

Agenda item:

Decision maker: City Council

Subject: Portsmouth City Council - Budget & Council Tax 2016/17
& Medium Term Budget Forecast 2017/18 to 2019/20

Date of decision: 8 February 2016 (Cabinet)
9 February 2016 (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 2016/17 that provides for £11m of savings, a Council Tax increase of 3.99% (2% of which is raised specifically to be passported to Adult Social Care) and forecasts that the 3 year period beyond 2016/17 will require a further £24m 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, severe funding reductions to Local Government will continue to 2020. In parallel, the largest parts of Local Government services (such as Adult Social Care and Children's Social Care) face continued and significant cost pressures.
- 1.3 Over the last 5 years, the City Council has experienced Government funding reductions of £59m (representing a 38% reduction in funding). When combined with the need to meet unavoidable cost pressures, the City Council has had to make savings of £75m through efficiencies and service reductions. Over that period, a £75m represents 38%¹ of the Council's controllable budget.
- 1.4 On 17 December 2015, the provisional Local Government Settlement for the next 4 years was announced, with the final settlement due in early February 2016. For

¹ Controllable spending in 2010/11 is estimated at £200m

2016/17 the settlement amounts to £94.7m representing an £11.2m (or 10.5%) reduction in cash terms. In real terms² this represents a reduction of over 13.1%.

- 1.5 Funding from Government for the whole 4 year period 2016/17 to 2019/20 is set to reduce by £23.5m from £106m to £82.5m, representing a reduction in Government funding of 22.1% and phased as follows:
- 2016/17 - £11.2m (10.5%)
 - 2017/18 - £7.5m (7.1%)
 - 2018/19 - £2.8m (2.6%)
 - 2019/20 - £2.0m (1.9%)
- 1.6 For the whole period of austerity (2011/12 to 2019/20) total funding reductions will be £82.5m or 41% of total controllable spending³.
- 1.7 This 4 year settlement⁴ is an "an offer" by Government to any Council that wishes to take it up but will be conditional on Councils publishing an Efficiency Plan, the detail of which has yet to be published. It is understood that Councils do not need to make a decision on the "offer" at this stage.
- 1.8 Government have recognised that there are significant cost pressures facing Adult Social Care and whilst Local Government will still be subject to further funding reductions of 22.1%, they have offered the flexibility to increase Council Tax by an additional 2% each year for each of the next 4 years to offset some of those pressures, in particular the new National Living Wage. The proviso being that the amount of Council Tax amounting to £1.25m yielded from this 2%, and known as the "Social Care Precept", must be spent on Adult Social Care.
- 1.9 Separate from the ability to increase Council Tax for the "Social Care Precept", Government have announced that the general allowable threshold for a Council Tax increase in 2016/17 will be 2%, any increase for general purposes beyond this will be the subject of a "yes" vote in a local referendum.
- 1.10 Even with 4% per annum increases in Council Tax for the next 4 years (amounting to circa £2.5m per annum); the Council's Budget Deficit, and therefore Savings Requirements will still amount to £11m for 2016/17 and a further £24m for the period 2017/18 to 2019/20.
- 1.11 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.
- 1.12 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. There are significant proposals within this report to supplement the capital resources available for investment, including the transfer of £1.5m from underspendings in 2015/16 as well as any further underspending that arise at year end. This recognises that capital investment needs and aspirations significantly

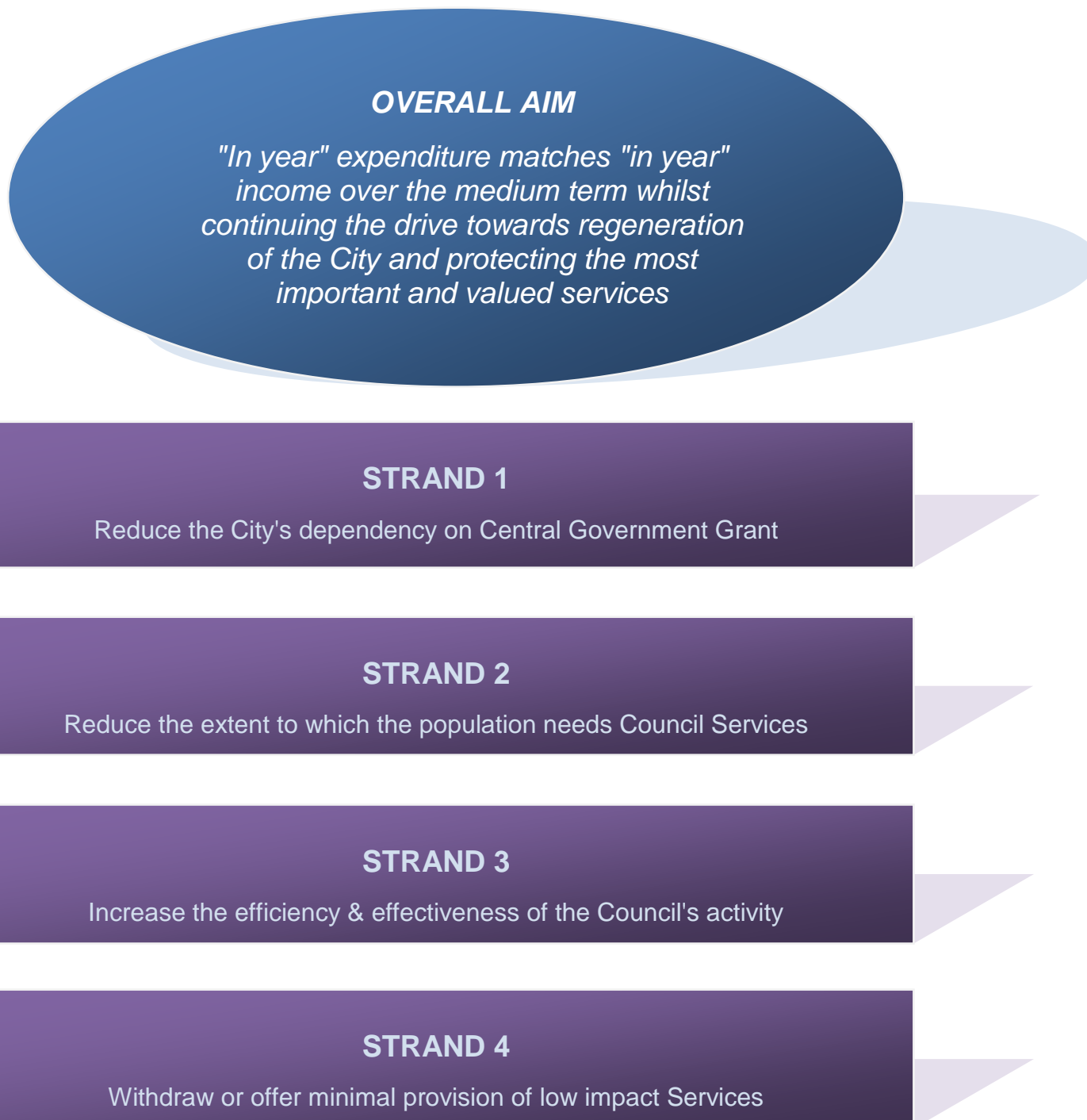
² Adjusting for inflation on a like for like basis and taking account of new burdens

³ Controllable spending in 2010/11 is estimated at £200m

⁴ This excludes the New Homes Bonus and the additional Better Care Fund allocations

exceed the resources available and that there are likely to be opportunities throughout the year to lever in additional capital funding for schemes that have strong potential to be catalytic to economic growth, but only if the Council itself can provide matched funding contributions.

- 1.13 The Council's stated Medium Term Financial Strategy which seeks to achieve these aspirations whilst delivering the necessary savings of £11m in 2016/17 and a further £24m over the period 2017/18 to 2019/20 is described below:



1.14 The Council made a series of decisions in December 2015 for the forthcoming financial year that were consistent with this strategy. These have been incorporated within the proposed Budget and Council Tax for 2016/17. There are further proposals within this report that seek to build on the Council's Medium Term Financial Strategy. The combined proposals overall consist principally of the following:

- A balanced suite of savings amounting to £11m for 2016/17
- Savings protection for Education & Children and the essential care services with spending reductions of 2.5% in Children & Education services and 5.2% in Health & Social Care services versus the average saving across the Council of 8.3%.
- To re-instate £50,000 to the Environment & Community Safety cash limit in order to fund Domestic Violence Services funded from additional income arising from the Council's Property Investment Portfolio. Further discussions are also planned to take place with the Hampshire Police & Crime Commissioner's Office after the May elections with the intent to secure a contribution for the remaining £130,000
- A Council Tax increase of 3.99% in 2016/17 comprising:
 - (a) A 1.99% increase yielding £1,254,400 (equating to 35 pence per week for a Band B⁵ Tax payer) for general purposes including covering the costs of inflation (£2.6m) and other cost pressures
 - (b) A further 2% increase yielding £1,254,400 (equating to a further 35 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 increasing demographic pressures and other cost pressures such as the National Living Wage estimated at circa £1.5m alone
- Support all Services to meet the financial challenges ahead by maintaining a financial framework that incentivises responsible spending and strong forward financial planning with the following:
 - The continuation of greater financial autonomy including the right of each Portfolio to retain 100% of any year-end underspending and for it to be held in an earmarked reserve for the relevant Portfolio
 - Correspondingly, the requirement that any Budget Pressures are funded within the overall resources available to the Portfolio Holder (which includes their Portfolio Reserve)
- Require that for 2017/18 a minimum on-going savings sum of £9.0m be made

⁵ The average Council Tax Payer in Portsmouth lives in a Band B property

- To support the delivery of future years savings:
 - An increase of £500,000 to the Business Intervention Fund to enable the necessary business interventions to take place across the Council's activities at the necessary scale and pace to deliver significant change and cost reduction in the future
 - The transfer of £1.5m (from 2015/16 underspendings) to the MTRS Reserve recognising this as the Council's primary vehicle for providing funding for Spend to Save initiatives
- The transfer of £1.5m (from 2015/16 underspendings) to supplement the Capital Programme where there remains an enormous gap between Service needs, regeneration aspirations and the associated level of capital resources available
- That any further underspendings for 2015/16 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 further Capital Investment by the Council is likely to lever in significant additional external capital funding which, when combined, is likely to have a transformational effect on the City's growth potential

1.15 Alongside the £11m of savings being made in 2016/17, Portfolios are planning to hold £5.5m in their Earmarked Reserves to meet any necessary budget pressures, fund Spend to Save schemes and provide financial cover for uncertainties and consequent financial risks that may occur in the future.

1.16 The Council's rolling 3 year financial forecasts have also been comprehensively revised and now extended to cover the further year to 2019/20. The forecast budget deficit for the period 2017/18 to 2019/20 amounts to some £24m. To effectively manage the impact of such a reduction, the proposals within this report recommend that those savings are "smoothed out" as follows:

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

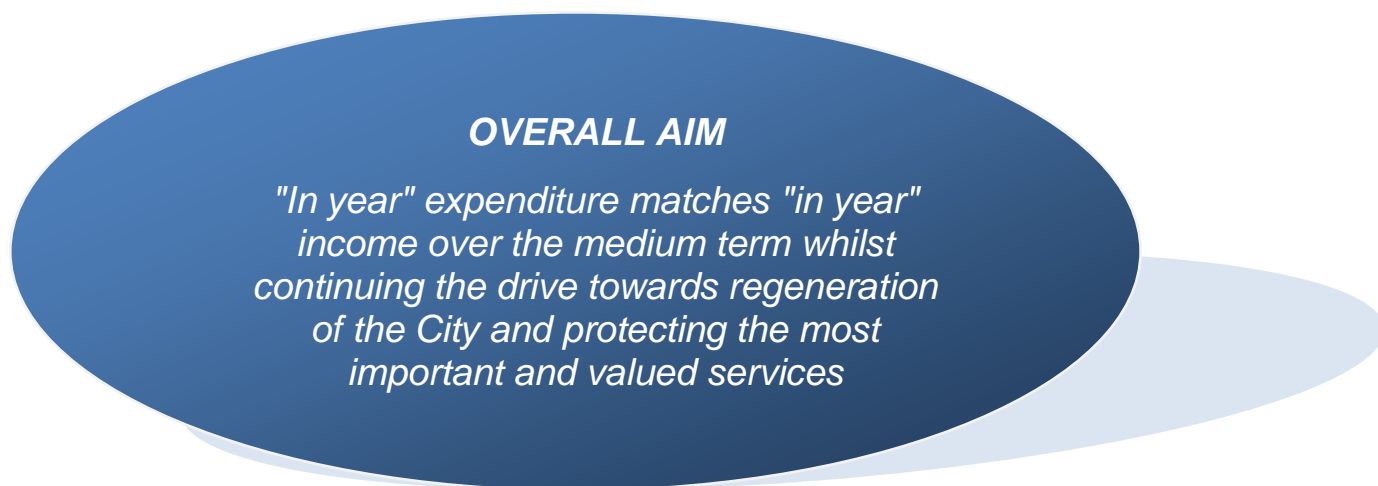
- 1.17 The most critical assumptions made in arriving at the £24m forecast Budget deficit are set out below:
- Reductions in overall general Government funding of 7.9% in 2017/18, a further 3.2% in 2018/19 and a further 2.3% in 2019/20, representing an overall reduction in funding over the period of £12.2m⁶
 - A 4.0% per annum increase in Council Tax for 2017/18 to 2019/20, raising £8.4m
 - An underlying zero growth assumption for changes in Business Rates from 2017/18 onwards, to reflect the uncertainty relating to appeals and mandatory reliefs but also to allow the opportunity for any incremental business rates to be used to deliver that growth (e.g. enabling infrastructure for new developments)
 - That any loss of business rates income arising from the continuation of the cap on increases provided by Government in 2014/15 and 2015/16 will continue to be recompensed by Government via grant funding
 - New Homes Bonus grant reductions based on the Government's assumptions of the changes to the scheme
 - An overall composite inflationary provision covering all pay and prices amounting to 1.8% for 2017/18, a further 2.3% for 2018/19 and a further 2.4% for 2019/20 amounting to a total for the period of £11.0m
 - Any new burdens arising from the Adult Social 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
- 1.18 Historically Children & Education, Health & Social Care and Environment & Community Safety have received significant protection from savings. Importantly, these Portfolios account for 66% of the Council's total controllable budget from which savings can be made. Looking forward beyond 2016/17, the scale of the future savings requirements will be such that the Council will no longer be able to afford the same levels of protection that have been provided in the past for these services without severe cuts to all other Services.
- 1.19 It remains a particularly challenging time for the Council, the future savings required are significant and the risks to the delivery of savings are substantial. Uncertainty remains over future cost pressures in the essential care services as well as funding levels, particularly business rates. To deliver the scale of the savings required and to maintain the Council's financial health, the Council should regard the savings process as a continual one rather than a "once a year" planning exercise. Correspondingly, the Council may need to receive budget proposals more frequently throughout the year.

⁶ This includes the RPI uplift on Business Rates of £3.8m which forms part of the Local Government Finance Settlement and is a component of the calculation of Government Grants

- 1.20 For now, based on the proposals contained within the 2016/17 Budget and the proposals for future savings, the Council's financial health remains sound and provides a good degree of resilience against this uncertain climate.

2. Purpose of Report

- 2.1 The primary purpose of this report is to set the Council's overall Budget for the forthcoming year 2016/17 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 2016/17 and the level of Council Tax in the context of the Council's Medium Term Financial Strategy in order to achieve its stated aim as follows:



- 2.3 The recommended Budget for 2016/17 has been prepared on the basis of the decisions taken by the City Council on the 8th December 2015 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
 - The transfer from the MTRS Reserve to increase the size of the Business Intervention Fund to increase the scale and pace of the programme of Service interventions
- 2.4 This report also provides a comprehensive revision of the Council's rolling 3 year financial forecast for the new period 2017/18 to 2019/20 (i.e. extending the forecast to 2019/20) considering both 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 financial climate facing the City Council in 2016/17 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 approved in the report to Council in November 2013
- (c) A brief recap of the budget decisions taken by the City Council at its meeting of the 8th December 2015
- (d) The Revised Revenue Budget and Cash Limits for the current year
- (e) The Local Government Finance Settlement for 2016/17 to 2019/20
- (f) The Business Rate income for 2016/17 and future years
- (g) The Council Tax base and recommended Council Tax for 2016/17
- (h) The proposed Revenue Budget and Cash Limits for 2016/17
- (i) The forecast Revenue Budget, provisional Cash Limits and revised Savings Requirements for 2017/18, 2018/19 and 2019/20
- (j) Estimated Revenue Balances over the period 2015/16 to 2019/20
- (k) The Medium Term Resource Strategy (MTRS) Reserve, its financial position and proposed use to achieve cashable efficiencies
- (l) The forecast Collection Fund balance as at 31 March 2016 for both Council Tax and Business Rates
- (m) The Non Domestic Rates poundage for 2016/17
- (n) 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 2015/16 and the Revenue Estimates for the financial year 2016/17 as set out in the General Fund Summary (Appendix A)
- (b) The Portfolio Cash Limits for the Revised Budget for 2015/16 and Budget for 2016/17 as set out in Sections 7 and 9, respectively
- (c) That the "clawback" requirement for overspendings be waived for 2015/16 for both the Education & Children's Portfolio and the Health & Social Care Portfolio given the scale of those overspendings and also that their Portfolio Cash Limits were set in the knowledge of the financial risks contained therein which were fully provided for within the Council's contingency provision
- (d) That £1.5m 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 Roads Maintenance

- (e) That £1.5m 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
- (f) That £1,686,600 is carried forward from 2015/16 to 2016/17 in respect of contingent items that were expected to arise in 2015/16 but are now expected to occur in 2016/17
- (g) Any further underspendings for 2015/16 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
- (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 threshold⁷ for 2016/17 announced by Government (as calculated in recommendation 3.4 (d))
- (j) That the level of Council Tax be increased by a further 2.0% 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 £1,254,400 is passported direct to Adult Social Care
- (k) Managers be authorised to incur routine expenditure against the Cash Limits for 2016/17 as set out in Section 9
- (l) That the savings requirement for 2017/18 be set at a minimum on-going sum of £9.0m
- (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 11 and that this be incorporated into Service Business Plans
- (o) The minimum level of Revenue Balances as at 31 March 2017 be set at £7.0m (£6.5m in 2015/16) 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 17.

⁷ 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 2016/17 as set out in Appendix A provide full funding for the Domestic Violence Service in 2016/17 ensuring that the service remains intact. A sum of £50,000 funded from additional income arising from the Council's Property Investment Portfolio has been identified to mitigate the overall reduction of £180,000 to the Service in future years. Discussions with Hampshire Police & Crime Commissioner's Office will take place after the May elections with the intent to secure a contribution for the remaining £130,000
- (b) The Revenue Estimates 2016/17 as set out in Appendix A have been prepared on the basis that the 2% tax increase for the "Social Care Precept" (amounting to £1,254,400) is passported to Adult Social Care in order to provide for otherwise unfunded budget pressures including the cost of the new National Living Wage
- (c) In the event that the additional flexibility of the "Social Care Precept" and associated 2% tax increase (amounting to £1,254,400) is not taken, then equivalent savings will need to be identified
- (d) In general, any reduction from the 3.99% Council Tax increase proposed will require additional savings of £627,200 for each 1% reduction in order for the Budget 2016/17 to be approved
- (e) The Revenue Forecast and the associated provisional Portfolio Cash Limits for 2017/18 onwards as set out in Section 10 and Appendix B
- (f) The estimated Savings Requirement of £24m for the three year period 2017/18 to 2019/20, for financial and service planning purposes, be phased as follows:

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

- (g) The MTRS Reserve held to fund the upfront costs associated with Spend to Save Schemes, Invest to Save Schemes and redundancies will hold a relatively modest uncommitted balance of £2.4m⁸ and will only be replenished 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
- (h) The Council Tax element of the Collection Fund for 2015/16 is estimated to be a deficit of £269,000 which is shared between the City Council (84%), Police & Crime Commissioner (11%) and the Hampshire Fire & Rescue Authority (4%)
- (i) The Business Rate element of the Collection Fund for 2015/16 is estimated to be a deficit of £635,828 which is shared between the City Council (49%), the Government (50%) and the Hampshire Fire & Rescue Authority (1%)

⁸ Including the transfer into the reserve of £1.5m contained with the recommendations in this report and the transfer out of the reserve of £0.3m as described in the Capital Programme 2015/16 to 2020/21 report contained elsewhere on this agenda

- (j) The Non Domestic Rates poundage for 2016/17 will be 49.7p, and 48.4p for small businesses
- (k) The Business Rate income⁹ for 2016/17 (excluding "Top Up") based on the estimated Business Rate element of the Collection Fund deficit as at March 2016, the Non Domestic Rates poundage for 2016/17 and estimated rateable values for 2016/17 has been set at £39,581,127

3.3 That the S.151 Officer has determined that the Council Tax base for the financial year 2016/17 will be **53,538.8** [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 2016/17 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992:

(a)	£478,280,306	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act.
(b)	£413,052,380	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	£65,227,926	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)	£1,218.33	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 £
812.22	947.59	1,082.96	1,218.33	1,489.07	1,759.81	2,030.55	2,436.66

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.

⁹ Including the Collection Fund deficit of £311,600 and excluding the "Top Up" grant from Government of £4,503,001.

- 3.5 That it be noted that for the financial year 2016/17 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 £
106.97	124.80	142.63	160.46	196.12	231.78	267.43	320.92

- 3.6 That it be noted that for the financial year 2016/17 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 £
41.73	48.69	55.64	62.60	76.51	90.42	104.33	125.20

- 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 2016/17 for each of the categories of dwellings shown below:

Valuation Bands (Total Council Tax)

A £	B £	C £	D £	E £	F £	G £	H £
960.92	1,121.08	1,281.23	1,441.39	1,761.70	2,082.01	2,402.31	2,882.78

- 3.8 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 2015 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 global economic downturn and subsequent recovery has had a significant detrimental effect on the public finances nationally. The overall welfare bill has risen at the same time as a fall in tax revenues. This has caused the national debt to rise from £0.5 trillion in 2008 to £1.5 trillion or 80.5% of Gross Domestic Product (GDP) currently.
- 4.3 Part of the response from Central Government has been to reduce spending (and funding) across the public sector. Over the past 5 years (since 2011/12), Central Government funding to Portsmouth City Council has reduced by over £59m (amounting to 38%). This has primarily been through reductions in Revenue Support Grant and has made no allowance for the differing council tax levels and tax bases of Councils meaning that those Councils with low Council Tax bases, such as Portsmouth, have suffered greater relative funding reductions than those with higher Council Tax bases. Taken together with other financial pressures that have been experienced by the City Council (mainly relating to inflation, the effects of an ageing population on care services and the increased requirements for the safeguarding of vulnerable children), the City Council has had to make overall savings over the same period of over £75m. In context, this represents circa 38% of the Council's controllable spending.
- 4.4 This report includes a complete revision of the Council's financial forecasts (covering both expenditure and funding) to 2019/20. The forecasts take into account the £11.0m savings decisions made by the City Council in December 2015 and the intent to increase the level of Council Tax in 2016/17 by 2.0% and each year thereafter and by a further 2.0% in 2016/17 and each year thereafter to take advantage of the Government's proposal to fund the increasing cost pressures in Adult Social Care. The forecasts contained within this report now indicate a savings requirement for the next 3 years, from 2017/18 to 2019/20, of £24m.

5. Medium Term Financial Strategy and Budget Decisions 2016/17

- 5.1 In response to the considerable financial challenge, the City Council approved the following Medium Term Financial Strategy (for both revenue and capital):

OVERALL AIM

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

STRAND 1

Reduce the City's dependency on Central Government Grant:

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

STRAND 2

Reduce the extent to which the population needs Council Services

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

STRAND 3

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

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

STRAND 4

Withdraw or offer minimal provision of low impact Services:

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

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

5.3 Despite the challenging financial circumstances, the City Council made a series of Budget decisions in December 2015 that were generally consistent with the strategy. The key Budget decisions made included:

- A balanced suite of savings amounting to £11.0m (of the original forecast £31.0m¹⁰ required over the 3 year period 2016/17 to 2018/19) which sought to protect Education & Children and the essential care services whilst still aiming to retain good quality sustainable public services across other portfolios. This involved spending reductions of 2.5% in Children & Education services and 5.2% in Health & Social Care services versus the average saving that was required across the Council of 8.3%. This protection necessarily required reductions in other valued Portfolios of up to 25% as described below:

Portfolio / Committee	Savings Proposal	
	£	% Budget
Children & Education	760,600	2.5%
Culture, Leisure & Sport	734,800	10.1%
Environment & Community Safety	777,700	5.5%
Governance, Audit & Standards	68,000	9.2%
Health & Social Care	2,605,100	5.2%
Housing	391,000	9.7%
Leader	7,700	3.6%
Planning, Regeneration & Economic Development	814,700	25.1%
Resources	3,540,400	18.8%
Traffic & Transportation	800,000	24.2%
Transfers to the Housing Revenue Account	500,000	0.7%
Grand Total	11,000,000	8.3%*

- To prepare the 2016/17 Budget on the basis of a general Council Tax increase of 2.0% in 2016/17
- 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 those otherwise unfunded cost pressures.
- An increase of £500,000 to the Business Intervention Fund to enable the necessary business interventions to take place across the Council's activities at the necessary scale and pace to deliver significant change and cost reduction in the future.

¹⁰ 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 £0.627m to the savings requirement

- Continuation of the financial framework underpinning the Medium Term Financial Strategy to create the conditions that would incentivise responsible spending and strong forward financial planning as follows:
 - The continuation of greater financial autonomy including the right of each Portfolio to retain 100% of any year-end underspending and it to be held in an earmarked reserve for the relevant Portfolio
 - Correspondingly, any Budget Pressures to be funded within the overall resources available to the Portfolio Holder (which includes their Portfolio Reserve)

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

- Meet its £11.0m savings requirement
- Provide protection for the Council's services to the vulnerable and highest priority activities
- Provide funding to promote business change and cost reduction through the Business Intervention programme in order to provide the foundations for future savings
- Embed a financial framework which is better able to respond to the greater financial challenges ahead

5.5 The Council has since received considerable representation against the decision to reduce the funding for the Domestic Abuse Service by £180,000 which was due to take effect in 14 months time (April 2017). Due to the severity of the funding reductions facing the Council it is not possible to protect any Service in full and savings are necessary across all City Council Services. The Administration are however, seeking opportunities to re-instate the full £180,000. They have re-instated the first £50,000 funded from increased income arising from the Council's Property Investment Portfolio and will be in discussions with Hampshire Police & Crime Commissioner's Office after the May elections to secure a contribution of the remaining £130,000. In the interim, the remaining £130,000 will be funded from the Environment & Community Safety Portfolio reserve, ensuring that the Service remains intact. The recommended Revenue Estimates 2016/17, as set out in Appendix A, provide the full £180,000 for the Domestic Violence Service.

6. Revised Budget 2015/16

- 6.1 The original revenue Budget approved by the City Council on 10 February 2015 was £168,340,900.
- 6.2 The Council has received regular quarterly Budget Monitoring reports on the 2015/16 Budget throughout the year which have consistently reported that an overall improvement in the Council's financial position was expected by year end. The improvement that has been reported has largely resulted from savings in the sums required to be set aside for the repayment of debt, improved returns from Treasury

Management activities and the improvement in the trading surpluses at the Commercial Port.

- 6.3 Throughout the year, it has also been reported that there were key overspendings in the Children's & Education and Health & Social Care Portfolios with underlying budget deficits of £2.7m and £2.4m, respectively. These underlying deficits have largely arisen from both unavoidable demand led cost pressures combined with the slippage or non-achievement of previously approved savings. The Budget approved by the Council in February 2015 however, had anticipated that there were financial risks with the Budgets of those portfolios and accordingly financial provision of £4.1m was made within the Council's overall contingency provision, but for 2015/16 only. Proposals to remedy the underlying deficits have now been approved by Cabinet and are planned to be implemented for 2016/17.
- 6.4 The Council's budget rules state that any overspending in one year will be "clawed back" in the next financial year via a cash limit reduction. Given the scale of the underlying deficits of both of these Portfolios together with the need to make further savings in 2016/17 of £760,000 (2.5%) for Education & Children and £2.6m (5.3%) for Health & Social Care, it is proposed to waive the "clawback" requirement in this instance for 2015/16 only.
- 6.5 Compared to the Original Budget, the Council's financial position (taking into account both changes in spending and funding) is expected to be an improvement of £5.7m. The proposals that follow seek to use £1.5m of that improvement to supplement the resources available for Capital Investment and use a further £1.5m to replenish the MTRS Reserve¹¹. The remaining £2.7m will accrue to General Balances in order to fund a proposed carry forward¹² of £1.7m and allow the remaining £1.0m to enable future savings requirements to be smoothed over a 3 year period.
- 6.6 Significant changes to the Original Budget approved by Council now being proposed as part of the Revised budget are as follows:
- A contribution to the Revenue Reserve for Capital of £1.5m to enable the Council to increase the Capital Resources available to properly fund its statutory responsibilities including School Places, Sea Defences and Roads Maintenance
 - A contribution to the MTRS Reserve of £1.5m 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
 - An overall reduction in the anticipated trading income from the Port and MMD amounting to £1.0m. Net trading income is expected to improve from 2016/17
 - Reductions in other expenditure of £2.9m which includes the improvement in the forecast costs of the Council's Treasury Management activities arising from the additional returns from higher cash balances and reduced sums required to be set aside for the repayment of debt largely arising from the change in the Council's policy approved in October 2015.

¹¹ The Reserve used to fund redundancy costs and large scale spend to save initiatives

¹² There are underspendings in 2015/16 which represent slippage and those costs are now expected to occur in 2016/17

- Carry forward of underspendings relating to contingent items amounting to £1.7m which are now expected to occur in 2016/17
- Lower than anticipated costs of inflation of £1.0m

6.7 In preparing the Revised Estimate for 2015/16, total adjustments amounting to £1.1m have been made to reduce the overall Budget for the current year to £167,224,700. This is set out below:

MOVEMENTS BETWEEN ORIGINAL AND REVISED BUDGET 2015/16	
	2015/16 £000
Original Net Budget 2015/16	168,341
<u>Add:</u>	
Recommended transfer to Revenue Reserve for Capital (arising from 2015/16 underspend)	1,500
Recommended transfer to MTRS Reserve (arising from 2015/16 underspend)	1,500
Port & MMD - lower than anticipated trading income	1,024
Grants received In Year and passported to Services	945
<u>Less:</u>	
Other Expenditure (including Treasury Management activities)	(2,900)
Recommended carry forward of Contingencies from 2015/16 to 2016/17	(1,687)
Lower than forecast cost of Inflation	(1,032)
Other "Windfall" items	(466)
Revised Net Budget 2015/16	167,225
Decrease in Net Budget 2015/16	(1,116)

6.8 The overall effect of the changes described above on the Council's Revised Budget is best illustrated through the overall impact on General Balances and is summarised below.

MOVEMENT IN GENERAL BALANCES 2015/16	
	2015/16 £000
Reduction in Expenditure	(1,116)
Increase in Funding (primarily additional Grants)	(1,566)
<u>Improvement in General Balances</u>	<u>(2,682)</u>

6.9 Whilst the analysis above describes an overall improvement in the Council's financial position of £2.7m¹³, this is after recommendations to spend £3m supporting both the Capital programme and Spend to Save schemes and also incorporates a recommended carry forward of funding for contingent items amounting to £1.7m which was originally anticipated to take place in the current year but which is now expected to take place in 2016/17. In the absence of these proposals, the actual underspend is £5.7m in 2016/17 but taking account of the proposed carry forward, which is simply a timing issue, the overall improvement amounts to £4.0m.

6.10 In summary, the overall £5.7m underspend is proposed to be used as follows:

- Transfer to Capital - £1.5m
- Transfer to MTRS Reserve - £1.5m
- Carry forward into 2016/17 to fund contingent items - £1.7m
- Retained in General Balances to be used to help smooth the savings required over the financial years 2017/18 to 2019/20. - £1.0m

6.11 The Revised Revenue Budget is set out in the General Fund Summary (Appendix A).

¹³ This is the overall underspend assuming the recommendations to transfer £1.5m to supplement Capital Resources and a further £1.5m to replenish the MTRS Reserve is approved. Without these transfers the overall underspend would be £5.7m

- 6.12 As described in the Capital Programme 2015/16 to 2020/21 report contained elsewhere on this agenda, there are significant future capital obligations and aspirations. These include schemes such as the following where funding has yet to be identified to meet them in full but which will likely require funding in 2017/18:

Capital Scheme - Significant Obligation / Aspiration	Unfunded Requirement £m
Secondary School Places 2018/19 to 2020/21	6.0 - 10.0
Special Educational Needs Re-modelling	1.3 - 3.3
School Condition (roofs, boilers, electrics, windows etc.)	2.5 - 4.0
Sea Defences Contribution to £87m Scheme	4.75
Enabling Transport Infrastructure match funding - City development	5.0 - 10.0
Landlords Repairs & Maintenance	1.0 - 2.0
Local Transport Plan - Road safety and traffic improvement schemes	1.5
Total Funding Requirement	22.1 - 35.6

- 6.13 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 of circa £6m to £8m. With potentially available capital funding of £18m versus an aspiration of between £22m to £36m of Capital Investment, there is a significant shortfall to be met.
- 6.14 Given that some of this Capital Investment is likely to have a transformational effect on the City's growth potential, it is recommended that any further underspendings for 2015/16 arising at the year-end (outside of those made by Portfolios) be transferred to Capital Resources in order to provide funding for purposes such as Secondary School Places, Sea Defences and the enabling transport infrastructure necessary for the City's development and growth.

6.15 Although financially neutral, the Revised Budget also takes into account both the use of Portfolio Reserves in 2015/16 as well as any forecast transfer to Portfolio Reserves. Overall, it is expected that there will be a net reduction in Portfolio Reserves of £1.0m (arising from their use in the year) with a forecast balance on all Portfolio Reserves of £5.5m at the end of this financial year. See Table 3 below.

Transfers (From)/To Portfolio Reserves 2015/16			
PORTFOLIO	Balance 1 April 2015 £000	Transfer To / (From) Reserves £000	Forecast 31 March 2016 £000
Children & Education	42	(42)	0
Culture Leisure & Sport	410	40	450
Environment & Community Safety	1,241	(223)	1,018
Health & Social Care	731	(707)	24
Housing	542	(95)	447
Leader	7	(1)	6
Planning Regeneration Economic Development	1,799	573	2,372
Resources	1,397	(606)	791
Traffic & Transportation	33	0	33
Governance & Audit Committee	255	92	347
Licensing Committee	0	0	0
TOTAL	6,457	(969)	5,488

6.16 In the first instance, these Earmarked Reserves are to be used to meet any necessary budget pressures facing a Portfolio. These Reserves therefore, are an important feature of the overall budget proposal since they can be used to mitigate (and provide financial cover) for a number of uncertainties and consequent financial risks that may occur.

6.17 In summary, in funding the Revised Budget of £167,224,700 the City Council will have, compared to budget, an overall improvement in General Balances of £2,682,285¹⁴ As previously explained, £1,686,600 of this is proposed to be carried forward and spent in 2016/17 leaving an overall £995,685 improvement in the Council's overall financial position which can be used to help smooth the savings required over the financial years 2017/18 to 2019/20.

¹⁴ Actual contribution to General Balances in 2015/16 will be £1,531,854

7. Revised Cash Limits 2015/16

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 2015/16 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 2015/16 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 2015/16 £'000	Items Outside the Cash Limit £'000	Revised Budget 2015/16 £'000
Children & Education	31,054	19,094	50,148
Culture Leisure & Sport	7,215	3,870	11,085
Environment & Community Safety	15,183	1,778	16,961
Health & Social Care	40,680	3,314	43,994
Housing	3,959	5,743	9,702
Leader	241	20	261
Planning Regeneration Economic Development	(8,047)	13,041	4,994
Resources	20,245	4,219	24,464
Traffic & Transportation	16,742	684	17,426
Governance & Audit Committee	272	47	319
Licensing Committee	(242)	16	(226)
PORTFOLIO EXPENDITURE	127,302	51,826	179,128

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 2016/17

8.1 At last year's Annual Budget Meeting in February 2015, forecasts for this coming financial year 2016/17 and the subsequent two financial years estimated that an overall 3 year savings requirement of £31m would be necessary to meet the budget deficits over that period¹⁵. The forecasts for the 3 year period were prepared on the basis of the following:

- A reduction in Government Funding of £22.8m
- Inflationary costs of £13.1m

Offset by:

- Additional income from Council Tax of £3.8m (2.0% per annum)
- Other net improvements amounting to £1.1m

8.2 Since those forecasts were prepared in February last year, the Council has now received an "offer" of a 4 year Finance Settlement from Government and alongside this has comprehensively reviewed all other elements of the forecast. 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 8th December 2015)
- Inflationary Costs
- Other cost pressures (including "new burdens" passed down from Central Government)
- Debt Financing costs and interest rates
- Contingencies

8.3 As reported to the City Council in December 2015, the advice of the S.151 Officer was that "whilst it is likely that the overall financial forecasts will change, the savings requirement for 2016/17 at £11.0m¹⁶ remains robust and prudent. Given what is known, or reasonably expected, regarding future funding reductions and given future uncertainties also, 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.

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

¹⁵ This assumed Council Tax increases of 2.0% per annum from 2016/17 to 2018/19. Each 1 % reduction in Council Tax will add £627,000 to the forecast deficit.

¹⁶ Assuming both the general Council Tax increase of 1.99% and the additional 2% "Social Care Precept" is taken

Local Government Finance Settlement 2016/17 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 17 December 2015 and the final settlement will be announced in early February 2016.

Provisional Settlement 2016/17

- 8.6 The settlement for 2016/17 amounts to £94.7m representing a 10.5% reduction in cash terms. This amounts to £11.2m as set out below. In real terms (adjusting for inflation on a like for like basis and taking account of new burdens) the reduction is over 13.1%.

LOCAL GOVERNMENT FINANCE SETTLEMENT <i>YEAR ON YEAR COMPARISON</i>	Actual Settlement 2015/16 £	Actual Settlement 2016/17 £	Actual Change	
			£	%
Revenue Support Grant (Adjusted Like for Like)	40,436,503	30,363,225	(10,073,278)	-24.9%
Business Rates Retention - Baseline Funding Level (Note 1)	44,038,593	44,405,581	366,988	0.8%
Sub Total - Settlement Funding Assessment	84,475,096	74,768,806	(9,706,290)	-11.5%
Other Grants - See Note 2	21,422,466	19,970,156	(1,452,310)	-6.8%
Total Settlement - Like for Like Comparison	105,897,562	94,738,962	(11,158,600)	-10.5%
Additional Grants - New Responsibilities (See Note 3)	0	0	0	
Total Settlement - Cash	105,897,562	94,738,962	(11,158,600)	-10.5%
Note 1 - Business Rate Retention				
The Baseline Funding level is the Government's assessment of the funding needed from Business Rates, it does not represent actual funding from Government. The actual income from Retained Business Rates may be above or below this level				
Note 2 - Unannounced Grants				
The following grants have yet to be announced and at present are assumed to be as follows:				
Local Council Tax Support and Housing Benefit Administration Subsidy		1,413,602		
Local Council Tax Support Scheme - Administration (to be rolled into LCTS in futur		44,590		
Local Reform & Community Voices Grant		107,556		
Community Right to Bid		0		
Community Right to Challenge		0		
Sub Total		1,565,748		
Note 3 - New Burdens				
The following new burdens are included within the Revenue Support Grant:				
Care Act		144,500		
Sub Total		144,500		
Note 4 - Real Terms Change				
The level of inflation estimated for 2016/17 is £2.6m and therefore adjusting the settlement for inflationary effects provides a real reduction in funding of 13%				

- 8.7 The £11.2m (or 10.5%) cash reduction in funding for 2016/17 is very close to the Council's forecast upon which the savings requirement of £11m¹⁷ for 2016/17 was based (forecast reduction of £10.6m) representing a variance of £0.6m (or 0.6%) as set out below.

LOCAL GOVERNMENT FINANCE SETTLEMENT <i>COMPARISON WITH FORECAST</i>	Forecast Settlement 2016/17 £	Actual Settlement 2016/17 £	Actual Change	
			£	%
Revenue Support Grant (Adjusted Like for Like)	30,520,840	30,363,225	(157,615)	-0.5%
Business Rates Retention - Baseline Funding Level (Note 1)	44,955,917	44,405,581	(550,336)	-1.2%
Sub Total - Settlement Funding Assessment	75,476,757	74,768,806	(707,951)	-0.9%
Other Grants - See Note 2	19,848,609	19,970,156	121,547	0.6%
Total Settlement - Like for Like Comparison	95,325,366	94,738,962	(586,404)	-0.6%
Additional Grants - New Responsibilities (See Note 3)	0	0	0	
Total Settlement - Cash	95,325,366	94,738,962	(586,404)	-0.6%

Note 1

The Baseline Funding level is the Government's assessment of the funding needed from Business Rates, it does not represent actual funding from Government. The actual income from Retained Business Rates may be above or below this level

Note 2

The following grants have yet to be announced and at present are assumed to be as follows:

Local Council Tax Support and Housing Benefit Administration Subsidy	1,413,602
Local Council Tax Support Scheme - Administration (to be rolled into LCTS in fu	44,590
Local Reform & Community Voices Grant	107,556
Community Right to Bid	0
Community Right to Challenge	0
Sub Total	1,565,748

Note 3

The following new burdens are included within the Revenue Support Grant:

Care Act	144,500
Sub Total	144,500

Note:

The Settlement analyses exclude Public Health Grant as this is a specific grant which does not form part of the non ring-fenced grant allocation. The Public Health Grant is expected to reduce by £1.6m for 2016/17 on a like for like basis (including the 2015/16 "In Year" reduction) to £14.6m (£16.2m for 2015/16). The Public Health Grant has been increased by £4.0m due to the transfer of responsibilities for Health Visitors. Total Public Health Grant for 2016/17 is expected to be £18.6m

¹⁷ Assuming a general Council Tax increase of 1.99%

- 8.8 As yet, there has been no announcement for grants expected to amount to circa £1.6m mainly relating to the administration of Housing Benefit and Council Tax Support.
- 8.9 The Settlement has also confirmed that additional funding of £144,500 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 2016/17 to Adult Social Care.
- 8.10 Given that the 2016/17 Local Government Finance Settlement is broadly in line with the Council's forecasts upon which the minimum £11m savings requirement was based, there is no need to seek any further savings beyond those approved at the December 2015 Council meeting.

Provisional Settlement 2016/17 to 2019/20

- 8.11 The Government have made "an offer" of a 4 year funding settlement¹⁸ to any council that wishes to take it up and this will be conditional on Councils publishing an Efficiency Plan. It is understood that Councils do not need to make a decision on this offer at this stage and that more details of the requirements of the Efficiency Plan and the alternative to the 4 year offer is expected to be published alongside the final settlement in early February.
- 8.12 The overall provisional settlement also sets out the proposed referendum threshold ("cap")¹⁹ for Council Tax of 2% plus the flexibility to increase Council Tax by a further 2% for Adult Social Care, and known as the "Social Care Precept", on the proviso that it is passported to Adult Social Care. This is in recognition of the increasing demographic and cost pressures in Adult Social Care services.
- 8.13 In overall terms, funding from Government is set to reduce by £23.5m from £106m currently to £82.5m over the period of the whole settlement, representing a reduction in Government funding of 22.1% and phased as follows:
- 2016/17 - £11.2m (10.5%)
 - 2017/18 - £7.5m (7.1%)
 - 2018/19 - £2.8m (2.6%)
 - 2019/20 - £2.0m (1.9%)
- 8.14 Over the first 3 years of the settlement period (i.e. 2016/17 to 2018/19) the Council had originally forecast an overall reduction in Government funding of £22.8m, the actual indicative settlement over the period illustrates a £21.5m reduction in Government funding suggesting an overall improvement against the Council's

¹⁸ This excludes the New Homes Bonus and the additional Better Care Fund allocations

¹⁹ Any increase beyond the threshold can only be implemented following a "Yes" vote in a local referendum

forecast of £1.3m. However, £0.4m of this improved funding relates to new burdens associated with the Care Act and will come with associated costs. The net improvement in the Government funding position compared to the Council's forecast therefore amounts to just £0.9m.

8.15 The final year of the settlement 2019/20 was outside of the Council's 3 year rolling forecast.

8.16 Government's assessment of the overall impact of the Settlement on Local Authorities is determined by their "Core Spending Power" calculation. This illustrates that over the period 2016/17 to 2019/20, spending power in cash terms²⁰ will reduce by 0.9% compared to the average reduction nationally of 0.5%. "Core Spending Power" is measured by the following:

- Core grant funding (Revenue Support Grant)
- Business Rates Baseline Funding (An estimate of the Council's business rate base in 2013/14 uplifted annually by the Retail Price Index (RPI) plus a "top up" amount which is also uprated annually by RPI)
- Council Tax
- New Homes Bonus
- Improved Better Care Fund

8.17 As a measure of funding, the "Core Spending Power" calculation is generally robust although it is important to note that contained within that calculation is an assumption that **all Local Authorities will increase Council Tax for both General Purposes (linked to the Consumer Price Index) and for the Social Care Precept (SCP) in each and every year.** In aggregate, those assumed tax increases for each year are set out below:

Financial Year	General Purposes (CPI)	Social Care Precept	Total Expected Council Tax Increase
2016/17	2.0%	2.0%	4.0%
2017/18	1.5%	2.0%	3.5%
2018/19	2.3%	2.0%	4.3%
2019/20	2.4%	2.0%	4.4%

²⁰ This does not account for the impact of inflation on Council costs

- 8.18 Additionally, the "Core Spending Power" calculation includes additional funding for "New Burdens" relating to the implementation of the Care Act which will, of course, come with additional cost pressures. This amounts to £0.9m by 2019/20 or 0.6% and therefore in cash terms a more reliable measure would be a 1.5% cash reduction in funding assuming that the Council increases the Council Tax as described above.
- 8.19 Whilst the "Core Spending Power" calculation is useful for measuring funding, it takes no account of differential cost pressures across the Country and across different tiers of Local Government and cannot therefore be described as a holistic measure of a Council's change in its overall financial position.

Retained Business Rates 2016/17 & Future Years

- 8.20 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.
- 8.21 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 £41.1m).
- 8.22 It should be noted that estimating the value of likely successful appeals is notoriously complex and can be subject to significant variance from year to year as appeals are settled.

- 8.23 Despite the complications and risks associated with appeals, there remains the financial incentive within the system for many Local Authorities (including Portsmouth²¹) 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.
- 8.24 Retained business rates²² are estimated to increase from £42.8m²³ in the current year to £44.1m in 2016/17. The increase, on a like for like basis after taking account of Retail Relief which ends in 2015/16 is £0.7m (1.6%), of which 0.8% is represented by the annual Retail Price Index uplift.
- 8.25 Given the potential volatility associated with business rates arising from revaluation appeals and applications for mandatory business rate reliefs (e.g. charitable relief) that can easily offset any modest growth, retained business rates are forecast to grow by inflation alone across the whole period 2016/17 to 2019/20 which amounts to £5.3m (or 12.5%).

Council Tax Proposals 2016/17 to 2019/20

- 8.26 As described in the Budget report to Council in December 2015, 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 not need to be funded through reductions in services or additional income.
- 8.27 The provisional Local Government Finance Settlement for 2016/17 has set a referendum threshold of 2% for Council Tax for 2016/17. This means that Councils can increase the level of Council Tax by up to 2% without constraint. Any increase beyond the threshold can only be implemented following a "Yes" vote in a local referendum.

As previously described, the Government's calculations of "Core Spending Power"²⁴ assume that Local Authorities will increase their Council Tax by:

- i) The referendum limit in 2016/17 and then by the rate of the Consumer Price Index for the next 3 years
- ii) By a further 2% per annum for the "Social Care Precept" in each and every year for the next 4 years

²¹ Applies to Local Authorities that, in general, remain above the safety net threshold over time

²² This includes retained business rates plus the business rate top up allocated by Government

²³ This excludes compensation for National Business Rate reduction schemes which are recompensed through S31 Grant amounting to £2.1m in 2015/16 and falling to £1.5m in 2016/17. The reduction of £0.6m relates to Retail relief that will not continue in 2016/17 and therefore increase the Business Rate income by an equivalent sum.

²⁴ Core Funding plus Council Tax plus New Homes Bonus plus improved Better Care Fund

8.28 The recommendations approved by the City Council in December 2015 included the following:

- (a) That the Council's Budget for 2016/17 be prepared on the basis of a 2% Council Tax increase
- (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 those otherwise unfunded cost pressures.

Accordingly, the proposals within this report are for a total Council Tax increase of 3.99% as follows:

- (a) A 1.99% increase yielding £1,254,400 (equating to 35 pence per week for a Band B Tax payer) for general purposes including covering the costs of inflation (£2.6m) and other cost pressures
- (b) A further 2% increase yielding £1,254,400 (equating to a further 35 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 increasing demographic pressures and other cost pressures such as the National Living Wage estimated at circa £1.5m alone

8.29 The Council could elect not to increase the level of Council tax by 3.99% but if it chose to do so would need to identify additional savings over and above the £11m savings approved by the City Council in December 2015. For every 1% reduction in Council Tax, additional savings of £627,200 will be required to be approved in order for the Council to approve its Budget 2016/17.

8.30 For the Council's financial forecast covering the following 3 years from 2017/18 to 2019/20, and in accordance with the Government's calculations of "Core Spending Power", Council Tax increases have been assumed at 4% per annum. This reflects the expectation that the referendum thresholds for general purposes will continue to be set at 2% per annum and that the Council will continue to take advantage of the additional flexibility offered by the Government of 2% per annum for the "Social Care Precept", on the proviso that it is passported.

Cumulative Effects of the Overall Local Government Funding System

8.31 Over the past 4 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 £1,152 p.a. in New Homes Bonus grant for a period of 6 years²⁵
- 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 2016/17 is £11m. Each 1% change therefore will represent a cost / saving of £110,000.

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

Summary of Proposed Revenue Budget 2016/17

8.32 The proposed Budget for 2016/17 has been prepared to include the following:

- Reduction in general Government funding of £11.2m
- A Council Tax increase of 3.99%, yielding £2.5m
- An increase in the Council Tax base equivalent to 262 Band D properties yielding £0.3m
- An increase in retained Business Rates²⁶ of £1.2m, largely reflecting the uplift arising from the increase in RPI²⁷
- Overall deficit on the Collection Fund attributable to the City Council amounting to £0.5m, representing a deficit in Council Tax of £0.2m and a deficit in Business Rates retained of £0.3m
- Passporting the "Social Care Precept" funding of £1.25m (amounting to the equivalent of a 2% increase in Council Tax) to Adult Social Care for demographic pressures and the costs associated with the National Living Wage

²⁵ Subject to a current consultation and expected to reduce to 4 years in order to achieve a savings of £593m nationally to redirect into the improved Better Care Fund

²⁶ This includes the deficit brought forward on the Collection Fund of £0.3m

²⁷ RPI - Retail Price Index each September is used to increase the business rate multiplier that is applied to rateable values and determine rates due. Through the Government funding mechanism, any increases in business rate income arising from RPI, is offset by an equivalent reduction in general government funding.

- Funding for additional New Burdens associated with the Care Act (£0.1m)
- The £11.0m savings proposals approved by the City Council in December 2015
- A proposal to re-instate £50,000 to the Environment & Community Safety cash limit in order to fund Domestic Violence Services funded from additional income arising from the Council's Property Investment Portfolio. With further discussions planned to take place with the Hampshire Police & Crime Commissioner's Office after the May elections with the intent to secure a contribution for the remaining £130,000.
- The revenue implications arising from the Capital Programme contained elsewhere on this agenda, including savings arising from Invest to Save Schemes
- An allowance for pay inflation of 3.2% (which includes a pay award of 1.0% and the uplift in National Insurance contributions associated with removal of the "contracted out rebate" that is currently in place for employers with occupational pension schemes)
- An allowance for inflation on non-pay expenditure of 0.1% and for income of 0.8%
- Overall contingency provision to cover known and anticipated financial risks of the Council amounting to £6.7m (£7.3m in 2015/16), especially those relating to increases in demand for Adults & Children's Services and the delivery of budget savings
- Adjustments to reflect revised income from the Port and MMD
- Adjustment to forecast borrowing costs and investment rates
- The retention into an earmarked reserve, by right, of any Portfolio underspendings arising in the previous year

Analysis of Spending & Funding Changes 2015/16 to 2016/17

8.33 The proposed Budget for 2016/17 as described above results in net spending of £157,992,700. This amounts to a net decrease in spending of £10,348,200 or 6.1% over the Original 2015/16 budget of £168,340,900.

MOVEMENTS BETWEEN ORIGINAL BUDGET 2015/16 AND ORIGINAL BUDGET 2016/17	
<u>Total Reduction in Net Expenditure Comprises:</u>	£000
<u>Increases in Expenditure:</u>	
Inflation provision 2016/17	2,121
Revenue Contribution to Capital	1,500
Passporting of the "Social Care Precept"	1,254
Passporting of New Burdens (Care Act /Independent Living Fund)	613
Other approved expenditure (e.g. from Portfolio Reserves)	450
	5,938
<u>Less Reductions in Expenditure:</u>	
Budget Savings approved on 8 December 2015	(11,000)
Transfers to / (from) Reserves	(1,850)
Ongoing effect of previous years' savings	(854)
Improvement in treasury and debt management	(781)
Reduction in contingency provision	(631)
Changes to trading income at Port & MMD	(626)
Prior years' Budget Pressures falling out	(417)
On-going impact of Spend to Save schemes	(126)
	(16,287)
<u>Total Net Reduction in Expenditure</u>	<u>(10,348)</u>
<u>Matched By:</u>	
Reduction in contribution from General Balances	(2,576)
Reduction in Revenue Support Grant	(8,012)
Increase in Retained Business Rates	1,316
Reduction in Other General Grants	(1,813)
Increase in Council Tax	738
<u>Total Decrease in Funding</u>	<u>(10,348)</u>

8.34 The proposed Budget for 2016/17 as described in this Section is recommended for approval.

9. Cash Limits 2016/17

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 2016/17 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 2016/17 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 2016/17 £'000	Items Outside the Cash Limit £'000	Budget 2016/17 £'000
Children & Education	30,510	19,094	49,604
Culture Leisure & Sport	6,362	3,870	10,232
Environment & Community Safety	14,243	1,786	16,029
Health & Social Care	38,937	3,314	42,251
Housing	3,606	5,743	9,349
Leader	238	20	258
Planning Regeneration Economic Development	(9,353)	13,041	3,688
Resources	17,987	4,231	22,218
Traffic & Transportation	14,210	684	14,894
Governance & Audit Committee	203	47	250
Licensing Committee	(226)	16	(210)
PORTFOLIO EXPENDITURE	116,717	51,846	168,563

9.3 Managers will be expected to contain their expenditure in 2016/17 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 2016/17, 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 2017/18 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 - 2017/18, 2018/19, and 2019/20

- 10.1 A new medium term forecast has now been completed and "rolled on" a further year to cover the period 2017/18 to 2019/20. 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 £31m would be required across the previous 3 year period 2016/17 to 2018/19. The proposed Revenue Budget for 2016/17 provides for £11m of those savings that, based on the "old" forecast, would have left a residual £20m remaining to be found for the following 2 years.
- 10.3 The new medium term forecast takes account of the £11m savings being achieved in 2016/17, comprehensively revises the remaining £20m that was estimated to be required and makes a forecast for the additional year 2019/20. It is now estimated that the savings required for the new 3 year period 2017/18 to 2019/20 will be £24m (or £50m 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 2017/18 to 2019/20 are as follows:

Funding & Income

- Continuing significant reductions in Local Government funding, expected through to 2020
- The outcome of the consultation on the New Homes Bonus which seeks to make £593m of savings nationally to be re-directed into an improved Better Care Fund from 2017/18
- The net gain/loss that will be experienced between a reduction in New Homes Bonus offset by an increase in the improved Better Care Fund
- The extent to which the Council may benefit or lose from increases / decreases in Business Rate growth and any losses from appeals or additional mandatory relief awards (e.g. Charitable relief attracting an 80% reduction)
- The Council Tax referendum thresholds that will be set and whether or not the Council will increase the level of Council Tax to those thresholds
- Whether the Council will take advantage of the flexibility to raise Council Tax by a further 2% per annum for the "Social Care Precept"
- The extent to which schools will convert to Academies and the consequent loss of funding and economies of scale
- The phasing out of the Education Services Grant over the period (currently amounting to £1.8m) related to the removal of statutory education responsibilities and the extent to which the Council elects to take out associated costs
- Changes in trading volumes and income from the Port and MMD
- The extent to which the Council can exploit investment opportunities and raise income
- The decisions taken by the Council in directing its Capital Programme towards economic growth, income generation and cost savings schemes

Spending

- The actual cost of funding the new burdens arising from the Care Act
- The significantly increasing cost of the Council's essential care services arising from an ageing population, increased life expectancy and the consequent increased complexity of care needs
- Inflation and interest rates generally and their impact on service costs, debt costs and investment income

10.5 More specifically, the City Council's medium term future forecasts for the period 2017/18 to 2019/20, have been prepared on the basis of the following:

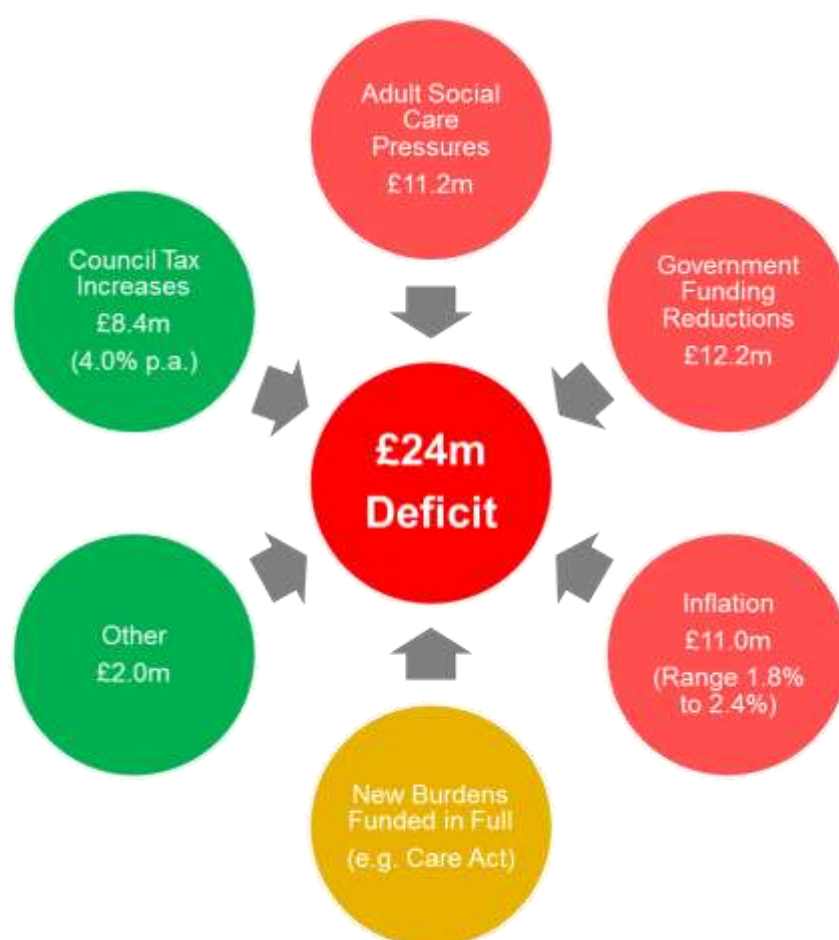
- Reductions in overall general Government funding of 7.9% in 2017/18, a further 3.2% in 2018/19 and a further 2.3% in 2019/20, representing an overall reduction in funding over the period of £12.2m²⁸
- A 4.0% per annum increase in Council Tax for 2017/18 to 2019/20, raising £8.4m
- That any additional cost of the Council Tax Support Scheme will be offset by further changes to the scheme in order to cap the cost at £13.0m per annum (PCC element £11.0m p.a.)
- An underlying zero growth assumption for changes in Business Rates from 2017/18 onwards, to reflect the uncertainty relating to appeals and mandatory reliefs but also to allow the opportunity for any incremental business rates to be used to deliver that growth (e.g. enabling infrastructure for new developments)
- Indexation uplifts on retained Business Rates of 2.0% for 2017/18, a further 3.0% for 2018/19 and a further 3.2% for 2019/20 amounting to a total for the period of £3.7m²⁹
- That any loss of business rates income arising from the continuation of the cap on increases provided by Government in 2014/15 and 2015/16 will continue to be recompensed by Government via grant funding
- New Homes Bonus grant reductions based on the Government's assumptions of the changes to the scheme
- An overall composite inflationary provision covering all pay and prices amounting to 1.8% for 2017/18, a further 2.3% for 2018/19 and a further 2.4% for 2019/20 amounting to a total for the period of £11.0m
- Interest rates on any new borrowing of 4.0% for 2017/18, 4.3% for 2018/19 and 4.4% for 2019/20
- Investment rates on any new lending of 1.5% for 2017/18, 2.0% for 2018/19 and 2.25% for 2019/20
- 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
- The ongoing effect of savings and passported funding for new burdens included in the 2016/17 budget

²⁸ This includes the RPI uplift on Business Rates of £3.7m which forms part of the Local Government Finance Settlement and is a component of the calculation of Government Grants

²⁹ This is included within Government Grant funding of £12.2m (see above)

- A “one-off” Revenue contribution to Capital in 2017/18 to supplement the Capital Resources available for that year since future years capital allocations have already been relied upon (and are therefore very limited) to fund the existing and future Capital Programme
- Changes to the Port dividend for 2017/18, 2018/19, and 2019/20 to reflect current forecasts
- An assumption of a steady state for other budgets

10.6 The overall deficit of £24m for the period 2017/18 to 2019/20 is summarised below.



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 2017/18 and 2018/19 by £3m overall and the forecast has been “rolled on” to now include a deficit in 2019/20 of £7m. The overall forecast budget deficit and savings requirement for the 3 year period 2017/18 to 2019/20 is now £24m.

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
2017/18	9.2	9.0	9.0
2018/19	15.7	8.0	17.0
2019/20	23.9	7.0	24.0

10.11 Section 11 of this report sets out how the Savings Requirement of £24m would be apportioned across Portfolios if done on a proportional basis (i.e. savings are made in proportion to the size (and therefore scope) of their cash limit). This should act as a guide for Portfolio Holders and Service Managers to the scale of savings that will be required to be made in future years. Ultimately however, it will be for the Administration to determine how those savings requirements will be allocated throughout next year's budget process.

11. Illustrative Savings Requirements 2017/18, 2018/19, and 2019/20

11.1 Some Portfolios have historically been unable to make proportional savings without serious detrimental implications for service users. Historically, those Portfolios have been Children & Education, Health & Social Care and Environment & Community Safety. These Portfolios have received protection in two ways:

- They have not been required to make their full pro rata savings requirement
- They have been awarded additional sums for unavoidable budget pressures associated with rising demand and demographic changes or exceptional inflationary costs

11.2 Importantly, these Portfolios account for 66% of the Council's total controllable budget from which savings can be made. Looking forward beyond 2016/17, the scale of the future savings requirements will be such that the Council will no longer be able to afford the same levels of protection that have been provided in the past for its Children & Education, Health & Social Care and Environment and Community Safety services without severe cuts to all other Services.

11.3 For planning and impact evaluation purposes, it is proposed to continue to plan for savings over the medium term on the basis that proportional savings will need to be made across all Portfolios. For illustrative purposes therefore, Portfolios will be required to achieve the savings shown below in 2017/18, 2018/19 and 2019/20:

Illustrative Savings - Pro Rata to 2016/17 Cash Limits			
PORTFOLIO	Savings 2017/18 £'000	Savings 2018/19 £'000	Savings 2019/20 £'000
Children & Education	2,325	2,066	1,808
Culture Leisure & Sport	504	448	392
Environment & Community Safety	1,017	904	791
Health & Social Care	2,971	2,641	2,310
Housing	275	245	214
Leader	18	16	14
Planning Regeneration Economic Development	280	249	218
Resources	1,302	1,157	1,012
Traffic & Transportation	217	193	169
Governance, Audit & Standards Committee	52	46	40
Licensing Committee	40	36	31
PORTFOLIO SAVINGS REQUIREMENTS	9,000	8,000	7,000

12. Estimated Revenue Balances 2015/16 to 2019/20

12.1 General Fund Revenue Balances as at 31 March 2016 (Revised Estimate) are anticipated to be £16.4m after transfers to and from other reserves. The Council is expected therefore to remain within the approved level of minimum General Balances of £6.5m.

12.2 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.

12.3 The outcome shows that for 2016/17 the City Council should hold a minimum of £7.0m in General Balances to cover these major risks. It is therefore recommended that the minimum level of revenue balances is increased by £0.5m as at 31 March 2017. Assuming the savings required to fund the forecast deficit in 2016/17 are

achieved, revenue balances as at 31 March 2017 are forecast to be £17.8m. These sums in balances are needed to retain funds for spreading the savings required over future years so that service reductions can be phased in a managed way and to provide a level of comfort against future uncertainties and the delivery of the continuing and significant future Savings Requirements.

- 12.4 The minimum level of balances for 2017/18 and future years will be reviewed annually as part of the budget process.
- 12.5 The statement below gives details of the general balances in hand at 1 April 2015, together with the proposed use of reserves from 2015/16 to 2019/20, and the resultant balances at 31 March 2020 **assuming that the target savings recommended in Section 10 are achieved.**

General Balances - Forecast to 2019/20	£000
Balances as at 1 April 2015	14,864
Surplus / (Deficit) 2015/16	1,532
Estimated Balances 31 March 2016	16,396
Surplus / (Deficit) 2016/17	1,426
Estimated Balances 31 March 2017	17,822
Surplus / (Deficit) 2017/18	(238)
Estimated Balances 31 March 2018	17,584
Surplus / (Deficit) 2018/19	1,269
Estimated Balances 31 March 2019	18,853
Surplus / (Deficit) 2019/20	76
Estimated Balances 31 March 2019	18,928

- 12.6 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 Balances below the minimum level determined by the S.151 Officer
- The balances are predicated on total savings (as yet unidentified) of £24m being achieved over the next 3 years (£9.0m in 2017/18, £8.0m in 2018/19 and £7.0m in 2019/20). If those savings are not made, Balances would be less than the minimum level by 31 March 2019. Moreover, the Council would have a deficit of £14.1m (versus its minimum) and be in breach of its requirement to set a balanced budget

- 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 £2.4m³⁰ means there is only limited funds available to fund the implementation costs of future efficiency savings (see Section 13)

12.7 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 Balances therefore is an extremely important element of delivering the Council's Regeneration Strategy that will ultimately result in increased jobs, new homes and improved prosperity for the City.

13. Medium Term Resource Strategy Reserve

13.1 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

13.2 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.

13.3 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.

13.4 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 £1.5m is transferred into the Reserve in 2015/16 from the forecast underspend in the year, (as set out in Section 6).

³⁰ Including the transfer into the reserve of £1.5m as recommended in this report

13.5 The statement below provides details of the MTRS Reserve balances in hand at 31 March 2015, together with all approved transfers in and out of the Reserve over the period 2015/16 to 2019/20 assuming that the recommendation to transfer £1.5m from the 2015/16 budget as described above is approved.

MTRS Reserve - Forecast to 2019/20	£000
Balances as at 1 April 2015	17,586
Surplus / (Deficit) 2015/16	(3,016)
Estimated Balances 31 March 2016	14,570
Surplus / (Deficit) 2016/17	(4,943)
Estimated Balances 31 March 2017	9,627
Surplus / (Deficit) 2017/18	(2,680)
Estimated Balances 31 March 2018	6,947
Surplus / (Deficit) 2018/19	(2,250)
Estimated Balances 31 March 2019	4,697
Surplus / (Deficit) 2019/20	(2,250)
Estimated Balances 31 March 2020	2,447

13.6 In the event that the recommended £1.5m transfer is not approved, the Reserve will be left with a very modest £0.9m, rendering it ineffective as a vehicle for the facilitation of future Spend to Save schemes of any meaningful scale.

13.7 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.

14. Collection Fund (Surplus) / Deficit

- 14.1 The Collection Fund is a fund maintained by the City Council into which are paid amounts collected in respect of Council Tax and National Non Domestic Rates (referred to as Business Rates) and out of which are paid the following:

Council Tax Precepts:

- Hampshire Police & Crime Commissioner (11% share)
- Hampshire Fire and Rescue Authority (4% share)
- Portsmouth City Council (85% share)

Business Rates Demands (NNDR):

- Government (50% share)
- Hampshire Fire and Rescue Authority (1% share)
- Portsmouth City Council (49% share)

- 14.2 The consolidated Collection Fund forecast for 2015/16 shows an overall deficit of £0.9m. This represents a deficit in relation to Council Tax of £0.269m and a deficit in relation to Business Rates amounting to £0.636m. The deficit relating to each element of the fund is shared with the constituent parties that make the demand on the fund and in the relative proportions to those demands. The share of the £0.269m Council Tax deficit attributable to Portsmouth City Council is £0.227m and the share of the Business Rate deficit attributable to Portsmouth City Council is £0.312m. This results in an overall deficit on the fund relating to Portsmouth City Council of £0.539m.
- 14.3 The overall deficit has been taken into account within the budget proposals for 2016/17 contained within this report.
- 14.4 The Council Tax deficit has arisen largely from a higher than anticipated number of discounts and exemptions given compared to the estimate, compensated by a further improvement in the collection rate. The forecast deficit on Business Rates of £0.636m when compared to the deficit brought forward of £5.312m represents a reduction of £4.676m over the 12 months ending March 2016. Following receipt of additional data received from the Valuation Office Agency, the provision required for backdated appeals has been comprehensively reviewed and reduced by £2.3m. The majority of the appeals relevant to the 2005 valuation list have now been resolved. The Chancellor of the Exchequer made a policy announcement in the Autumn Statement 2014 that for rating appeals to be backdated to April 2010, appeals relevant to the 2010 list would need to be submitted by 31 March 2015. This has had a positive effect and reduced some of the uncertainty attached to estimating the value of backdated appeals. However, there remains a great deal of volatility in this aspect of the Business Rates retention system.

14.5 The Collection Fund forecast for the year ending 2015/16 is set out below.

PORTSMOUTH CITY COUNCIL Forecast Collection Fund Statement 2015/16	Council Tax £'000	NNDR £'000
<u>INCOME</u>		
(Surplus) / Deficit brought forward	(1,729)	5,312
Council Tax	(74,682)	
MoD Contribution in lieu	(867)	
Non Domestic Rates Income		(83,954)
Provision for Losses on Appeals (Backdated)		(2,279)
Transitional Relief due from Government		(470)
	<u>(77,278)</u>	<u>(81,391)</u>
<u>EXPENDITURE</u>		
<u>Collection Fund Estimated Surplus / (Deficit) 2014/15:</u>		
- Portsmouth City Council	1,850	(1,319)
- Hampshire Police & Crime Commissioner	243	
- Hampshire Fire & Rescue Authority	97	(27)
- Government		(1,346)
<u>Council Tax Precepts:</u>		
- Portsmouth City Council	62,416	
- Hampshire Police & Crime Commissioner	8,382	
- Hampshire Fire & Rescue Authority	3,270	
Provision for Losses	1,289	976
Provision for Losses on Rating Appeals 15/16		2,603
<u>Retained Business Rates:</u>		
- Government (50%)		40,431
- Portsmouth City Council (49%)		39,622
- Hampshire Fire & Rescue Authority (1%)		809
Collection costs		278
	<u>77,547</u>	<u>82,027</u>
<u>ESTIMATED BALANCE AS AT 31 MARCH 2016</u>	<u>269</u>	<u>636</u>
To be apportioned between:		
Portsmouth City Council	227	312
Hampshire Police & Crime Commissioner	30	0
Hampshire Fire & Rescue Authority	12	6
Government	0	318
<u>DEFICIT APPORTIONED OVER THREE AUTHORITIES AND THE GOVERNMENT:</u>	<u>269</u>	<u>636</u>

15. Council Tax 2016/17

15.1 The determination of the Council Tax is in part derived from the Tax Base (i.e. the number of Band D equivalent properties from which the full amount of Council Tax is payable). The S.151 Officer has, under delegated responsibilities, determined that the Council Tax Base for 2016/17 will be 53,538.8.

15.2 The City Council's determination of the 2016/17 Council Tax is shown below:-

- (i) the calculation of the Council Tax for 2016/17 in respect of City Council purposes is as follows:

COUNCIL TAX 2016/17	£
Gross Expenditure	478,280,306
Less: Gross Income	(362,718,999)
Net Expenditure	115,561,307
Less: Government Grants	(50,333,381)
City Council Tax Requirement	65,227,926
Divided by:	
Council Tax Base	53,538.8
Council Tax - City Council Band D	1,218.33

This amounts to a Council Tax increase of 3.99%

- (ii) The Hampshire Police & Crime Commissioner is currently consulting upon a precept for 2016/17 of £8,590,836 and a Band D Council Tax of £160.46 (1.99% increase).
- (iii) Hampshire Fire and Rescue Authority have indicated that their precept for 2016/17 will be £3,351,529 and the Council Tax for Fire and Rescue Authority purposes at Band D will be £62.60 (1.99% increase).

(iv) The Council Tax to be levied for all bands in 2016/17 will be as follows:-

Band	Valuation	Portsmouth City Council	Hampshire Police & Crime Commissioner	Hampshire Fire & Rescue Authority	Total
		£	£	£	£
A	Up to £40,000	812.22	106.97	41.73	960.92
B	£40,001 - £52,000	947.59	124.80	48.69	1,121.08
C	£52,001 - £68,000	1,082.96	142.63	55.64	1,281.23
D	£68,001 - £88,000	1,218.33	160.46	62.60	1,441.39
E	£88,001 - £120,000	1,489.07	196.12	76.51	1,761.70
F	£120,001 - £160,000	1,759.81	231.78	90.42	2,082.01
G	£160,001 - £320,000	2,030.55	267.43	104.33	2,402.31
H	£320,001 & over	2,436.66	320.92	125.20	2,882.78

The amount payable by any household will be affected by discounts, exemptions and benefit.

The overall increase in tax is as follows:-

TOTAL BAND D COUNCIL TAX	2014/15	2015/16	Increase
	£	£	%
Portsmouth City Council Purposes	1,171.53	1,218.33	3.99%
Hampshire Police & Crime Commissioner	157.33	160.46	1.99%
Hampshire Fire and Rescue	61.38	62.60	1.99%
Total Charge – Band D Property	1,390.24	1,441.39	3.68%

16. Non Domestic Rates

- 16.1 The business rate poundage to be applied to valuations is 49.7p (49.3p in 2015/16). In addition, the small business multiplier is 48.4p (48.0p in 2015/16). The uplift in both multipliers reflects the September RPI inflation figure at 0.8%.

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

- 17.1 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

- 17.2 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 2016/17. 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.

- 17.3 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.

- 17.4 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

- 17.5 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.
- 17.6 Estimates and forecasts have been prepared to include all known significant financial factors over the medium term in order to inform spending decisions.

17.7 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 2016/17 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, reliefs and the need to borrow to invest in order to generate that growth (e.g. City Deal, City Centre Redevelopment)
- An assumption that the current rateable value will be reduced by 2.6% arising from appeals against the 2010 rating list. This is based on the current success rate of appeals. Also, that appeals against the 2005 rating list are largely resolved which is based on the latest information from the Valuation Office.
- Increases in Council Tax based on what is likely to be politically acceptable and in particular that the Council will continue to take advantage of the flexibility to tax for Adult Social Care at 2% per annum
- 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"³¹
- 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 estimates of future needs
- Balances and contingencies based on a risk assessment of all known financial risks

17.8 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.

³¹ Relative need is based on the Government's "Relative Needs Formula" that is used in allocating general government funding

- 17.9 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.
- 17.10 Additionally, Portfolios will be able to retain any underspendings in 2015/16 and utilise them as necessary in 2016/17 and future years for any purpose but with a clear priority to meet essential cost pressures in the first instance.
- 17.11 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.
- 17.12 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.
- 17.13 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.
- 17.14 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 2017/18 and future years.
- 17.15 Future years' budgets will be particularly challenging due to continued funding reductions and uncertainties. The Council's forecasts plan for a savings target of £9m in 2017/18, £8m in 2018/19 and £7m in 2019/20.

(b) The Adequacy of Proposed Financial Reserves

- 17.16 During 2015/16, 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 retain a minimum level of General Balances of £7.0m as at 31 March 2017 (an increase of £0.5m from the current year) and reflect the increased risk associated with the need to make further savings.
- 17.17 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.

- 17.18 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 12. The position will continue to be reviewed and reported to Members on an annual basis.
- 17.19 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 £5.5m as at 31 March 2016 which will be available for 2016/17.
- 17.20 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 and currently stands at £17.6m. 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 £2.4m. 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.
- 17.21 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
- 17.22 The Council's contingency provision for 2016/17 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.

18. Conclusion

- 18.1 The proposed Budget 2016/17 has been prepared to incorporate the decisions of Council in December 2015 to make savings amounting to £11m and set a Council Tax increase of 3.99%.
- 18.2 The decisions made by the City Council in December 2015 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 the regeneration of the City and protecting the most important and valued services.

18.3 The proposals contained within the December 2015 report and this report, now culminating in the proposed Budget for 2016/17, will:

- Provide a suite of savings amounting to £11m of the original forecast £31m³² required over the 3 year period 2016/17 to 2018/19
- Provide savings protection for Education & Children and the essential care services whilst still aiming to retain good quality sustainable public services across other portfolios. This involves spending reductions of 2.5% in Children & Education services and 5.2% in Health & Social Care services versus the average saving that was required across the Council of 8.3%.
- Re-instate £50,000 to the Environment & Community Safety cash limit in order to fund Domestic Violence Services funded from additional income arising from the Council's Property Investment Portfolio. With further discussions planned to take place with the Hampshire Police & Crime Commissioner's Office after the May elections with the intent to secure a contribution for the remaining £130,000.
- Provide for a Council Tax increase of 3.99% in 2016/17 comprising:
 - (c) A 1.99% increase yielding £1,254,400 (this equates to 35 pence per week for a Band B³³ Tax payer) for general purposes including covering the costs of inflation (£2.6m) and other cost pressures
 - (d) A further 2% increase yielding £1,254,400 (this equates to a further 35 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 increasing demographic pressures and other cost pressures such as the National Living Wage estimated at circa £1.5m alone
- Support all Services to meet the financial challenges ahead by maintaining a financial framework that incentivises responsible spending and strong forward financial planning with the following:
 - The continuation of greater financial autonomy including the right of each Portfolio to retain 100% of any year-end underspending and for it to be held in an earmarked reserve for the relevant Portfolio
 - Correspondingly the requirement that any Budget Pressures are funded within the overall resources available to the Portfolio Holder (which includes their Portfolio Reserve)
- Require that for 2017/18 a minimum on-going savings sum of £9.0m be made

³² Assuming a Council Tax increases across the period of 2% per annum

³³ The average Council Tax Payer lives in a Band B property

- To support the delivery of future years savings:
 - An increase of £500,000 to the Business Intervention Fund to enable the necessary business interventions to take place across the Council's activities at the necessary scale and pace to deliver significant change and cost reduction in the future
 - The transfer of £1.5m (from 2015/16 underspendings) to the MTRS Reserve recognising this as the Council's primary vehicle for providing funding for Spend to Save initiatives
- The transfer of £1.5m (from 2015/16 underspendings) to supplement the Capital Programme where there remains an enormous gap between Service needs, regeneration aspirations and the associated level of capital resources available
- That any further underspendings for 2015/16 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

18.4 The proposed Budget for 2016/17 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 climate.

18.5 The bigger challenge for the Council is from 2017/18 onwards where further significant cuts still need to be made and high levels of uncertainty exist around future funding and future costs. The main risks include:

- The ability to make savings to meet the continuing funding reductions from Government
- The level of Business Rates appeals and reliefs experienced plus the extent of Business growth or contraction
- The extent to which new burdens arising from national policy changes will be fully funded
- The demographic pressures arising from demand led essential Care Services

18.6 Historically Children & Education, Health & Social Care and Environment & Community Safety have received significant protection from savings. Importantly, these Portfolios account for 66% of the Council's total controllable budget from which savings can be made. Looking forward beyond 2016/17, the scale of the future savings requirements will be such that the Council will no longer be able to

afford the same levels of protection that have been provided in the past for these services without severe cuts to all other Services.

- 18.7 Given the level of savings required over the next 3 years of £24m, 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.
- 18.8 To deliver the scale of the savings required and to maintain the Council's financial health, the Council should regard the savings process as a continual one rather than a "once a year" planning exercise. Correspondingly, the Council may need to receive budget proposals more frequently throughout the year.

19. Equality Impact Assessment (EIA)

- 19.1 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 2016/17 is based on the savings proposals set out in the report to Council in December 2015. 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.
- 19.2 A city-wide budget consultation took place during September and October to help inform how to make £31m of savings over the next 3 years. 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.
- 19.3 With regard to this report, a public meeting of the Scrutiny Management Panel was also held on the 2 February 2016 where a presentation was made of the proposed Council Tax and Revenue Budget 2016/17 and the Council's future financial forecasts for 2017/18 to 2019/20. 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.

20. City Solicitor's Comments

- 20.1 The Cabinet has a legal responsibility to recommend a Budget and Council Tax amount to the Council and the Cabinet and Council have authority to approve the recommendations made in this report.
- 20.2 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.

21. S.151 Officer's Comments

- 21.1 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 2016/17 to 2019/20

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 2016/17	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 9 February 2016.

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

APPENDIX A

Calculation of the Council Tax 2016/17

<u>Portsmouth City Council</u>	2016/17 £	2015/16 £
Gross Expenditure	478,280,306	512,652,086
LESS: Gross Income	(362,718,999)	(390,077,681)
Net Expenditure 2016/17	115,561,307	122,574,405
LESS: Government Grants	(50,333,381)	(60,158,567)
Council Tax Requirement - Portsmouth City Council Purposes	65,227,926	62,415,838
Council Tax Base	53,538.8	53,277.2
Council Tax - Portsmouth City Council Purposes at Band D 65,227,926 53,538.8 =	£1,218.33	£1,171.53

<u>Hampshire Police & Crime Commissioner Precept</u>	8,590,836	8,382,102
Council Tax - Hampshire Police & Crime Commissioner Purposes at Band D	£160.46	£157.33

<u>Hampshire Fire and Rescue Authority Precept</u>	3,351,529	3,270,155
Council Tax - Hampshire Fire and Rescue Authority Purposes at Band D	£62.60	£61.38

The Council Tax to be levied for all bands in 2016/17 will be as follows :

		Portsmouth City Council £	Hampshire Police & Crime Commissioner £	Hampshire Fire & Rescue Authority £	TOTAL 2016/17 £	TOTAL 2015/16 £
Estimated Valuation as 1 April 1991						
Up to £40,000	A	812.22	106.97	41.73	960.92	926.83
£40,001 - £52,000	B	947.59	124.80	48.69	1,121.08	1,081.30
£52,001 - £68,000	C	1,082.96	142.63	55.64	1,281.23	1,235.77
£68,001 - £88,000	D	1,218.33	160.46	62.60	1,441.39	1,390.24
£88,001 - £120,000	E	1,489.07	196.12	76.51	1,761.70	1,699.18
£120,001 - £160,000	F	1,759.81	231.78	90.42	2,082.01	2,008.12
£160,001 - £320,000	G	2,030.55	267.43	104.33	2,402.31	2,317.07
£320,001 and over	H	2,436.66	320.92	125.20	2,882.78	2,780.48

GENERAL FUND SUMMARY - 2015/16 to 2019/20

APPENDIX A

Original Budget 2015/16 £	NET REQUIREMENTS OF PORTFOLIOS	Revised Budget 2015/16 £	Original Budget 2016/17 £	Forecast 2017/18 £	Forecast 2018/19 £	Forecast 2019/20 £
49,657,057	Children & Education	50,148,757	49,604,257	51,694,357	52,376,357	53,092,357
10,889,660	Culture Leisure & Sport	11,085,560	10,232,060	10,499,160	10,670,160	10,857,860
17,261,513	Environment & Community Safety	16,961,513	16,029,713	16,329,713	16,684,113	17,074,213
44,983,979	Health & Social Care	43,993,979	42,250,279	45,384,879	50,228,679	55,910,279
7,454,128	Housing	9,701,528	9,348,628	9,517,728	9,505,528	9,595,628
235,553	Leader	261,253	257,853	262,653	268,553	274,953
6,702,329	Planning Regeneration Economic Development	4,993,529	3,688,129	3,094,329	3,112,529	2,847,729
23,611,634	Resources	24,463,534	22,218,534	23,009,634	23,543,834	24,130,434
16,641,207	Traffic & Transportation	17,425,907	14,894,007	16,020,007	16,932,307	16,536,007
288,800	Governance, Audit & Standards Committee	318,800	249,700	114,600	120,100	125,800
(226,295)	Licensing Committee	(226,195)	(210,295)	(210,795)	(216,395)	(222,595)
177,499,565	Portfolio Expenditure	179,128,165	168,562,865	175,716,265	183,225,765	190,222,665
	<u>Other Expenditure</u>					
0	Precepts	0	0	37,400	38,300	38,300
(125,000)	Portchester Crematorium - Share of Dividend	(125,000)	(125,000)	(100,000)	(100,000)	(100,000)
6,261,000	Pension Costs	6,261,000	6,672,000	7,172,000	7,672,000	7,672,000
7,305,000	Contingency Provision	5,600,000	6,673,600	4,607,500	4,607,500	4,607,500
65,500	Revenue Contributions to Capital Reserve	1,645,700	1,565,500	1,500,000	0	0
1,411,700	Transfer to / (from) Other Reserves	1,444,900	(438,300)	(585,400)	(503,000)	(503,000)
(27,300,865)	Asset Management Revenue Account	(29,478,065)	(27,242,965)	(25,815,965)	(26,591,165)	(25,278,465)
3,224,000	Other Expenditure	2,748,000	2,325,000	1,775,000	2,375,000	3,125,000
(9,158,665)	Other Expenditure	(11,903,465)	(10,570,165)	(11,409,465)	(12,501,365)	(10,438,665)
168,340,900	TOTAL NET EXPENDITURE	167,224,700	157,992,700	164,306,800	170,724,400	179,784,000
	FINANCED BY:					
1,150,431	Contribution (to) from Balances and Reserves	(1,531,854)	(1,426,053)	9,237,942	15,731,202	23,924,278
38,375,386	Revenue Support Grant	38,537,645	30,363,225	22,313,120	16,956,583	11,482,607
42,768,544	Business Rates Retention	42,768,544	44,084,127	45,268,918	46,604,385	48,093,945
21,783,181	Other General Grants	23,184,969	19,970,156	19,652,090	20,884,689	22,916,811
64,263,358	Collection Fund	64,265,396	65,001,245	67,834,730	70,547,541	73,366,359
168,340,900		167,224,700	157,992,700	164,306,800	170,724,400	179,784,000
	BALANCES & RESERVES					
14,599,236	Balance brought forward at 1 April	14,863,858	16,395,712	17,821,765	8,583,823	(7,147,379)
(1,150,431)	Deduct (Deficit) / Add Surplus for Year	1,531,854	1,426,053	(9,237,942)	(15,731,202)	(23,924,278)
13,448,805	Balance carried forward at 31 March	16,395,712	17,821,765	8,583,823	(7,147,379)	(31,071,657)
6,500,000	Minimum Level of Balances	6,500,000	7,000,000	7,600,000	7,600,000	7,600,000
1,150,431	Underlying Budget Deficit / (Surplus)	(1,531,854)	(1,426,053)	9,237,942	15,731,202	23,924,278

APPENDIX B

FORECAST EXPENDITURE 2016/17 to 2019/20

	Budget 2016/17 £'000	Forecast 2017/18 £'000	Forecast 2018/19 £'000	Forecast 2019/20 £'000
Service Cash Limits	116,717	123,853	131,359	138,346
Contingency	6,674	4,608	4,608	4,608
Debt financing costs	23,210	24,637	23,862	25,175
Levies and insurance premiums	1,393	1,410	1,414	1,424
Other income/expenditure	9,998	9,798	9,482	10,231
	157,992	164,306	170,725	179,784
<u>Less</u>				
- Council Tax Income	65,001	67,835	70,548	73,366
- Revenue Support Grant	30,363	22,313	16,957	11,483
- Business Rates Retention	44,084	45,269	46,604	48,094
- Other General Grants	19,970	19,652	20,885	22,917
	159,418	155,069	154,994	155,860
Budget (Deficit)/Surplus	1,426	(9,237)	(15,731)	(23,924)

Deficits in 2017/18 to 2019/20 reflect future savings requirements