing the need for Council Services generally and therefore growth, jobs and prosperity are vital to achieve that.

⁶ Includes 49% of all Business Rates received, S.31 Grants in recompense for nationally introduced reliefs and the surplus on the Collection Fund relating to Business Rates and the "Top Up"

⁷ Applies to Local Authorities that, in general, remain above the safety net threshold over time

Council Tax Proposals 2017/18 & Future Years

Council Tax Amount 2017/18

- 8.25 As described in the Budget report to Council in December 2016, the Council currently receives approximately £6.0m per annum less in Council Tax than the average Unitary Authority within its statistical neighbour group, a gap which if closed would reduce the Savings Requirements of the Council by the same sum.
- 8.26 Council Tax currently represents almost 45% of the Council's total revenue funding and as Government funding has reduced, this has become an increasingly more important and dependent funding source for the Council.
- 8.27 Council Tax for the average Council Tax payer in Portsmouth (Band B) currently amounts to £1,121.08, of which £947.59 (85%) is the City Council element. Not all residents are subject to the full amount of Council Tax with many benefitting from exemptions and discounts (such as the single person discount) and a significant number of residents receiving Local Council Tax Support bringing the level of Council Tax payable to an assessed affordable level. After discounts, exemptions and Local Council Tax support is taken into account, only 52% of all properties are subject to the full level of Council Tax.
- 8.28 The provisional Local Government Finance Settlement for 2017/18 confirmed a Council Tax increase limit for general purposes (i.e. referendum threshold) of 2%. Any increase beyond the 2% threshold can only be implemented following a "Yes" vote in a local referendum.
- 8.29 In addition, the level of Council Tax increase for the Adult Social Care precept for 2017/18 and 2018/19 has been confirmed at 3% (compared with the announcement in the Comprehensive Spending Review in December 2015 of 2% for each year). Whilst the threshold for 2017/18 and 2018/19 has been increased, the overall increase over the 3 year period to 2019/20 remains intact. Therefore, it is for Local Councils to agree how to profile the available 6% increase over the 3 year period 2017/18 to 2019/20 within an overall cap of 6% and an annual cap of 3% (for example 2%, 2% and 2% or alternatively 3%, 3% and 0%).
- 8.30 The recommendations approved by the City Council in December 2016 included the following:
- (a) That the Council's Budget for 2017/18 be prepared on the basis of a 3.99% Council Tax increase (based on a 1.99% increase for General Purposes and a 2.0% increase for the Adult Social Care Precept)
 - (b) That in the event that the Council has the ability to increase the level of Council Tax beyond 2% in order to fund Adult Social Care pressures, and if the Council elects to do so, that any additional funding that arises is passported direct to Adult Social Care to provide for otherwise unfunded cost pressures

Accordingly, the proposals within this report are for a total Council Tax increase of 4.99% as follows:

- (a) A 1.99% increase yielding £1,341,500 (equating to 36 pence per week for a Band B Tax payer) for general purposes
- (b) A further 3% increase yielding £2,022,300 (equating to a further 55 pence per week for a Band B Tax payer) for the "Social Care Precept" and to be passported direct to Adult Social Care to fund existing and emerging demographic pressures and other cost pressures such as the National Living Wage

8.31 The additional flexibility to bring forward the Council Tax increases for the Adult Social Care Precept has been provided in recognition of the extreme cost pressures facing Adult Social Care, both through the increase in the National Living Wage as well as the demographic pressures from a general aging and "living longer" population.

8.32 As described in the City Council in December 2016, there are a number of actual and potential cost pressures that either currently exist or will fall on Adult Social Care in 2017/18. This includes the current underlying budget deficit amounting to £0.6m as also reported to Council. In addition, Adult Social Care will face pressures from the rising elderly population generally, the requirements of the Care Act and the 4.2% increase in the National Living Wage. The National Living Wage alone could confer an additional cost of circa £1.4m on the Council.

8.33 Given the extent of the unfunded cost pressures, both present and emerging, which amount to far in excess of the value of the additional 1% Adult Social Care Precept flexibility (i.e. amounting to £674,100), it is recommended that the Council increase the Council Tax for the Adult Social Care Precept by 3%. Setting a precept at a lower sum will inevitably result in additional service reductions to Adult Social Care services in 2017/18, this decision therefore will be critical for Adult Social Care services and the wider health system in the City.

8.34 The Council could elect not to increase the level of Council tax by 4.99% but if it chose to do so would need to identify additional savings over and above the £9m savings approved by the City Council in December 2016. For every 1% reduction in Council Tax, additional savings of £674,100 will be required.

8.35 The Council's future forecasts for the period 2018/19 to 2020/21 have been estimated on the following basis:

- i) General Purposes - 1.99% rise each year
- ii) Adult Social Care Precept - 3.0% rise in 2018/19, 0% for 2019/20 and thereafter

Council Tax Base 2017/18

- 8.36 The Council Tax Base (i.e. the number of Band D equivalent properties paying the full Council Tax) has been determined as **55,329.9** for 2017/18, having taken account of the previous Council decisions on 15th November 2016 relating to the Local Council Tax Support Scheme.

Collection Fund Balance (Council Tax Element) 2016/17

- 8.37 The Collection Fund is the account into which are paid amounts collected in respect of Council Tax and out of which are paid the Council Tax precepts to:

- Portsmouth City Council (84.6% share)
- Hampshire Police & Crime Commissioner (11.1% share)
- Hampshire Fire & Rescue Service (4.3% share)

In the event that actual Council Tax income receivable is different from the estimated income (informed by the calculation of the Council Tax Base) upon which the precepts are based, then a surplus or deficit will arise.

- 8.38 For 2016/17, it is estimated that there will be a surplus on the Collection Fund of £1,743,962 which will be shared in proportion to the 2016/17 precepts and distributed to the preceptors as follows:

COLLECTION FUND SURPLUS - 2016/17		
Preceptor	Distribution	
	£	%
Portsmouth City Council	1,474,078	84.6%
Hampshire Police & Crime Commissioner	194,143	11.1%
Hampshire Fire & Rescue Service	75,741	4.3%
Total Surplus 2016/17	1,743,962	100.0%

The Portsmouth City Council Share of the surplus of £1,474,078 is factored into the overall Council Tax income for 2017/18.

Total Council Tax Income 2017/18 & Future Years

- 8.39 Considering the Council Tax increase, Council Tax Base and surplus on the Collection Fund, the total Council Tax income for 2017/18 is estimated at £72,247,660.

8.40 As Government funding reduces, rises in Council Tax income are fundamental to the Council's future financial position and therefore the future sustainability of Council Services. The Council's Medium Term Financial Forecast assumes that Council Tax Income will rise to £77,291,997 by 2020/21 and is based on the following assumptions:

- Annual increases in the amount of Council Tax of 4.99% for 2018/19
- Increases of 1.99% per annum from 2019/20 onwards

Cumulative Effects of the Overall Local Government Funding System

8.41 Over the past 5 years and including the coming year, the emphasis of the Local Government Funding system has changed considerably. There are now clear financial incentives for Local Authorities to promote business growth, increase the number of homes and increase employment. This is illustrated by the following:

- The Business Rates retention scheme allows the City Council to retain circa £400,000 for every 1% increase in Business Rate growth. Equally, the City Council will lose £400,000 for every 1% decline in the Business Rate base
- For every new home built, the City Council is able to retain circa £1,530 p.a. above the "deadweight" threshold of 0.4% (circa 294 homes) in New Homes Bonus grant for a period of 4 years
- The risk of increased numbers of households requiring financial support to pay their Council Tax (formerly Council Tax Benefit) falls on the City Council. The City Council therefore will be worse off if caseloads increase and better off if caseloads fall. The estimated value of the Council Tax support for 2017/18 is £8.3m. Each 1% change therefore will represent a cost / saving of £83,000.

It is important therefore that when the Council is developing policy and strategy and making its decisions, particularly relating to the Capital Programme, it is cognisant of these financial incentives.

Summary of Proposed Revenue Budget 2017/18

8.42 The proposed Budget for 2017/18 has been prepared to include the following:

Spending 2017/18:

- Passporting the "Social Care Precept" funding of £2.0m (amounting to the equivalent of a 3% increase in Council Tax) to Adult Social Care for demographic pressures and the costs associated with the National Living Wage
- Funding for additional New Burdens associated with the Care Act amounting to £1.4m

- An overall allowance for inflation of 1.8% (which includes pay at 1.13% and includes the uplift in employers pension contributions) amounting to £2.5m
- The revenue implications arising from the Council's obligations to fund its Capital Programme contained elsewhere on this agenda, including both costs and any savings arising from Invest to Save Schemes
- Overall contingency provision to cover known and anticipated financial risks of the Council amounting to £6.7m (£6.7m in 2016/17), especially those relating to increases in demand for Adult & Children's Social Care services and the delivery of budget savings more generally
- Adjustment to forecast borrowing costs and investment rates
- The £9.0m savings proposals approved by the City Council in December 2016
- Improved trading results from both the Port and MMD amounting to £2.3m

Funding 2017/18:

- Reduction in general Government funding of £8.8m
- An overall increase in Council Tax of 4.99%, yielding £3.3m
- An increase in the Council Tax base equivalent to 1,791 Band D properties yielding £2.3m (which includes the effect of the change to the Local Council Tax Support Scheme)
- An increase in retained Business Rates⁸ of £2.4m, reflecting the uplift arising from the increase in RPI and business rate growth⁹
- Overall "one-off" surplus on the Collection Fund attributable to the City Council amounting to £3.0m, representing a surplus on Council Tax of £1.5m and a surplus on Business Rates retained of £1.5m

8.43 The proposed Budget for 2017/18, including the main changes described above results in net spending of £161,643,000. This amounts to a net increase in spending of £3,650,300 or 2.3% over the Original Budget 2016/17 of £157,992,700.

8.44 The proposed Budget for 2017/18 as described in this Section is recommended for approval.

⁸ This excludes the surplus brought forward on the Collection Fund of £1.5m

⁹ RPI - Retail Price Index each September is used to increase the business rate multiplier that is applied to rateable values and determine rates due.

9. Cash Limits 2017/18

9.1 As previously described, Cash Limits relate to that element of the Budget that is Portfolio and Service specific and which is controllable. Cash Limits have been prepared to reflect all changes set out in the proposed Budget for 2017/18 described in Section 8 and in particular include:

- Inflation
- Reductions to Cash Limits to take out the approved Budget savings
- Additions to Cash Limits for passporting funds relating to new burdens
- Adjustments to reflect the revenue costs of the proposed Capital Programme
- Windfall costs and savings
- Other refinements

9.2 The table below shows the proposed Cash Limits for 2017/18 and also those items outside Cash Limits (i.e. capital and similar charges, levies and insurance premiums), which together form the Budget for each service.

PORTFOLIO	Cash Limits 2017/18 £'000	Items Outside the Cash Limit £'000	Budget 2017/18 £'000
Children & Education	23,738	105	23,843
Culture Leisure & Sport	6,290	3,870	10,160
Education	5,258	18,989	24,247
Environment & Community Safety	14,012	1,788	15,800
Health & Social Care	42,119	3,314	45,433
Housing	3,298	5,743	9,041
Leader	124	20	144
Planning Regeneration Economic Development	(13,004)	13,041	37
Resources	18,514	4,244	22,758
Traffic & Transportation	13,922	684	14,606
Governance & Audit Committee	41	48	89
Licensing Committee	(231)	16	(215)
PORTFOLIO EXPENDITURE	114,081	51,862	165,943

9.3 Managers will be expected to contain their expenditure in 2017/18 within Cash Limits and to regularly monitor their budgets to ensure this is achieved. Managers will continue to have the freedom to change their budgets within the Cash Limit in the year, provided they do not enter into commitments which would increase their

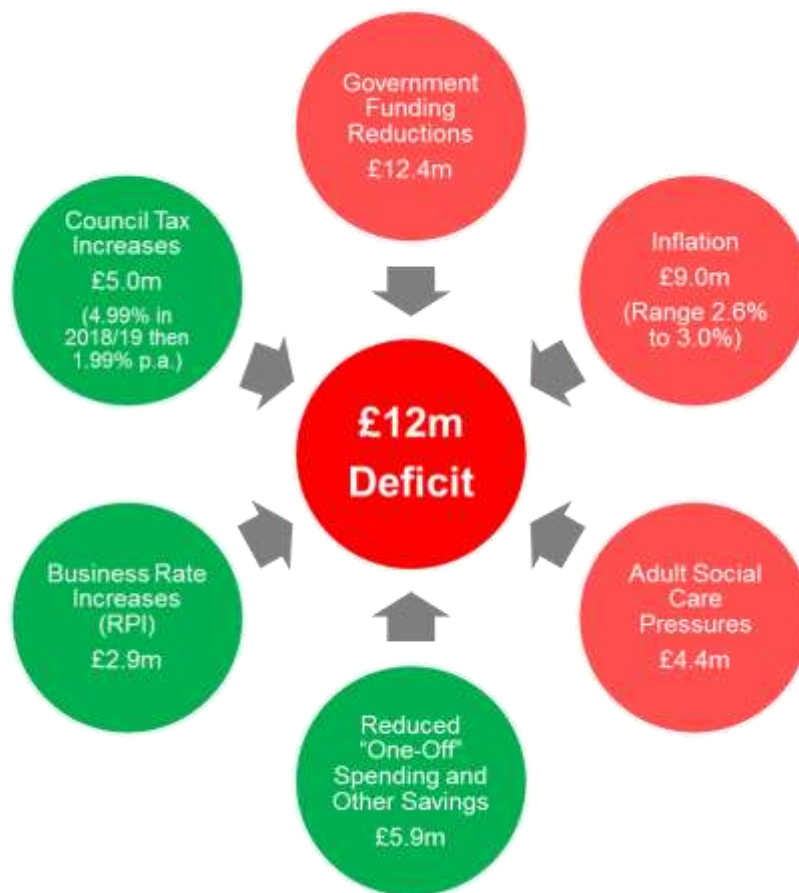
expenditure in future years beyond the agreed Cash Limit for 2017/18, but mindful of the requirement to make savings in future years.

- 9.4 As set out in the Council's Financial Rules, any overspends against the current year's Cash Limit will become the first call on any retained underspendings from previous years contained within a Portfolio's Earmarked Reserve. Should a Portfolio's Earmarked Reserve be depleted, any remaining overspend will be deducted from the 2018/19 Cash Limit.
- 9.5 Managers have delegated authority to incur committed routine expenditure within their approved Cash Limit. Routine expenditure is any expenditure incurred to meet the day-to-day operational requirements of the service, or any specific approved budget pressure. Managers wishing to incur expenditure on any other specific item should seek approval from the relevant Portfolio holder before incurring that expenditure.
- 9.6 These Cash Limits will be adjusted under the delegated authority of the S.151 Officer to reflect transfers of budgets that come to light after the Budget has been approved, such as changes to the assumptions on inflation rates and any other virements.
- 9.7 Managers will be required to report their forecast outturn position to the relevant Portfolio holder on a regular basis and the City Council will receive a report on the overall budget position every quarter.

10. Future Years' Medium Term Forecasts - 2018/19, 2019/20, and 2020/21

- 10.1 A new medium term forecast has now been completed and "rolled on" a further year to cover the period 2018/19 to 2020/21. All of the financial assumptions have been comprehensively revised and a savings requirement for the new period determined.
- 10.2 The previous medium term forecast estimated that savings of £24m would be required across the previous 3 year period 2017/18 to 2019/20. The proposed Revenue Budget for 2017/18 provides for £9m of those savings that, based on the "old" forecast, would have left a residual £15m remaining to be found for the following 2 years.
- 10.3 The new medium term forecast takes account of the £9m savings being achieved in 2017/18, comprehensively revises the remaining £15m that was estimated to be required and makes a forecast for the additional year 2020/21. It is now estimated that the savings required for the new 3 year period 2018/19 to 2020/21 will be £12m (or £24m cumulatively over the period) as described in the paragraphs that follow.

10.4 The most significant changes that will affect Local Government and the Council through the period 2018/19 to 2020/21 are as follows:



10.5 The most significant assumptions in the medium term forecasts for the period 2018/19 to 2020/21 are described below:

Spending:

- An overall composite inflationary provision covering all pay and prices amounting to 2.6% for 2018/19, a further 3.0% for 2019/20 and a further 2.9% for 2020/21 amounting to a total for the period of £9.0m
- Demographic cost pressures in Adult Social Care (excluding inflation) of £4.4m
- The ongoing effect of savings and passported funding for new burdens included in the 2017/18 budget
- Any new burdens arising from the Care Act will be funded in full
- Some provision for the potential on-going risks associated with the budget pressures within Children's and Adult's Social Care
- Interest rates on any new borrowing of 3.0% for 2018/19, 3.2% for 2019/20 and 3.4% for 2020/21

- Investment rates on any new lending of 0.25% for 2018/19, 0.5% for 2019/20 and 0.75% for 2020/21
- Revenue contributions to Capital to meet existing Council commitments and also to supplement the Capital Resources available for 2018/19 and 2019/20 when capital resources will be extremely limited and far outstrip the Council's obligations and aspirations
- An assumption of a steady state for other budgets

Funding:

- Reductions in overall general Government funding of 12.4m, representing a 31% reduction
- A 4.99% increase in Council Tax for 2018/19 followed by increases of 1.99% per annum thereafter, in total yielding £5.0m
- Indexation uplifts on retained Business Rates of 3.2% for 2018/19, a further 3.6% for 2019/20 and a further 3.0% for 2020/21 in line with forecasts from the Office for Budget Responsibility which in total yields £2.9m
- An underlying zero growth assumption for changes in Business Rates from 2017/18 onwards, to reflect the uncertainty relating to appeals and mandatory reliefs
- That any loss of business rates income arising from the continuation of the cap on increases provided by Government in 2014/15 and future years will continue to be recompensed by Government via S.31 grant funding
- New Homes Bonus grant reductions based on the Government's assumptions of the changes to the scheme
- Changes to the Port dividend for 2018/19, 2019/20, and 2020/21 to reflect current forecasts

- 10.6 It is important to recognise that this forecast extends beyond the current Comprehensive Spending Review and 4 Year Settlement periods and moves to the year in which the Local Government funding system changes to 100% Business Rate Retention and the simultaneous implementation of the Fair Funding review, which will set the baseline level of funding from Business Rates. Consequently, there remains a significant level of uncertainty surrounding the forecast for 2020/21.
- 10.7 The medium term financial forecasts are set out as part of the General Fund Summary in Appendix A but in a more summarised fashion in Appendix B.
- 10.8 In summary, the overall savings requirement has been revised downwards for both 2018/19 and 2019/20 by £7m overall and the forecast has been “rolled on” to now include a deficit in 2020/21 of £4m. The overall forecast budget deficit and savings requirement for the 3 year period 2018/19 to 2020/21 is now £12m. The main factors that have given rise to the improvement in the Council's forecasts are:

- Funding for the improved Better Care Fund (BCF), originally assumed to be passported to the BCF but now considered to be non ring-fenced and generally available amounting to £6.2m
- Forecast improvement in the trading results of the Port and MMD £2.8m
- Offset by other costs amounting to £2.0m (including additional pension obligations of £1.1m)

10.9 The fundamental aim of the Medium Term Resource Strategy is for in-year expenditure to equal in-year income. The proposed Savings Requirements set out below have been set to accord with that aim and also with the minimum level of General Balances that the Council is required to hold based on its risk profile.

10.10 The Savings Requirements recommended below have been phased to have regard to a managed reduction in spending and service provision over a realistic period:

	Revised Underlying Budget Deficit	Revised In Year Target	Revised Cumulative Saving
	£m	£m	£m
2018/19	3.9	4.0	4.0
2019/20	8.9	4.0	8.0
2020/21	11.4	4.0	12.0

10.11 It will be for the Administration to determine how the forecast Savings Requirements are allocated across Portfolios throughout future budget processes.

11. Estimated General Reserves 2016/17 to 2020/21

11.1 In general, maintaining adequate reserves is a measure of responsible financial management and strong financial health. They are required in order to be able to respond to "financial shocks" without having to revert to the alternative of quick and severe reductions in services. Equally, they can be a vehicle to take advantage of any opportunities that may arise which are in the financial interests of the Council (for example, matched funding opportunities which could lever in additional funding for the City or for Spend to Save schemes). Importantly, they also enable differences between expenditure and funding levels to be "smoothed out" and managed in a planned way over time.

11.2 General Fund Revenue Reserves as at 31 March 2017 (Revised Estimate) are anticipated to be £19.2m after transfers to and from other reserves. The Council is expected therefore to remain within the approved level of minimum General Reserves of £7.0m.

- 11.3 In accordance with Best Practice, the level and nature of all revenue reserves and balances has been reviewed as part of the budget process. The exercise has attempted to identify and assess all of the City Council's potential financial risks over the next few years in order to determine the prudent level of balances that should be retained, based on the City Council's risk profile. Each risk has been considered alongside the probability of it happening.
- 11.4 The outcome shows that for 2017/18 the City Council should hold a minimum of £7.0m in General Reserves to cover these major risks. It is therefore recommended that the minimum level of General Reserves be maintained at £7.0m as at March 2018. Assuming the savings required to fund the forecast deficit in 2017/18 are achieved, General Reserves as at 31 March 2018 are forecast to be £19.8m.
- 11.5 The minimum level of balances for 2018/19 and future years will be reviewed annually as part of the budget process.
- 11.6 The statement below gives details of the General Reserves in hand at 1 April 2016, together with the proposed use of reserves from 2016/17 to 2020/21, and the resultant balances at 31 March 2021 **assuming that the target savings recommended in Section 10 are achieved.**

General Reserves Forecast - 2016/17 to 2020/21					
Financial Year	Current Year £m	Budget 2017/18 £m	Forecast 2018/19 £m	Forecast 2019/20 £m	Forecast 2020/21 £m
Opening Balance	16.4	19.2	19.8	19.9	19.0
In Year Surplus / (Deficit)	2.8	0.6	0.1	(0.9)	0.6
Forecast Balance	19.2	19.8	19.9	19.0	19.6

- 11.7 The level of balances held over the period will be higher than the minimum level recommended. This prudent approach is being taken for a number of specific reasons, which include:
- The Council is not permitted to budget for a level of General Reserves below the minimum level determined by the S.151 Officer
 - The balances are predicated on total savings (as yet unidentified) of £12m being achieved over the next 3 years. If those savings are not made, balances would be at the minimum level by 31 March 2020.
 - The uncertainty over the level of funding generally (in particular retained Business Rates), demographic cost pressures for care services, inflation and interest rates in future years

- The uncommitted balance available in the MTRS reserve of just £4.4m¹⁰ means there are only limited funds available to fund the implementation costs of future efficiency savings (see Section 12)

11.8 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 City Deal, Dunsbury Hill Farm and the Investment Property Fund. 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 reserves 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.

12. Medium Term Resource Strategy Reserve

12.1 The MTRS Reserve was originally established to fund:

- 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

12.2 Historically, the Reserve has been replenished by transfers of underspends from previous years. Under the new financial framework of retained underspendings by Portfolios, the opportunities for replenishing this reserve are now diminished. The calls on the reserve however, for smaller scale Spend to Save or Invest to Save schemes are also diminished, since these are funded from Portfolio Reserves where available. It is important that the reserve is maintained to fund larger scale Spend to Save schemes that would otherwise be unaffordable by a Portfolio.

12.3 It is anticipated that the main call on the MTRS Reserve over the next few years will be redundancy costs arising out of the savings needed to balance the Budget, Invest to Save Schemes of a capital nature and the revenue costs associated with transforming Services.

12.4 In order to provide for future years anticipated redundancy costs (i.e. over the course of the coming year and the further 3 year forecast), satisfy the demands for Invest to Save Schemes and meet all other commitments, it is recommended that £3.0m is transferred into the Reserve in 2016/17 from the forecast underspend in the year, (as set out in Section 6).

¹⁰ Including the transfer into the reserve of £3.0m as recommended in this report

- 12.5 In the event that the recommended £3.0m transfer is not approved, the Reserve will be left with a very modest £1.4m, rendering it largely ineffective as a vehicle for facilitating future Spend to Save schemes of any meaningful scale.
- 12.6 In future years, for this Reserve to continue in this capacity, it will be necessary to replenish it either from non Portfolio underspends or alternatively from the Revenue Budget.

13. Statement of the Section 151 Officer in Accordance with the Local Government Act 2003

- 13.1 Section 25 of the Local Government Act 2003 (“the Act”) requires the Chief Financial Officer to report to the City Council on the following matters:
- The robustness of the estimates included in the budget made for the purposes of setting the Council Tax; and
 - The adequacy of proposed financial reserves
- 13.2 Section 25 of the Act concentrates on uncertainties within the budget year rather than the greater uncertainties in future years. In the current economic climate, there continue to be uncertainties in both the current and future years i.e. beyond 2017/18. Particular uncertainties exist regarding the extent of successful appeals and mandatory reliefs which affect Retained Business Rates, the ability of the Council to continue to make the necessary savings at the required scale and pace, the likely demographic cost pressures arising in demand driven services such as Adults and Children’s Social Care and the extent to which new policy changes will be funded (most notably those arising from the Care Act). All of these uncertainties increase the need for adequate reserves and balances to be maintained in current and future years.
- 13.3 A minimum level of revenue reserves must be specified within the Budget. The Local Authority must take full account of this information when setting the Budget Requirement.
- 13.4 Should the level of reserves fall below the minimum approved sum of £7.0m as proposed in this report, either arising from an overspend in the previous year or the current year, the S.151 Officer has a duty to report this to the Council with recommendations as to the actions that should be taken to rectify the shortfall. In the most extreme of circumstances, the S.151 Officer can impose a spending freeze until a balanced budget is approved by the Council.

(a) Robustness of the Budget

- 13.5 In setting the Budget, the City Council should have regard to the strategic and operational risks facing the City Council. Some of these risks reflect the current economic climate and the national issues surrounding local authority funding levels.

- 13.6 Estimates and forecasts have been prepared to include all known significant financial factors over the medium term in order to inform spending decisions.
- 13.7 Assumptions for the Budget and forecasts for future years are considered to be sound and based on the best available information. These are set out in detail in Sections 8 and 10 and use the following sources as their evidence base:
- Government funding as set out in the provisional settlement for 2017/18 to 2019/20.
 - A "no growth" assumption for Retained Business Rates on the basis that any income arising from growth will be offset by both appeals and reliefs
 - An assumption that the value of successful appeals against the 2017 rating list will be the equivalent of 4.7% of the business rate multiplier.
 - Increases in Council Tax based on what is likely to be acceptable and in particular that the Council will continue to take advantage of the flexibility to tax for Adult Social Care at 3% in 2017/18 and 2018/19
 - Inflation on Retained Business Rates and prices in accordance with inflation estimates from the Office for Budget Responsibility
 - Provisions for anticipated national policy changes arising out of the Care Act based on Portsmouth's share of "relative need"¹¹
 - Specific provisions for increases in demand for both Adult's & Children's Social Care based on current trends
 - A general provision for (as yet) unknown budget pressures based on the estimated probability of those pressures being unable to be managed within Portfolio cash limits
 - Prudential borrowing requirements based on approved Capital schemes
 - Revenue contributions to capital based on known commitments and estimates of future needs
 - Balances and contingencies based on a risk assessment of all known financial risks
- 13.8 Savings contained within the Budget are those where Portfolio Holders and Directors assess the confidence level of achievement is medium and above. Savings proposals have also been subject to scrutiny by Members. Responsibility and accountability for delivering the savings rests with the relevant Portfolio Holders and Directors and progress will be monitored throughout the year as part of the Budget Monitoring process.

¹¹ Relative need is based on the Government's "Relative Needs Formula" that is used in allocating general government funding

- 13.9 The most volatile budgets are those of Adult's and Children's Social Care. Budget provision has been made available to cover these risks both directly within Service cash limits as well as within the City Council's overall contingency provision.
- 13.10 Additionally, Portfolios will be able to retain any underspendings in 2016/17 and utilise them as necessary in 2017/18 and future years for any purpose but with a clear priority to meet essential cost pressures in the first instance.
- 13.11 The forecasts prepared for the forthcoming and future years are robustly based and illustrate the expected costs the City Council will incur in order to deliver current levels of service.
- 13.12 Portfolio Holders will be given regular budget updates by Directors to ensure that action to address any potential over or underspend is taken promptly and quarterly budget monitoring reports will continue to be presented to the City Council.
- 13.13 To encourage budget discipline all future overspendings will be deducted from any retained underspendings accumulated in Portfolio Earmarked Reserves in the first instance and once depleted from the following year's Cash Limits.
- 13.14 Prudential Indicators are accurately calculated based on the Council's audited Balance Sheet, notified income streams and in depth financial appraisals of proposed capital schemes. These are published and reviewed on a regular basis to ensure that the City Council complies with the concepts of Affordability, Prudence, and Sustainability. The City Council has agreed to consider Prudential Borrowing for "Spend to Save Schemes" only, as it is currently unaffordable for any other purpose given the forecast budget deficits in 2018/19 and future years.
- 13.15 Future years' budgets will remain challenging due to continued funding reductions and uncertainties. The Council's forecasts provide for a savings target of £4m in 2018/19, £4m in 2019/20 and £4m in 2020/21.

(b) The Adequacy of Proposed Financial Reserves

- 13.16 During 2016/17, a review of the level and nature of all revenue reserves and balances has been undertaken. All of the City Council's potential financial risks over the next few years and the probability of each risk happening has been assessed. The outcome from this review concludes the need to maintain the minimum level of General Reserves of £7.0m as at 31 March 2018 (£7.0m in the current year).
- 13.17 Balances provide a buffer against unexpected costs such as pay awards, inflation, shortfalls in income and overspends and enable the City Council to manage change without undue impact on the Council Tax or immediate reductions to services. They are a key element of strong financial standing and resilience as they mitigate risks such as increased demand and other cost pressures.
- 13.18 The level of balances held will be higher than the minimum level recommended. This prudent approach is being taken for a number of specific reasons as set out in Section 11. The position will continue to be reviewed and reported to Members on an annual basis.

- 13.19 As previously mentioned, the Council will maintain Portfolio Earmarked Reserves to retain accumulated Portfolio underspends in order that Portfolios can better manage any known or unknown cost pressures that arise. It is forecast that Portfolio Reserves will amount to £5.8m as at 31 March 2017 which will be available for 2017/18.
- 13.20 The MTRS Reserve is the Council's primary vehicle for funding Spend to Save and Spend to Avoid Costs Initiatives, Feasibility Studies and redundancy costs. Taking account of all approvals from this reserve and future estimated redundancy costs over the next 4 years, it is estimated that the Reserve will have an uncommitted balance of £4.4m. In order for this Reserve to continue in this capacity, it will be necessary to replenish it from any non Portfolio underspendings, transfers from other reserves no longer required or alternatively from the Revenue Budget.
- 13.21 The Council maintains a number of other Earmarked Reserves for specific purposes, all of which are at the levels required to meet known future commitments. The major reserves include the following:
- Revenue Reserve for Capital – to fund the Capital Programme
 - Highways PFI Reserve – to fund future commitments under that contract
 - Off Street Parking Reserve – to fund investment in transport
 - Insurance Reserve – to fund potential future liabilities
- 13.22 The Council's contingency provision for 2017/18 has been set on a risk basis at £6.7m and reflects anticipated calls on the budget where the timing and value is not yet known. The use and application of the contingency will continue to be exercised tightly.

14. Conclusion

- 14.1 The proposed Budget 2017/18 has been prepared to incorporate the decisions of Council in December 2016 to make savings amounting to £9m and set a Council Tax increase of 4.99%.
- 14.2 The decisions made by the City Council in December 2016 alongside the recommendations within this report are made as part of a co-ordinated package of measures for both the Revenue Budget and Capital Programme that are aligned with the approved Medium Term Financial Strategy with its stated aim that

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

14.3 The proposals contained within the December 2016 report and this report, now culminating in the proposed Budget for 2017/18, will:

- Provide a suite of savings amounting to £9m of which the vast majority relate to either efficiency savings (£6.7m) or additional income (£1.4m) leaving just £0.9m, or 10%, to be achieved through service reductions
- In accordance with the Budget Consultation, provide significant protection from savings to both Adults Social Care and Children's Social Care
- Provide for an overall Council Tax increase of 4.99% in 2017/18 comprising 1.99% for General Purposes and 3.0% to be passported direct to Adult Social Care services.
- Provide assurance that with a 3% increase in Council Tax for Adult Social Care that existing and emerging cost pressures can be met therefore avoiding any further reductions to those services in 2017/18 which is critical for Adult Social Care services and the wider health system in the City
- Provide real growth in funding to Adult Social Care (after passporting the ASC Precept and New Burdens Funding)
- Require that for 2018/19 a minimum on-going savings sum of £4.0m be made
- Transfer £3.0m (from 2016/17 underspendings) to the MTRS Reserve recognising this as the Council's primary vehicle for providing funding for Spend to Save initiatives
- Supplement the Capital Resources available in 2017/18 by making a £3.5m transfer from Revenue in 2016/17 from savings achieved from the early implementation of the "Debt Repayment Holiday" to support the Capital Programme where there remains an enormous gap between Service needs, regeneration aspirations and the associated level of capital resources available
- Provide for any further underspendings for 2016/17 arising at the year-end (outside of those made by Portfolios) be transferred to Capital Resources in order to provide funding for known future requirements such as Secondary School Places, Sea Defences and enabling infrastructure for the City's development where there is a known funding shortfall and because this Capital Investment is likely to have a significant transformational effect on the City's growth potential

14.4 The proposed Budget for 2017/18 is financially balanced, robustly based and provides sufficient cover for anticipated and potential financial risks within the year. Furthermore, the overall financial health of the Council currently remains sound providing a good degree of resilience against an uncertain future.

- 14.5 The challenge for the Council continues to be driven by Government funding reductions coupled with the demand led costs from essential care services. Due to prudent financial management over a number of years, the scale of those savings is now starting to reduce and the forecast budget deficit for the 3 year period 2018/19 to 2020/21 is now £12m, amounting to £4m per annum for each of the next 3 years.
- 14.6 The essential care services of Adults Social Care and Children & Education continue to dominate the Council's costs at 66% of all controllable spend. Whilst entrepreneurial activities, income generation generally and improving the City's economy is a strong focus in its Medium Term Financial Strategy in its aim to avoid service reductions, all services of the Council, including essential care services, will need to continue to make meaningful contributions towards the overall £12m Budget Deficit.
- 14.7 Funding uncertainty still remains, particularly in 2020/21 when the Local Government funding system changes to 100% Business Rate Retention alongside the simultaneous implementation of the Fair Funding review, which will set the baseline level of funding from Business Rates.
- 14.8 Looking forward, the main risks to the Council's financial resilience include:
- The ability to make savings to meet the continuing funding reductions from Government
 - The demographic pressures arising from demand led essential Care Services
 - The extent to which new burdens arising from national policy changes will be fully funded
 - The level of Business Rates appeals and reliefs experienced plus the extent of Business growth or contraction
 - The level of uncertainty surrounding the forecast for Local Government funding from 2020/21.
 - The ability of the Council to meet its statutory Capital Investment obligations and aspirations for economic growth in the future
- 14.9 Given the level of savings required over the next 3 years of £12m, the degree of uncertainty that exists and the inevitable financial pressures that the Council will face, it is important that the Council continues to follow its Medium Term Financial Strategy. The Council should be particularly mindful of the potential future income or reduced demand / costs that the Council could derive through the delivery of its Capital Programme. This is likely to be the biggest influence on enabling jobs, growth and overall improved prosperity within the City.

15. Equality Impact Assessment (EIA)

- 15.1 Consideration of the impact of budget pressures and proposed savings on all customers, services and staff has been taken into account in formulating this budget. The proposed Budget 2017/18 is based on the savings proposals set out in the report to Council in December 2016. Those savings were proposals only for the purposes of setting Portfolio Cash Limits and the overall City Council Budget. Whilst most are likely to be implemented, there will be some that require further consultation and appropriate Equality Impact Assessments to be considered before any implementation can take place. For this reason, Portfolio holders have the discretion to alter, amend or substitute any proposal with an alternative proposal following appropriate consultation.
- 15.2 A city-wide budget consultation took place during September and October to help inform how to make £24m of savings over the period 2017/18 to 2019/20. The consultation took the form of a questionnaire which was also supplemented by a series of public meetings with residents and one public meeting with the business community. The Scrutiny Management Panel also met to consider the proposals contained within this report and have the opportunity to make their representations to the Cabinet prior to their recommendation to the City Council.
- 15.3 With regard to this report, a public meeting of the Scrutiny Management Panel was also held on the 6 February 2017 where a presentation was made of the proposed Council Tax and Revenue Budget 2017/18 and the Council's future financial forecasts for 2018/19 to 2020/21. The Scrutiny Management Panel have again had the opportunity to raise or refer any comments or representations to the Cabinet prior to this City Council meeting.

16. City Solicitor's Comments

- 16.1 The Cabinet has a legal responsibility to recommend a Budget and Council Tax amount to the Council and the Council has authority to approve the recommendations made in this report.
- 16.2 The S.151 Officer has a statutory duty under the Local Government Act 2003 to report on the robustness of the budget proposals and adequacy of reserves. The S.151 Officer's Statement within this report fulfils those obligations.

17. S.151 Officer's Comments

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

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Signed by: Section 151 Officer

Appendices:

- A** General Fund Summary
- B** Forecast Expenditure 2017/18 to 2020/21

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 Director of Finance & Information Services
Local Government Finance Settlement 2017/18	Office of Director of Finance & Information Services

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the City Council on 14 February 2017.

.....
Signed by: Leader of Portsmouth City Council

APPENDIX A

Calculation of the Council Tax 2017/18

<u>Portsmouth City Council</u>	2017/18 £	2016/17 £
Gross Expenditure	463,193,930	478,280,306
LESS: Gross Income	(352,074,188)	(363,899,471)
Net Expenditure 2017/18	111,119,742	114,380,835
LESS: Government Grants	(40,346,160)	(49,152,909)
Council Tax Requirement - Portsmouth City Council Purposes	70,773,582	65,227,926
Council Tax Base	55,329.9	53,538.8
Council Tax - Portsmouth City Council Purposes at Band D <u>70,773,582</u> 55,329.9 =	£1,279.12	£1,218.33

<u>Hampshire Police & Crime Commissioner Precept</u>	9,154,885	8,590,836
Council Tax - Hampshire Police & Crime Commissioner Purposes at Band D	£165.46	£160.46

<u>Hampshire Fire and Rescue Authority Precept</u>	3,532,261	3,351,529
Council Tax - Hampshire Fire and Rescue Authority Purposes at Band D	£63.84	£62.60

The Council Tax to be levied for all bands in 2017/18 will be as follows :

		Portsmouth City Council £	Hampshire Police & Crime Commissioner £	Hampshire Fire & Rescue Authority £	TOTAL 2017/18 £	TOTAL 2016/17 £
Estimated Valuation as 1 April 1991						
Up to £40,000	A	852.75	110.31	42.56	1,005.62	960.92
£40,001 - £52,000	B	994.87	128.69	49.65	1,173.21	1,121.08
£52,001 - £68,000	C	1,137.00	147.08	56.75	1,340.83	1,281.23
£68,001 - £88,000	D	1,279.12	165.46	63.84	1,508.42	1,441.39
£88,001 - £120,000	E	1,563.37	202.23	78.03	1,843.63	1,761.70
£120,001 - £160,000	F	1,847.62	239.00	92.21	2,178.83	2,082.10
£160,001 - £320,000	G	2,131.87	275.77	106.40	2,514.04	2,402.31
£320,001 and over	H	2,558.24	330.92	127.68	3,016.84	2,882.78

GENERAL FUND SUMMARY - 2016/17 to 2020/21

APPENDIX A

Original Budget 2016/17 £	NET REQUIREMENTS OF PORTFOLIOS	Revised Budget 2016/17 £	Original Budget 2017/18 £	Forecast 2018/19 £	Forecast 2019/20 £	Forecast 2020/21 £
24,566,700	Children's Social Care	24,053,500	23,842,700	25,292,700	26,013,400	26,712,800
10,232,060	Culture Leisure & Sport	10,423,760	10,160,860	10,345,160	10,561,460	10,771,560
25,037,557	Education	25,107,657	24,247,457	24,378,857	24,531,257	24,635,857
16,029,713	Environment & Community Safety	15,759,113	15,800,013	16,162,613	16,573,113	16,970,713
42,250,279	Health & Social Care	45,355,779	45,432,879	49,412,779	52,208,479	53,464,279
9,348,628	Housing	9,288,528	9,040,528	9,031,628	9,132,828	9,228,128
257,853	Leader	141,953	144,153	147,353	151,153	154,953
3,688,129	Planning Regeneration Economic Development	2,821,929	37,329	(248,871)	(1,305,271)	(1,984,271)
22,218,534	Resources	22,440,234	22,758,234	23,282,634	24,009,234	24,671,034
14,894,007	Traffic & Transportation	16,022,207	14,605,707	16,409,407	15,882,907	14,262,207
249,700	Governance, Audit & Standards Committee	324,400	88,600	92,100	97,300	103,700
(210,295)	Licensing Committee	(218,995)	(215,595)	(222,895)	(230,095)	(235,395)
168,562,865	Portfolio Expenditure	171,520,065	165,942,865	174,083,465	177,625,765	178,755,565
	<u>Other Expenditure</u>					
0	Precepts	0	0	37,300	38,400	39,400
(125,000)	Portchester Crematorium - Share of Dividend	(130,000)	(135,000)	(130,000)	(130,000)	(130,000)
6,672,000	Pension Costs	6,672,000	7,172,000	7,672,000	8,224,800	8,517,900
6,673,600	Contingency Provision	4,252,200	6,689,000	4,451,000	4,301,000	4,301,000
1,565,500	Revenue Contributions to Capital Reserve	7,208,500	8,000,000	3,600,000	2,500,000	0
(438,300)	Transfer to / (from) Other Reserves	(2,029,700)	764,100	1,131,300	1,592,600	592,600
(27,242,965)	Asset Management Revenue Account	(31,630,765)	(28,702,765)	(29,161,265)	(28,007,265)	(26,362,865)
2,325,000	Other Expenditure	1,135,000	1,912,800	1,912,800	2,662,800	3,412,800
(10,570,165)	Other Expenditure	(14,522,765)	(4,299,865)	(10,486,865)	(8,817,665)	(9,629,165)
157,992,700	TOTAL NET EXPENDITURE	156,997,300	161,643,000	163,596,600	168,808,100	169,126,400
	FINANCED BY:					
(1,426,053)	Contribution (to) from Balances and Reserves	(2,815,954)	(583,761)	3,895,828	8,905,653	11,385,365
30,363,225	Revenue Support Grant	30,363,225	22,313,120	16,956,584	11,482,606	7,033,788
45,620,478	Business Rates Retention	45,659,100	49,632,941	49,678,070	51,445,130	52,522,670
18,433,805	Other General Grants	18,789,684	18,033,040	18,760,829	21,191,007	20,892,580
65,001,245	Council Tax	65,001,245	72,247,660	74,305,289	75,783,704	77,291,997
157,992,700		156,997,300	161,643,000	163,596,600	168,808,100	169,126,400
	BALANCES & RESERVES					
16,395,712	Balance brought forward at 1 April	16,411,215	19,227,169	19,810,930	15,915,102	7,009,449
1,426,053	Deduct (Deficit) / Add Surplus for Year	2,815,954	583,761	(3,895,828)	(8,905,653)	(11,385,365)
17,821,765	Balance carried forward at 31 March	19,227,169	19,810,930	15,915,102	7,009,449	(4,375,916)
7,000,000	Minimum Level of Balances	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
(1,426,053)	Underlying Budget Deficit / (Surplus)	(2,815,954)	(583,761)	3,895,828	8,905,653	11,385,365

APPENDIX B**FORECAST EXPENDITURE 2017/18 to 2020/21**

	Forecast 2017/18 £'000	Forecast 2018/19 £'000	Forecast 2019/20 £'000	Forecast 2020/21 £'000
Service Cash Limits	114,081	122,219	125,752	126,879
Contingency	6,689	4,451	4,301	4,301
Debt financing costs	21,750	21,292	22,446	24,090
Levies and insurance premiums	1,409	1,412	1,421	1,424
Other income/expenditure	17,713	14,222	14,888	12,433
	161,642	163,596	168,808	169,127
<u>Less</u>				
- Council Tax Income	72,248	74,305	75,784	77,292
- Revenue Support Grant	22,313	16,957	11,483	7,034
- Business Rates Retention	49,633	49,678	51,445	52,523
- Other General Grants	18,033	18,761	21,191	20,893
	162,227	159,701	159,903	157,742
Budget (Deficit)/Surplus	585	(3,895)	(8,905)	(11,385)

Deficits in 2018/19 to 2020/21 reflect future savings requirements

