

Decision maker: Cabinet
City Council

Subject: Portsmouth City Council Revenue Budget 2018/19 -
Savings Proposals

Date of decision: 11th December 2017 (Cabinet)
12th December 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 austerity programme to repair the national public finances has been in place now for 7 years. Over that period, since 2011/12, Central Government funding to Portsmouth City Council has reduced by over £73m (amounting a 48% reduction in total Government Funding). 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 £94m, representing circa 44% of the Council's net controllable spending.
- 1.2 The forecast for the national public finances set out in the Autumn Budget recently are expected to improve for this financial year and next year and then worsen over the subsequent 3 years compared with the Spring 2017 projections. The worsening position is largely due to the lower forecasts of growth over the period to 2021/22. The Autumn Budget has left Government Departmental Spending limits unaltered, implying that the 4 year Local Government Finance Settlement that the City Council has accepted will remain intact. Additional revenue funding of £2.8bn has been announced for the NHS but it is expected that this will stay within the NHS rather than being available to support Local Authorities' Social Care budgets.

- 1.3 The announcements in the Autumn Budget are not expected to materially alter the Council's expected revenue funding from Central Government however other factors such as inflation generally, the increasing elderly population and the increase in the National Living Wage (4.4%) may impact on the Council's forecasts for future years beyond 2018/19.
- 1.4 Other variables that form part of the Council's overall financial forecasts remain uncertain such as the amount of retained business rates that will be achievable and the amount of Council Tax that will be received.
- 1.5 At this stage, pending a comprehensive revision of the Council's medium term financial forecasts in February 2018, it remains prudent to plan for a minimum savings requirement for 2018/19 of £4m. However, as a consequence of the consultations and variables described above, future years' savings forecasts for 2019/20 and beyond may change from the £4m per annum currently forecast.
- 1.6 The proposed 2018/19 savings amounting to £4m have been developed in accordance with the Medium Term Financial Strategy and with full regard to the Budget Consultation exercise. The overall aim of the Strategy is described as follows:

"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

- 1.7 Budget consultations in previous years agreed that income generation should be pursued as an alternative to cuts, that joint working was welcomed and that services to vulnerable adults and children should be protected. This year's consultation has re-affirmed that services to vulnerable adults and children should be protected but has clearly identified "Rubbish and Recycling" as their first priority. This was followed in priority order by Children's Social Care, then Adult Social Care and then Maintenance and Seafront.
- 1.8 Additionally, a majority of respondents (73%) indicated that they would accept a Council Tax increase for general purposes of 2% or more (with the largest category of residents indicating that they would accept a 4% increase). 50% of respondents also indicated that they would accept an additional increase to support vulnerable residents (i.e. the Adult Social Care Precept).

- 1.9 In accordance with the Medium Term Financial Strategy and the outcome of the Budget Consultation, the Administration's proposals for the £4m Budget Savings for 2018/19 are summarised as follows:

- (i) Savings analysis:

| Description of Saving | Savings | |
|---|--------------|-------------|
| Efficiency Savings (little or no reduction in Services) | £2.4m | 60% |
| Additional Income | £1.4m | 36% |
| Service Reduction | £0.2m | 4% |
| Total | £4.0m | 100% |

- (ii) No savings from Children's Social Care
- (iii) Adult Social Care Services amounting to 1.6% of their budget compared with the average saving across all services of 2.1%
- (iv) A proposed Council Tax increase of 1.99% for general purposes
- (v) A further increase in Council Tax amounting to 3.0% in total, phased in over 2018/19 and 2019/20, specifically for Adult Social Care
- 1.10 Following the re-launch of the Voluntary Sector Capacity & Transition Fund aimed at improving the sustainability of the voluntary sector, assisting in building capacity and supporting any necessary transformation, the fund is now almost fully subscribed. The use of the fund and its expected outcomes are anticipated to be successful and the Administration propose to make a further transfer from the MTRS Reserve of £500,000 to continue to support the development of the Voluntary Sector in the City but importantly to also encourage and incentivise innovation between the Council and the Sector.
- 1.11 Whilst the savings proposals for 2018/19 are considered realistic, they are not without risk and the Council's Contingency and Portfolio Reserves will be carefully prepared to provide strong mitigation. Additionally, Children's and Adults Social Care will still have to address underlying deficits of £1.8m and £1.8m, respectively.
- 1.12 For Children's Social Care, a plan is in place to reduce that deficit and no savings are proposed from Children's Social Care for 2018/19 whilst the deficit reduction measures are in place.
- 1.13 For Adults Social Care (ASC), the funding received via the ASC Precept plus the transformation initiatives funded by the improved Better Care Fund Allocation (amounting to £7.8m for the period 2017/18 to 2019/20) is planned to be used to remedy the underlying deficit and meet the demographic cost pressures facing the service.
- 1.14 Looking forward beyond 2018/19 still with significant savings to be made, the Council will need to focus its strategy on entrepreneurial activities and

regeneration if it is to avoid significant cuts to Services. The alternative is to rely more heavily on efficiency savings and service cuts which would inevitably fall heavily on Children's Social Care and Health & Social Care since these areas, in aggregate, account for 53% of the Council's total controllable spending.

- 1.15 Approval of the proposals within this report will maintain the Council's financial health and resilience and its ability to respond in a measured and proportionate way to any "financial shocks" as well as having sufficient financial capacity to exploit opportunities as they arise.
- 1.16 The proposals within this report are a necessary pre-cursor to the Annual Budget and Council Tax Setting meeting of the 13th February 2018 when the Council will be requested to formally approve the Budget for 2018/19 and the associated Council Tax for the year. Should the savings proposals contained within this report be approved, they will form the basis of the Budget for 2018/19 presented to Council. That report will also include a comprehensive revision of the Council's future financial forecasts and set the consequent future savings requirements for the period 2019/20 to 2021/22.

2 Purpose of Report

- 2.1 The report describes the financial challenge facing the City Council for the three years 2018/19 to 2020/21 and the likely implications for Council services to businesses and residents. It also describes, in overall terms, the way in which the Administration will seek to address this challenge through its Medium Term Financial Strategy, described 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

- 2.2 The report sets out the need to find £12m of savings over the next three years with a minimum of £4m to be made in 2018/19 (assuming a 1.99% increase in Council Tax for general purposes and a total of a 3.0% increase for the ASC Precept phased over 2018/19 and 2019/20). It recommends the level of savings to be made across Portfolios and other activities in 2018/19 consistent with both the outcomes of the recent budget consultation exercise and the overall financial strategy. The appendices highlight the likely savings proposals and implications associated with the overall Portfolio savings levels proposed.
- 2.3 Also proposed within this report is the intention to replenish the Voluntary Sector Capacity & Transition Fund to ensure continued support for the development of secure and sustainable voluntary sector services in the future.
- 2.4 Finally, the report stresses the important contribution that the MTRS Reserve and the Capital Programme can make to the Council's overall Medium Term Financial Strategy. The General Fund Revenue Budget is the most constrained of all Council budgets and the sustainability of Council Services will be better protected if both MTRS funds and the Capital programme are directed towards generating savings or raising income.
- 2.5 This report is being brought at this time to provide greater opportunity for any necessary consultation, notice and other lead-in times to take place prior to implementation in order that full year savings can be made. Should approval of the savings be considered at a later date, a greater number or deeper savings will be required in order to compensate for any delay in implementation.

2.6 In particular, this report explains:

- (a) In broad terms the challenge for the City in the current economic climate
- (b) The general financial constraints on the City Council both currently and in future years
- (c) The Council's Medium Term Financial Strategy
- (d) Where underlying budget deficits currently exist and how these will be managed
- (e) A change to the Council's Authorised Limit for External Debt arising from the premium paid to the Council in respect of the lease of Wightlink
- (f) Key assumptions built into the City Council's forecasts for 2018/19 to 2020/21 which give rise to a forecast £12m deficit over the period and which include:
 - i. Revenue Support Grant
 - ii. Other Non-ring fenced grants
 - iii. Business Rates
 - iv. Council Tax yield
 - v. Inflation and interest rates
- (g) The level of uncertainty surrounding future years funding sources from Council Tax, Business Rates and Government Grant and the extent to which this could affect the forecast £12m deficit over the period
- (h) The Medium Term Financial Strategy aimed at meeting the Council's core aim whilst addressing the forecast £12m deficit
- (i) The key themes arising from the budget consultation that took place over the October / November period to assist Members in their consideration over the level and nature of savings to be made across Portfolios
- (j) In the context of the Medium Term Financial Strategy and the Budget Consultation, the proposed savings amount for each Portfolio / Committee to be made in 2018/19
- (k) The detailed indicative savings (Appendix B) that could be made by each Portfolio / Committee in meeting its overall savings amount in order to provide the Council with the assurance necessary to approve the recommended savings amount for each Portfolio / Committee
- (l) The need to agree the Portfolio / Committee savings amounts at this early stage in order that any necessary consultation, notice periods or other lead times can commence in order to avoid greater and deeper savings arising from any delay
- (m) The proposed replenishment of the Voluntary Sector Capacity & Transition Fund

- (n) How the proposals contained within this report will be fed into the formal Budget and Council Tax 2018/19 proposals to be considered by the City Council on 13th February 2018

3 Recommendations

3.1 That the following be approved:

- (a) That the Council's Budget for 2018/19 be prepared on the basis of a 1.99% Council Tax increase for general purposes
- (b) That the Council continues to take advantage of the opportunity to increase the level of Council Tax for an "Adult Social Care Precept" within the limits set by Central Government (i.e. a 3% increase phased over the financial years 2018/19 and 2019/20), and consequently that the additional funding is passported direct to Adult Social Care to provide for otherwise unfunded cost pressures.
- (c) That the Council's authorised limit for external debt in 2017/18 is increased by £45m to £653m
- (d) The savings proposals for each Portfolio amounting, in total, to £4m for 2018/19 and continuing into future years as set out in Appendix A to enable appropriate consultation and notice periods to be given to affected parties
- (e) That £500,000 is transferred from the MTRS Reserve to replenish the Voluntary Sector Capacity & Transition Fund

3.2 That the following be noted:

- (a) The Budget Savings Requirement for 2018/19 of £4m approved by the City Council was based on a Council Tax increase of 1.99%; each 1% change (increase or decrease) in the Council Tax results in a change to the savings requirement of £708,000¹
- (b) The key themes arising from the budget consultation
- (c) The indicative savings proposals set out in Appendix B which are provided for the purpose of demonstrating to the Council that the Portfolio savings as recommended in paragraph 3.1 (d) above are robust and deliverable
- (d) The likely impact of savings as set out in Appendix B
- (e) That the responsibility of the City Council is to approve the overall Budget and the associated cash limits of its Portfolios and Committees; it is not the responsibility of the City Council to approve any individual savings within those Portfolios / Committees
- (f) That it is the responsibility of the individual Portfolio Holders (not full Council) to approve the individual savings proposals and the Portfolio

¹ Tax increases will be subject to Council Tax referendum thresholds which are at this stage unknown

Holder can therefore, in response to any consultation, alter, amend or substitute any of the indicative savings proposal(s) set out in Appendix B with alternative proposal(s) amounting to the same value within their Portfolio

- (g) Managers will commence the implementation of the approved savings required and any necessary consultation process or notice process
- (h) That there is no general provision for Budget Pressures and that it is the responsibility of the Portfolio Holder to manage any Budget Pressures which arise from the overall resources available to the Portfolio (which includes their Portfolio Reserve)
- (i) In accordance with the approved financial framework, it is the responsibility of the Portfolio Holder, in consultation with the Director of Finance & Information Services (S151 Officer), to release funds from the Portfolio Reserve in accordance with the provisions set out in paragraph 10.19
- (j) The MTRS Reserve held to fund the upfront costs associated with Spend to Save Schemes, Invest to Save Schemes and redundancies currently holds a very modest uncommitted balance of £2.0m² and will only be replenished from an approval to the transfer of any non-Portfolio underspends at year end into this reserve

4 Economic & Financial Context

- 4.1 The forecast for the national public finances set out in the Autumn Budget recently are expected to improve for this financial year and next year and then worsen over the subsequent 3 years compared with the Spring 2017 projections. The worsening position is largely due to the lower forecasts of growth over the period to 2021/22 resulting in lower than expected tax receipts, higher debt levels and increased public sector spending (mainly NHS).
- 4.2 Additional capital funding for infrastructure has also been announced, mainly targeted at improving transport connectivity, notably the £1.7bn Transforming Cities Fund, and housing delivery through a £1.1bn Land Assembly Fund and an additional £2.7bn for the Housing Infrastructure Fund against which the Council has currently bid.
- 4.3 Despite the worsening position for the national public finances, the Office for Budget Responsibility still forecasts that the Government remains on track to meet its fiscal rules (i.e. remain within an annual deficit of 3% of GDP).
- 4.4 The Autumn Budget has left Government Departmental Spending limits unaltered, implying that the 4 year Local Government Finance Settlement that the City Council has accepted will remain intact. Additional revenue funding of £2.8bn has been announced for the NHS but it is expected that this will stay

² Assuming that the transfer of £500,000 to the Voluntary Sector Capacity and Transition Fund as recommended in this report is approved

within the NHS rather than being available to support Local Authorities' Social Care budgets.

- 4.5 Measures intended to greater incentivise bringing empty properties back into use were also announced. This enables Local Authorities to increase the premium (currently 150%) to 200%. It is expected however that this will require primary legislation and therefore will not be available to be applied until April 2019.
- 4.6 The announcements in the Autumn Budget are not expected to materially alter the Council's expected revenue funding (see Section 5) from Central Government however other factors such as inflation generally, rising pension costs, the increasing elderly population and the increase in the National Living Wage (4.4%) may impact on the Council's forecasts for future years beyond 2018/19 (see Section 6).

5 Local Government Funding Outlook - 2018/19 and Beyond

Local Government Finance Settlement 2018/19 & Beyond

- 5.1 The Local Government Finance Settlement is the term used to describe the main non-ring fenced Revenue and Capital grant funding allocations from Government.
- 5.2 Over the past 7 years (since 2011/12), Central Government funding to Portsmouth City Council has reduced by over £73m (amounting a 48% reduction in total Government Funding). 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 £94m, representing circa 44% of the Council's net controllable spending.
- 5.3 Looking forward, the Council's current forecasts which run to 2020/21 indicate an overall savings requirement of £12m over the forthcoming 3 year period. This will mean that over the period of the austerity programme, funding from Government will have reduced by some 56%.
- 5.4 The Local Government Finance Settlement for 2018/19 which currently accounts for approximately 39% of controllable spending is expected to be announced in either the second or third week of December 2017. As previously mentioned, it is anticipated that the settlement for 2018/19 will be as set out in the 4 year Finance Settlement upon which the Council's savings requirements are based. Consequently, it is not anticipated that the Council's overall financial position (and its deficits) will be significantly affected by the Settlement.

- 5.5 In overall terms, the Council expects a further reduction in Government Funding over the three year period 2018/19 to 2020/21 of £12.4m, representing a further funding reduction of 31% compared to current levels.
- 5.6 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, any new unfunded burdens passed down from Government and any changes in regulations.

Council Tax 2018/19 & Beyond

- 5.7 Portsmouth City Council remains a low taxing Authority. 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 the Council would otherwise not need to fund through savings.
- 5.8 The original assumptions for 2018/19, 2019/20 and 2020/21 are for a 1.99% increase in Council Tax each year for general purposes and in addition, a total of a 3.0% increase in Council Tax for the Adult Social Care precept phased over 2018/19 and 2019/20. This generates a total of £5.0m in income over the 3 year period.
- 5.9 For general purposes an increase in the amount of Council Tax payable by the average council taxpayer³ in Portsmouth (with a 1.99% increase) is £19.80 per year (or 38 pence per week).
- 5.10 Each 1% change (increase or decrease) in the Council Tax results in a change to the savings requirement of £708,000⁴. Should the Council wish to reduce the assumed level of Council Tax increase from 1.99%, equivalent savings will need to be made in order to remedy the associated increase in the overall deficit. Conversely, any increase in Council Tax beyond the 1.99% **for general purposes** will make a contribution towards the overall deficit, meaning that the extent of savings to be made will reduce. Council tax increases **for general purposes** however, are subject to a "referendum threshold" which is a limit (i.e. council tax increase) that to exceed requires a "yes" vote in a referendum. The Council Tax referendum limits are not expected to be announced until the second or third week in December as part of the Local Government Finance Settlement.
- 5.11 The "Adult Social Care precept" is an increase in Council Tax that Councils can raise but only if the funding is passported to Adult Social Care. This precept is designed to help relieve the pressure on what is termed "the funding crisis in

³ The median Council Taxpayer lives in a Band B property

⁴ Tax increases will be subject to Council Tax referendum thresholds which are at this stage unknown

adult social care" which is occurring as the elderly population rises alongside the cost of care.

- 5.12 The limit for the Adult Social Care (ASC) precept is determined by Central Government and was set at 6.0% in total for the 3 year period including this financial year through to 2019/20. Having increased the Council Tax by 3% in 2017/18 for the ASC Precept, 3% flexibility remains for the following 2 years. A 3.0% increase in Council Tax, phased over the next 2 years would raise £2.1m in total and amount to an average annual increase of £14.93 (or 29p per week).
- 5.13 As set out in Section 6, there are a number of actual and potential cost pressures that either currently exist or will fall on Adult Social Care in 2018/19. This includes the current underlying budget deficit amounting to £1.8m as described in the "Revenue Budget Monitoring 2017/18 (2nd Quarter) to end September 2017" report contained elsewhere on this Agenda. In addition, Adults Social Care will face pressures from the rising elderly population generally, the requirements of the Care Act and the 4.4% increase in the National Living Wage. The National Living Wage alone could confer an additional cost of circa £1.4m on the Council in 2018/19 with just £2.1m available from the ASC Precept over the next 2 years.

Business Rates 2018/19 & Beyond

- 5.14 The previous grant funding system from Government changed in 2013/14. Funding from Government was reduced and replaced with the ability to retain 49% of all Business Rates collected. Business Rates income is increased by inflation each year and is also influenced by the extent to which Business Rates income grows or contracts and the level of successful appeals against rates valuations. Whilst this presents an opportunity for Local Authorities with strong business growth potential, it also presents risks for Authorities whose business rates base is in decline or subject to "shocks" such as closure (or relocation) of major businesses in an area.
- 5.15 The system is complex but some of the key features are highlighted below:
- For business the National Non Domestic Rates (NNDR) system will remain the same. Local Authorities do not have control over how the level of tax is determined for ratepayers
 - If the business rate taxbase grows the City Council will be rewarded with increased funding, but if it declines Council funding will reduce
 - It is estimated that a 1% change in Business Rates will result in circa £410,000 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 original baseline funding level.

5.16 Current estimates of the City Council's share (i.e. 49%) of total Business Rates collected for 2017/18 is £40.0m. For the period 2018/19 to 2020/21, the Council's forecasts assume no real growth but with inflationary uplifts in accordance with original estimates from the Office for Budget Responsibility (OBR).

5.17 The Council has applied to become a 100% Business Rate Pilot for 2018/19 in a pooled arrangement with the Isle of Wight Council and Southampton City Council. The outcome of the application will be announced in December 2017. The arrangement is one where both risks and rewards must be shared across all authorities. The scheme is intended to reduce volatility in the income from Business Rates as well as maximise the incentive to grow the business rate base. The scheme itself will include a "No Detriment" provision, meaning that the Council can be no worse off than under the current 49% retention system with its associated protections. It does however, provide the opportunity for the 3 Councils to retain 100% of any growth in Business Rates so long as it is used to:

- i) Promote financial stability and sustainability across the pooled area
- ii) Re-invest in promoting further growth across the area

5.18 Changes to the estimated Business Rate income for the current and future years arising from changes to assumptions will be reflected in the comprehensive revision to the Council's overall financial forecasts in February 2018. Any consequent implications will be reflected in the Savings Requirements for future years.

5.19 Economic growth and job creation in the City are a key part of the Council's Financial Strategy. The City Council has a key role in regenerating the city, working with partners to grow the local and sub-regional economy. As described later in this report, growth and job creation has the dual impact of increasing the prosperity of residents generally which leads to a reduction in demand for Council services and increases Business Rates, of which 49% (or 100%) is retained by the Council. This allows the Council to both reduce its costs as well as generate additional income.

5.20 In summary, the forecast funding for Local Government from Central Government Grant should be relatively stable and Council Tax income is also predictable with a reasonable degree of accuracy. Significant uncertainty over the estimated income from Business Rates will remain. Whilst a degree of uncertainty exists, the Council's current forecasts for 2018/19 anticipate a total reduction in revenue funding from Government of £3.9m⁵ whilst a Council Tax increase of 1.99% will generate £1.4m of income, a net shortfall of £2.5m before taking account inflationary and other cost pressures.

⁵ Based on the Baseline Funding level that includes RPI uplift on Business Rates

6 City Council Expenditure Outlook - 2018/19 & beyond

Demographic Changes

- 6.1 Demographic changes are likely to generate the largest cost pressures facing the City Council going forward. As well as pressure caused by an ageing population there is also pressure caused by a "living longer" population. More people are coming through the transition into Adults Social Care from Children's Social Care with profound physical or learning disabilities and tend to be at the higher end of the care spectrum, costing significant amounts of money.
- 6.2 Additionally, the number of children in care with extremely challenging conditions is also increasing, causing significant increases in the number of expensive Out of City placements into specialist accommodation.
- 6.3 The outlook therefore for the Council's essential care services is one of increasing volumes and therefore rising costs.

Government Policy Changes / Expectations 2018/19 and Beyond

- 6.4 Reforms to the welfare system are likely to result in additional demands on the Council's housing and essential care services.
- 6.5 Such changes could also reduce the income which the Council can charge for providing those services. The cumulative impact of the reforms where separate benefits convert to Universal Credit coupled with the change from Disability Living Allowance to Personal Independence Payments is likely to reduce social care clients' disposable income and therefore the amount they can afford to pay for their care.
- 6.6 New care duties and responsibilities for local authorities commenced under the Care Act in April 2015. The Government has stated that it will fund these new Care Act requirements in full (either to Local Authorities directly, and potentially by the ability to raise Council Tax, or through the Better Care Fund of the NHS).
- 6.7 The introduction of the National Living Wage from April 2017 and continuing increases above the rate of inflation (4.4% for 2018/19) is expected to create significant cost pressures for the Council particularly in Adult Social Care contracts. Estimates suggest that the impact could be in the order of £1.4m per annum.

Inflation

- 6.8 In overall terms, the cost of inflation has been relatively modest in recent years, largely held down due to constraints on public sector pay. General inflation has however been on the rise over the past 12 months and is currently running at

3.0%. The OBR has forecast that inflation (measured by the Consumer Price Index or CPI) will peak at or around 3.0%, falling back to 2.2% in 2018/19 and flattening to around 2.0% for the following 3 years. For the next 3 year period, the Council's current forecasts assume that inflationary costs will amount to £9.0m with overall composite rates for inflation (taking into account pay, contracts linked to the Retail Price Index (RPI), CPI generally across other expenditure and pension obligations) ranging between 2.6% to 3.0% over the period. These assumptions will be comprehensively reviewed in February 2018 with all of the other assumptions within the Council's medium term financial forecasts when they will be known with greater certainty.

- 6.9 The Autumn Statement did however confer some additional cost pressures on the Council in relation to the uplift in the National Living Wage from £7.50 to £7.83 (4.4% increase) from April 2018 which will predominantly affect Adult Social Care contracts. The impact of the National Living Wage increase is expected to amount to £1.4m.

Interest Rates

- 6.10 Interest rates for investments were initially forecast to range between 0.25% in 2018/19 and rise steadily to 0.75% in 2020/21. Expectations now are that interest rates will be slightly higher than originally forecast and this will have a positive influence on the Council's overall financial position. This will be reviewed as part of the Council's comprehensive revision of its forecast in February 2018.
- 6.11 Borrowing rates are quite volatile due to the impact of the EU Referendum and general geo-political developments but the general expectation is for an eventual trend of gently rising gilt yields and therefore borrowing rates. The Council is not generally in a borrowing position in the short term but may take modest amounts of borrowing (for future requirements) within the next 3 years if low rate opportunities arise.

Assets / Investments

- 6.12 In accordance with the Council's Medium Term Financial Strategy, the Council has been active in both acquiring new commercial property as a means of generating income to avoid cuts to Council Services and seeking to maximise the return from its existing property portfolio. As part of that Strategy, Cabinet approved the granting of a head lease of Wightlink to Canada life with a subsequent leaseback. The effect of the transaction was to receive £73m for the lease in return for an annual payment for 46 years to Canada Life. The financial appraisal demonstrated that this was the optimal method for obtaining capital from the asset using a sale and leaseback structure using the Council's covenant strength to increase the overall return from the asset,

whilst importantly enabling the Council to retain ownership and control of this strategically important site in the long term. It was also tax efficient.

- 6.13 Although these transactions are legally structured as leases, in substance the City Council has borrowed £73m from Canada Life to invest in other commercial properties. The effect of these transactions is to increase the City Council's external debt by £73m from £569m at 31 March 2017 to £642m. The opportunity to enter into such an arrangement was not known at the time the Council approved its limit for external debt and as a consequence, the limit was exceeded by £24m. The effect of this "borrowing" has flowed through into 2017/18 and accordingly it is recommended that the authorised limit for external debt for 2017/18 be increased by £45m to £653m in order to provide the Council some flexibility to undertake further borrowing, including short term borrowing for liquidity purposes if necessary.
- 6.14 In overall terms, the effect of this arrangement has been to increase the income from this asset by circa £2.4m per annum in the future steady state.

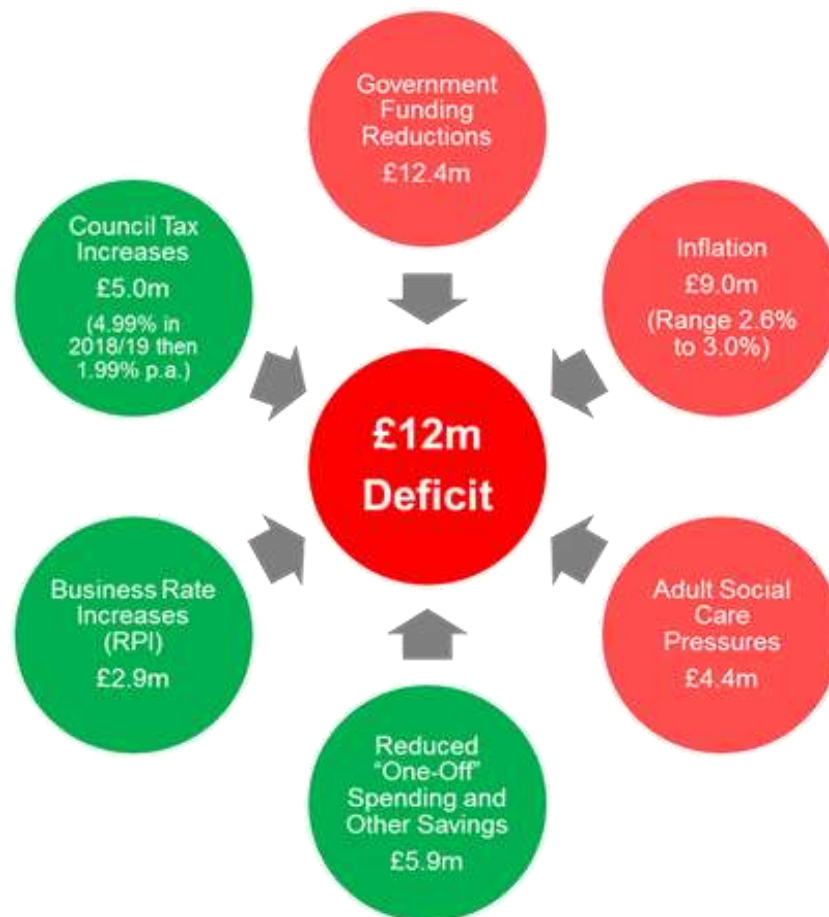
Summary

- 6.15 All of the demographic, legislative and other cost changes will be taken into account in the comprehensive revision to the Council's overall financial forecasts in February 2018. Any consequent implications will be reflected in revisions to both the proposed savings (Appendix B) and the Savings Requirements for future years.

7. Overall Financial Forecast - 2018/19 to 2020/21 (Existing Forecast)

Overall 3 Year Financial Forecast

- 6.16 In overall terms, taking account of both spending pressures and funding reductions over the next three financial years, it is forecast that the Council faces an overall deficit of £12m. This means that by 2020/21, the Council's net expenditure will need to be £12m less than it is at present and that savings of that sum will need to be made either through increased income or reduced costs. This will be reviewed as part of the comprehensive revision to the Council's overall financial forecasts in February 2018.
- 6.17 An illustration of the factors causing the forecast £12m deficit as described in Sections 5 & 6 is shown below:



Savings Requirement for 2018/19 & Forecast Savings Requirements for 2019/20 and 2020/21

- 6.18 The last comprehensive review of the City Council's 3 Year Financial Forecast was reported in the Annual Budget Report in February 2017. This set out the

City Council's underlying budget deficit and consequent forecast Budget Savings Requirement for the next 3 years as follows:

| | Underlying Budget Deficit | Annual Budget Savings Requirement | Total Savings Requirement |
|---------|--|--|--|
| | £m | £m | £m |
| 2018/19 | 3.9 | 4.0 | 4.0 |
| 2019/20 | 8.9 | 4.0 | 8.0 |
| 2020/21 | 11.4 | 4.0 | 12.0 |

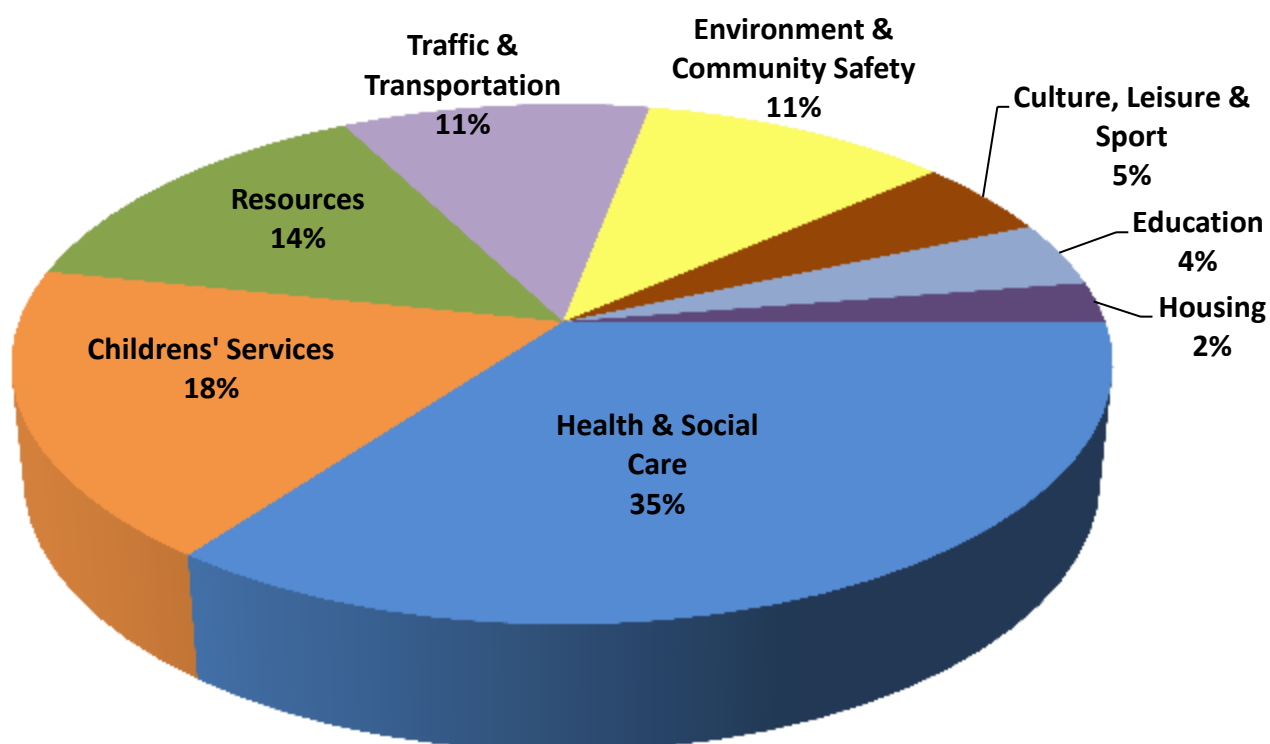
- 6.19 On the basis of the overall £12m deficit and the preference to be able to manage those savings smoothly over that period, the City Council resolved in February 2017 that a minimum savings requirement of £4.0m would be implemented for 2018/19. That minimum savings requirement was predicated on a Council Tax increase of 1.99% for general purposes (generating £1.4m of additional Council Tax income). It also assumed that a further 3.0% increase in Council Tax for the ASC Precept would be raised over the period 2018/19 and 2019/20 (generating £2.1m of additional Council Tax income).
- 6.20 The Council is aware of a number of potential changes to the assumptions underpinning these forecasts and will also be undertaking the usual review of the estimates of Council Tax and Business Rates income in early January 2018, this means that a comprehensive revision at this stage would be premature and subject to potential significant change.
- 6.21 The Director of Finance & IS (S151 Officer) advises that whilst it is likely that the overall financial forecasts will change, the savings requirement for 2018/19 at £4.0m (with a Council Tax increase of 1.99% for general purposes and a Council Tax increase for the ASC Precept of 3.0% over the period 2018/19 and 2019/20) 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.

8. Medium Term Financial Strategy - 2018/19 & Beyond

Financial Strategy 2018/19 & Beyond

- 8.1 In overall terms, the financial picture over the next 3 years and beyond is one of increasing costs and demand for services, particularly in essential care services, at the same time as continued and unprecedented reductions in funding. Taking all of the cost and funding implications into account, the Council's forecasts prepared in February 2017 estimated that the Council will need to make £12m of savings over the next 3 years.
- 8.2 Considering also that those essential care services consume 53% of the Council's net controllable budget, the Council is faced with a position where it not only has to meet those costs, or at the very least manage the demand for those services, but simultaneously find £12m of savings across all areas. This is illustrated below:

2017/18 Net Controllable Expenditure of £118m



- 8.3 It is also of significance that a further 22% of the Council's controllable spend is consumed by the Traffic & Transportation and Environment & Community Safety Portfolios where a large proportion of their activities are tied into long-term contracts where the savings potential is more limited.
- 8.4 The Council's Medium Term Financial Strategy has been developed to respond to these very challenging circumstances. The Strategy has a strong regeneration focus with a presumption that Capital investment will be targeted towards economic growth. This is to improve the prosperity of the City through employment as an objective in itself but also because this will reduce the demand for Council services generally. Furthermore, re-generation creates the opportunity for additional business rates to be generated and retained by the Council. The Capital Programme can also be a vehicle for Invest to Save schemes enabling the Council to reduce its own costs in the future.
- 8.5 Equally prominent in the strategy below is the strong focus on entrepreneurial activities leading to income generation as a means to make savings and avoid cuts to services.
- 8.6 The Strategy is illustrated overleaf:

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

STRAND 1

Transforming to an Entrepreneurial Council:

- Income Generation
- Maximise the return on Property and Assets
- Invest for commercial gain
- Develop and establish commercial entities to sell services profitably
- Capital investment for jobs and business growth (increased Business Rates)
- Establishing strategic partnerships / share service arrangements to reduce costs and increase resilience

STRAND 2

Reduce the extent to which the population needs Council Services

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

STRAND 3

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

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

STRAND 4

Withdraw or offer minimal provision of low impact Services:

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

The Strategy is underpinned by a financial framework which provides financial autonomy to Portfolios and Committees. Any underspending arising against their budgets are retained by them. This was deliberately designed to create the financial conditions that support responsible spending and promote forward financial planning. The implication of this is that the opportunity for future underspendings to accrue and be available corporately is much reduced. It is vitally important therefore that the use of any corporate underspend is used wisely and in accordance with the Council's Medium Term Financial Strategy aimed at meeting the future financial challenges of the Council.

- 8.7 The MTRS Reserve is a fundamental component of the Council's financial framework and is designed to provide funding for future redundancies, Spend to Save and Invest to Save initiatives. The current uncommitted balance on the MTRS Reserve amounts to £2.5m and is considered to be very modest in the context of the £12m of savings that the Council is required to make over the next 3 years.

9 Budget Process & Consultation 2018/19

- 9.1 During October and November of this year, the Council undertook a Budget consultation to understand residents spending priorities. Budget consultations in previous years agreed that income generation should be pursued as an alternative to cuts, that joint working was welcomed and that services to vulnerable adults and children should be protected. Due to the larger scale of Revenue savings required in previous years, Budget Consultations have focussed on where the Council should be making savings. The Budget Consultation this year has been extended to also cover the Council's Capital Investment priorities.
- 9.2 The consultation was city wide and took the form of a questionnaire which was also supplemented by a series of public meetings with residents, staff and the business community.
- 9.3 The final response rate from the consultation was as follows:

| | |
|-----------------|--------------|
| Residents | 937 |
| Staff | 631 |
| Citizen's Panel | 121 |
| Total | 1,689 |

- 9.4 The response rates are distributed throughout the city and provide a varied set of responses. As was the case last year, three of our key MOSAIC groups across the city - Rental Hubs, Transient Renters and Aspiring Homemakers are over-represented in the sample, although the order and significance has changed. Urban Cohesion and Domestic Success are also over-represented this year while Municipal Challenge has dropped down to a level more proportional with the city split. Significantly under-represented groups include Suburban stability and Family basics. Suburban stability is generally

representative of comfortable families, while Family basics are generally families struggling to make ends meet in social housing

9.5 Given the response volume, the results can be considered to be statistically robust with a margin of error of 2% based on a 95% confidence rate.

9.6 Overall, whether a staff member or a resident, respondents for the most part agreed with the overall management strategy for the budget. The main conclusions were:

- Over 67% think it is important for the council to invest in improving city centre roads
- Over 77% think it is important for the council to invest additional money to enhance the flood defences scheme
- Over 85% think it is important to invest in our secondary schools to make sure there are enough places for all young people
- Over 77% think it is important to invest in roads, pavements and cycle ways
- Over 74% think it is important to invest in culture, leisure centres and parks
- In terms of services that residents value overall, the following received the most votes:
 1. Rubbish and Recycling (855 respondents)
 2. Children's Social Care (660 respondents)
 3. Adult Social Care (627 respondents)
 4. Maintenance and Seafront (566 respondents)
- 73% of respondents indicated that they would accept a council tax increase of 2% or more (with the largest category of residents indicating that they would accept a 4% increase).
- 50% of respondents indicated they would support an additional increase to support vulnerable residents.
- Only 12% of respondents indicated that they felt there should be NO increase in council tax.

9.7 The full results of the Budget Consultation can be found at:

<https://www.portsmouth.gov.uk/ext/the-council/transparency/budget-2018-2019>

9.8 These results have been fully considered by the Administration in formulating their budget savings proposals described in Section 10 below.

10 Budget Proposals for 2018/19 to 2020/21

Budget Savings Proposals 2018/19

- 10.1 The Administration's budget savings proposals are aligned with the Medium Term Financial Strategy previously described in Section 8 and have been prepared paying due regard to the responses from the Budget Consultation set out in Section 9 as well as the Administration's strategic priorities. The proposed savings amounts to be made by each Portfolio, and which are recommended for approval, are attached at Appendix A.
- 10.2 The Administration's proposals are focussed on an "Avoidance to Cuts" approach in line with the Medium Term Financial Strategy. In overall terms, the proposed £4m of savings are characterised as follows:

| Description of Saving | Savings | |
|---|--------------|-------------|
| Efficiency Savings (little or no reduction in Services) | £2.4m | 60% |
| Additional Income | £1.4m | 36% |
| Service Reduction | £0.2m | 4% |
| Total | £4.0m | 100% |

- 10.3 For 2018/19, Efficiency Savings account for 60% of the proposed savings, with 36% relating to Additional Income and just 4% Service Reduction measures.
- 10.4 Noting also the response from the Budget Consultation which generally suggests that services to the vulnerable should receive some measure of protection, the Administration's savings proposals provide full protection from savings for Children's Social Care and significant protection from savings for Adult Social Care. As a necessary consequence, savings from other Portfolios are proportionally higher and significantly higher in some cases such as Planning Regeneration & Economic Development and Other Expenditure.

- 10.5 A summary of the overall savings proposals for 2018/19, by Portfolio, is set out below.

| Portfolio / Committee | Savings Proposal | |
|---|------------------|-------------|
| | £ | % Budget |
| Children's Social Care | 0 | 0.0% |
| Culture, Leisure & Sport | 277,300 | 2.8% |
| Education | 180,000 | 2.8% |
| Environment & Community Safety | 150,000 | 0.9% |
| Health & Social Care - Adults Social Care | 860,600 | 1.6% |
| Health & Social Care - Public Health | 236,000 | 1.9% |
| Housing | 109,000 | 2.1% |
| Planning, Regeneration & Economic Development | 815,100 | 9.8% |
| Resources | 798,000 | 2.5% |
| Traffic & Transportation | 305,000 | 2.3% |
| Other Expenditure (incl. Debt Repayment) | 269,000 | 6.5% |
| Grand Total | 4,000,000 | 2.1% |

*** Excludes the additional funding passported through the Adult Social Care Precept and additional funding for the Care Act meaning that in cash terms there is a zero reduction to Adult Social Care**

- 10.6 The analysis above highlights the conundrum that the Council faces regarding the desire to protect both Adults and Children's Social Care whilst still wishing to retain good quality sustainable public services in its other portfolios. By way of example, the average saving required across the Council was 2.1% of spending but to fully protect Children's Social Care (at 0.0% budget reductions) and Health & Social Care - Adult Social Care (at 1.6% budget reductions), it has been necessary to make spending reductions / additional income in other valued Portfolios of up to 9.8%.
- 10.7 Inevitably, there are a number of financial risks contained within the proposals for making savings of the scale of £4m (or 2.1%) on the back of making £94m in savings and efficiencies over the past 7 years. The risks are unavoidable. For those risks with the highest likely impact, mitigation strategies are being developed. In previous years, the highest risks have been to the delivery of the savings within the essential care services and whilst these still remain, they have generally been managed by making some contingency provision on a "one-off" basis in order to provide additional time to re-design service provision.
- 10.8 Looking forward to 2018/19, there still remain risks in both Children's and Adults Social Care. Whilst the Council is forecasting a balanced budget in the current year, there remain underlying deficits totalling £3.6m in these two Services of £1.8m (Children's Social Care) and £1.8m (Adults Social Care).
- 10.9 For Children's Social Care, a plan is in place to reduce that deficit which focusses on increasing the number of Social Workers to provide more

targeted and intensive support as a mechanism to reduce the number of Looked After Children in the system alongside plans to reduce the number of Children in expensive Out of City residential placements. Additionally, no savings are proposed from Children's Social Care for 2018/19 whilst the deficit reduction measures are in place.

- 10.10 For Adults Social Care (ASC), the funding received via the ASC Precept and the transformation initiatives funded by the improved Better Care Fund Allocation (amounting to £7.8m for the period 2017/18 to 2019/20) is planned to be used to remedy the underlying deficit and meet the demographic cost pressures facing the service.
- 10.11 The measures described above are being planned in order to eliminate these deficits and place their budgets on a sound footing for 2018/19. Nevertheless, risks to delivery will remain and the Council will need to ensure that adequate contingency provision is made to cover that eventuality.
- 10.12 It is important to note that the Council's responsibility is to set the overall Budget of the Council and determine the cash limits for each Portfolio. It is not the responsibility of the Council to approve the detailed savings that need to be made in order for the Portfolio to meet its cash limit. The Council do need to have the confidence that the recommended savings for each Portfolio are deliverable and what the likely impact of delivering those savings might be. Indicative savings that are likely to be necessary in delivering the overall Portfolio savings are attached at Appendix B and whilst the detailed savings are not a matter for the Council to decide, they are presented to inform the decision of Council relating to the overall savings to be made by each Portfolio / Committee.
- 10.13 To provide the best opportunity to achieve full year savings and deliver the £4m Savings Requirement, it would be prudent and financially responsible for the Council to seek to implement its 2018/19 savings as early as possible. From the perspective of service delivery, giving partners and residents significant advance notice of the changes to come into effect from next April will assist them to plan for change accordingly.
- 10.14 A crucial part of a prudent financial strategy is to maintain strong financial resilience. That means maintaining adequate levels of reserves to be able to respond to "financial shocks" or having reserves available to help implement savings in a planned and managed way. The early (or timely) implementation of savings proposals ensures that those reserves remain intact and are available for such purposes.
- 10.15 In order for the City Council to be able to implement the Savings Requirement in good time, a number of savings proposals will require that consultation take place and notice periods be given. Should the Portfolio savings set out in Appendix A be approved, Managers will commence the implementation of those savings and any consultation process or notice process necessary.

- 10.16 For savings proposals that require consultation, the actual method of implementation or their distributional effect will not be determined until the results of consultation have been fully considered. Following consultation, the relevant Portfolio Holder may alter, amend or substitute any of the indicative savings proposal(s) set out in Appendix B with alternative proposal(s) amounting to the same value.

Budget Pressures Proposals 2018/19

- 10.17 The Council no longer makes any general provision for Budget Pressures. This was agreed as part of the Medium Term Financial Strategy approved by the City Council in November 2013.
- 10.18 One of the aims of the Medium Term Financial Strategy is to create the conditions that incentivise responsible spending and strong forward financial planning. As a consequence, a financial framework was implemented which provides Services with much greater financial autonomy.
- 10.19 The features of the financial framework include:
- i) Each Portfolio to retain 100% of any year-end underspending and it to be held in an earmarked reserve for the relevant Portfolio
 - ii) The Portfolio Holder be responsible for approving any releases from their earmarked reserve in consultation with the Director of Finance & Information Services (S151 Officer)
 - iii) That any retained underspend (held in an earmarked reserve) be used in the first instance to cover the following for the relevant Portfolio:
 - a) Any overspendings at the year-end
 - b) Any one-off Budget Pressures experienced by a Portfolio
 - c) Any on-going Budget Pressures experienced by a Portfolio whilst actions are formulated to permanently mitigate or manage the implications of such on-going budget pressures
 - d) Any items of a contingent nature that would historically have been funded from the Council's corporate contingency provision
 - e) Spend to Save schemes, unless they are of a scale that is unaffordable by the earmarked reserve (albeit that the earmarked reserve may be used to make a contribution)

Once there is confidence that the instances in a) to e) can be satisfied, the earmarked reserve may be used for other developments or initiatives

- 10.20 Correspondingly, any Budget Pressures must be funded within the overall resources available to the Portfolio Holder (which includes their Portfolio Reserve).

- 10.21 Whilst no general provision exists for Budget Pressures, the Budget proposals do provide for the passporting of the Adult Social Care Precept to Adult Social Care as well as additional funding received to meet the new burdens associated with the implementation of the Care Act.

Medium Term Resource Strategy Reserve - Position

- 10.22 The Medium Term Resource Strategy Reserve (MTRS Reserve) is a reserve maintained by the Council for Spend to Save, Spend to Avoid Cost and Invest to Save Schemes. It is also the reserve that funds all redundancy costs arising from Budget Savings proposals. At present the reserve has an uncommitted balance of £2.5m.
- 10.23 An uncommitted balance on the MTRS Reserve of £2.5m is considered to be very modest in the context of the £12m of savings that the Council is required to make over the next 3 years. As the Council's primary vehicle for providing funding for Spend to Save initiatives, it is crucial that this fund is both spent wisely and replenished at every opportunity.

Proposals for the Voluntary Sector Capacity & Transition Fund

- 10.24 The Voluntary Sector Capacity & Transition Fund was established to secure **sustainable voluntary sector services** in the future as a means to sustain or improve Council services, avoid cost and / or make savings. There is an emphasis on the fund to build capacity across the sector in a sustainable way. The criteria for the use of the fund are:
- Overall fit with the Council's objectives - providing services consistent with the Council's responsibilities that are not replicated elsewhere
 - Integration and/or collaboration with other voluntary sector partners - demonstrating a willingness to transform and build voluntary sector capacity on a sustainable basis
 - Deliverability - proposals are costed robustly and plans demonstrate that they can be confidently delivered
 - Sustainability - a single application for a 1 year, 2 year or 3 year award which demonstrates an operating model that will endure without further funding from the Council
 - Cost Avoidance - illustration of how the proposal avoids costs elsewhere "in the system" and / or improves the integration and efficiency of the voluntary sector as a whole
 - Potential for further Transformation - the extent to which the proposal could drive further transformation and capacity of the voluntary sector in the future
 - Wider economic impacts
- 10.25 The use of the Fund in 2017/18 and its expected outcomes are anticipated to be successful in delivering better services and either avoiding or reducing

cost. Considering both the awarded and earmarked sums, it is now almost fully subscribed and has been used to fund the following:

| Project (Awarded Funding) | Lead Organisations | Purpose | Grant Award |
|--|---------------------------------|--|--------------------|
| Re-unification Pilot | Motiv8, Barnardos, Home Start | Pilot of intensive bespoke work with families to keep children within family unit - saving significant costs of care | £25,000 |
| Reunification Full project | Motiv8, Barnardos, Home Start | Moving pilot (as above) to fuller service | £50,000 |
| Portsmouth Counselling reconfiguration | You Trust | To provide counselling services as Portsmouth Counselling Service ceased | £50,000 |
| Edge of Care | Motiv8 | Intensive support in families for older children - saving significant cost of on-going care and placements | £50,000 |
| Dadz Club | Public Health | To set up a mentoring , support network around the role of fathers, linking into families and mental health | £70,000 |
| Mental Health Café | Good Mental Health Co-operative | To provide safe space and support and training for mental health | £57,886 |
| Total Awarded | | | £302,886 |

| Project (Earmarked Funding) | Lead Organisations | Purpose | Earmarked Funds |
|--|-------------------------------|---|------------------------|
| Reunification (continuation - see above) | Motiv8, Barnardos, Home Start | As above but award dependent on satisfactory outcomes | £50,000 |
| Edge of Care (continuation - see above) | Motiv8 | As above but award dependent on satisfactory outcomes | £50,000 |
| Total Earmarked | | | £100,000 |

| | |
|---|-----------------|
| Total Grants Awarded / Earmarked | £402,886 |
|---|-----------------|

10.26 Based on its anticipated success, the Administration propose to make a further transfer from the MTRS Reserve of £500,000 to continue to support the development of the Voluntary Sector. In making this transfer, the Administration will be seeking to encourage and incentivise innovation between the Council and the Sector for the next round of applications

Approval of the Budget 2018/19

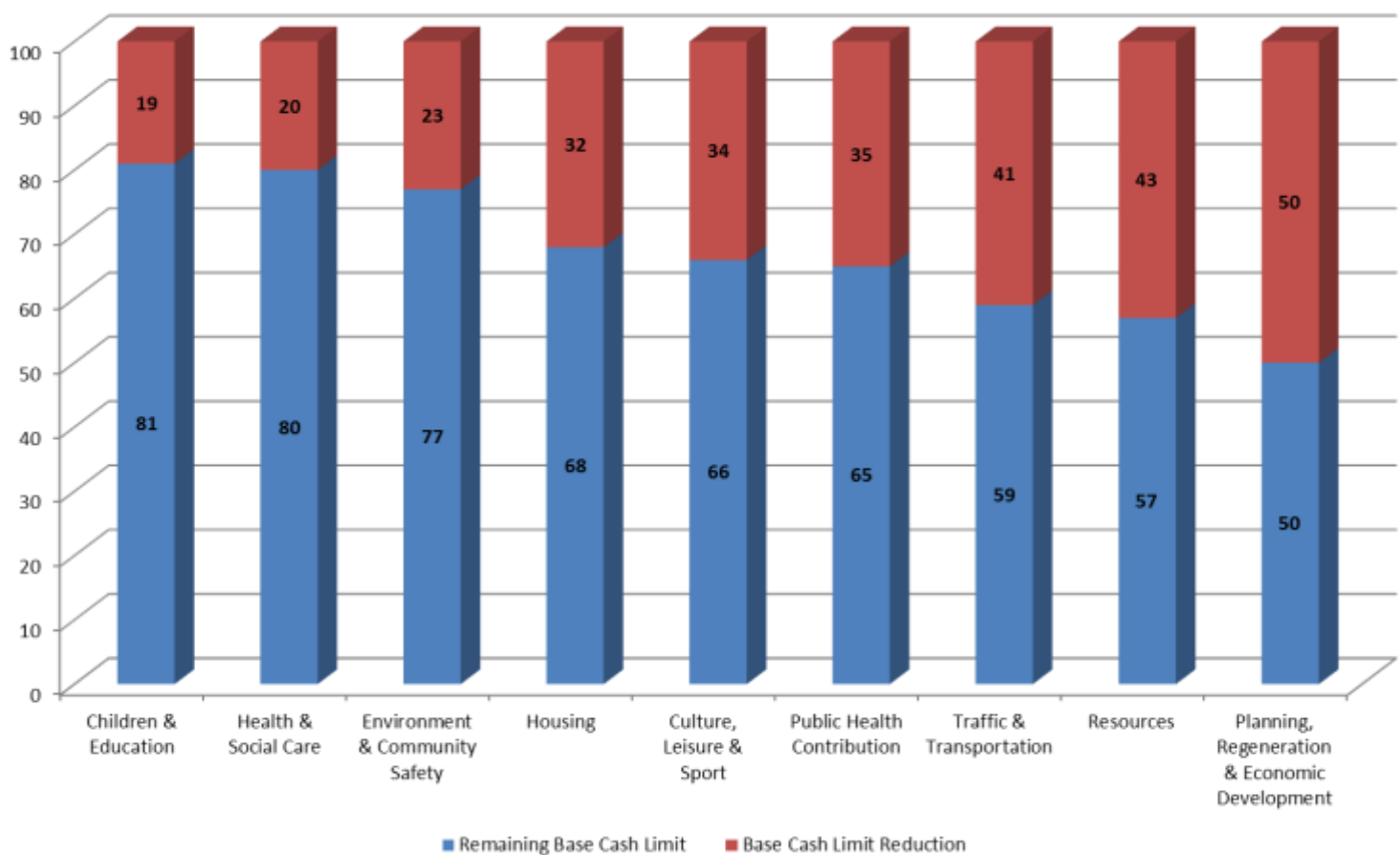
- 10.27 At the 13th February 2018 Council meeting, a comprehensive revision of the Council's future forecasts will be presented. This will revise all of the key assumptions set out below as well as extending the forecast to cover an additional year (2021/22) in order to maintain a rolling 3 year plus current year financial forecast.
- 10.28 The Budget 2018/19 presented to the City Council for approval will be prepared on the basis of the proposals for savings and Council Tax set out in this report. It will also include the outcome of the following:
- The Local Government Finance Settlement for 2018/19
 - The final estimate of the Council Tax yield (based on the determination of the Council Taxbase)
 - The final estimate of the Business Rate yield
 - Any necessary inflationary uplifts
 - Changes in regulations
 - Final estimates of all items outside of cash limits including capital charges, support service charges, insurance, pension costs, contingency, borrowing costs, investment income, levies and precepts
 - Any necessary virements across Portfolios to reflect changes in responsibilities.

11 Conclusion

- 11.1 The City Council continues to face the challenge of significant funding reductions but compounded by increasing cost pressures, most of which are driven largely by demographic pressures in the essential care services. Inflation more generally is at levels not seen for some time. Taken together, this requires the Council to make savings and/or increase income by £12m over the next 3 years (assuming a Council Tax increase of 1.99% in each and every year plus an increase of 3.0% for the ASC Precept over the period 2018/19 to 2019/20).
- 11.2 The first tranche of these savings amounting to £4m for 2018/19 have been developed in accordance with the Council's Medium Term Financial Strategy and with regard to the Budget Consultation recently completed. The overall strategy focusses on the avoidance of cuts with an emphasis on:
- Entrepreneurial activities such as maximising returns from property and assets and other income generation measures
 - Increasing the efficiency and effectiveness of the Council's services
 - Reducing the extent to which the population needs Council services (through prevention activities and regeneration activities)

Given the speed at which savings need to be made, it is inevitable that some cuts are required. These cuts, amounting to just 4% of the total savings required, have been informed by the budget consultation exercise and have been proposed on the basis that they are in the areas of least impact.

11.3 Before the £4m of savings proposals set out within this report, the cumulative savings of the Council over the austerity period from 2011/12 amounts to £94m. The impact that this has had on spending levels of Portfolios over that same period is illustrated below (Blue segment illustrates level of spending that remains, red segment is the level of spending which has been removed). The chart illustrates those services that have received relative protection from spending reductions (left hand side) and those services that have provided the compensation by making relatively higher spending reductions (right hand side).



11.4 The chart demonstrates that Services such as Children & Education, Health & Social Care and Environment & Community Safety have received the most protection from funding reductions and significantly more than "back office" services. This theme is continued through the Budget savings proposed for 2018/19 with those exact same services making the lowest savings as follows compared to the average saving of 2.1%:

- Children's Social Care - 0.0%
- Environment & Community Safety - 0.9%
- Health & Social Care - Adult Social Care - 1.6%

- 11.5 Looking forward beyond 2018/19 still with significant savings to be made, to avoid significant cuts to Services, the Council will need to continue to focus its strategy on entrepreneurial activities and regeneration.
- 11.6 It is clear that unless savings can be made through additional income or additional funding from Business Rates and Council Tax arising from investment in regeneration, the burden of those savings will be required from efficiencies and service reductions. Inevitably, given the size of the savings required and the proportion of spending consumed by the Care Services, the Council will no longer be able to afford the same levels of protection that have been provided in the past for its Children's Social Care, Adults Social Care and Environment and Community Safety services without very severe cuts to all other Services.
- 11.7 Approval for the savings proposals is recommended at this early stage in order to achieve full year savings and avoid greater and deeper cuts associated with any delay. In terms of service delivery and planning, it is equally important to provide partners and residents significant advance notice of the changes to come into effect in order to assist them to plan for change accordingly.
- 11.8 This report is the pre-cursor to the Annual Budget and Council Tax Setting meeting to be held on the 13th February 2018 where the Council will be requested to formally approve the Budget for 2018/19 and the associated Council Tax for the year. Should the savings proposals contained within this report be approved, they will form the basis of the Budget 2018/19 presented to Council in February 2018. That report will also include a comprehensive revision of the Council's future forecasts and set the consequent future savings requirements for the period 2019/20 to 2021/22.
- 11.9 Finally, the proposals within this report will maintain the Council's financial health and resilience and therefore its ability to respond in a measured and proportionate way to any "financial shocks" by having adequate reserves and contingencies available for a Council of this size and risk profile.

12 Equality Impact Assessment (EIA)

- 12.1 The Portfolio / Committee savings amounts proposed within this report will inevitably impact on service provision. Appendix B describes the indicative savings that might (or are likely) to be made in order to achieve the proposed savings amounts. Whilst some are likely to be implemented, there will be others that require consultation and appropriate Equality Impact Assessments to be considered before any implementation can take place. For this reason, any savings proposal set out in Appendix B can be altered, amended or substituted with an alternative proposal following appropriate consultation.
- 12.2 A city-wide budget consultation took place during October and November to help inform how to make £12m of savings over the next 3 years. The

consultation took the form of a questionnaire which was also supplemented by a public meeting with residents, a public meeting with the business community and a meeting with staff and unions.

13 City Solicitor's Comments

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

14 Director of Finance's Comments

14.1 All of the necessary financial information required to approve the recommendations is reflected in the body of the report and the Appendices.

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

Appendices:

| | |
|----------|---|
| A | Recommended Portfolio / Committee Savings 2018/19 |
| B | Indicative Savings Proposals 2018/19 |

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 | Director of Finance & Information Services (S151 Officer) |
| Local Government Finance Settlement 2016/17 | Director of Finance & Information Services (S151 Officer) |

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the City Council on 12th December 2017.

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

APPENDIX A

PROPOSED BUDGET SAVINGS AMOUNTS 2018/19 BY PORTFOLIO

| Portfolio | Saving 2018/19 | | Saving 2019/20 | | Saving 2020/21 | |
|--|------------------|--------------|------------------|--------------|------------------|--------------|
| | £ | % | £ | % | £ | % |
| Children's Social Care | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| Culture, Leisure and Sport | 277,300 | 2.8% | 277,300 | 2.8% | 277,300 | 2.8% |
| Education | 180,000 | 2.8% | 180,000 | 2.8% | 180,000 | 2.8% |
| Environment and Community Safety | 150,000 | 0.9% | 150,000 | 0.9% | 150,000 | 0.9% |
| Health and Social Care - Adult Social Care | 860,600 | 1.6% | 860,600 | 1.6% | 860,600 | 1.6% |
| Health and Social Care - Public Health | 236,000 | 1.9% | 236,000 | 1.9% | 236,000 | 1.9% |
| Housing | 109,000 | 2.1% | 109,000 | 2.1% | 109,000 | 2.1% |
| Planning Regeneration and Economic Development | 815,100 | 9.8% | 815,100 | 9.8% | 815,100 | 9.8% |
| Resources | 798,000 | 2.5% | 798,000 | 2.5% | 798,000 | 2.5% |
| Traffic and Transportation | 305,000 | 2.3% | 305,000 | 2.3% | 305,000 | 2.3% |
| Other Expenditure | 269,000 | 6.5% | 269,000 | 6.5% | 269,000 | 6.5% |
| Grand Total | 4,000,000 | 2.10% | 4,000,000 | 2.10% | 4,000,000 | 2.10% |