

**Agenda item:**

**Decision maker:** City Council

**Subject:** Portsmouth City Council - Budget & Council Tax 2019/20 & Medium Term Budget Forecast 2020/21 to 2022/23

**Date of decision:** 05 February 2019 (Cabinet)  
12 February 2019 (City Council)

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

**Wards affected:** All

**Key decision:** Yes

**Budget & policy framework decision:** Yes

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## **1. Executive Summary**

- 1.1 The key proposals within this report recommend a Budget for 2019/20 that provides for £4m of savings, a Council Tax increase of 4.49% (1.5% of which is raised specifically to be passported to Adult Social Care) and forecasts that the 3 year period beyond 2019/20 will require a further £7.5m in savings.
- 1.2 The proposals also seek to remedy the underlying budget deficits in both Adults and Children's Social Care, providing a sound financial base as the Council moves into a very uncertain period for Local Government funding from 2020/21 onwards.
- 1.3 The uncertainty presented from 2020/21 is due to a comprehensive overhaul of the Local Government funding system, it will determine a new formula methodology which will set each Local Authority's baseline funding level. Alongside this, a new system for retaining future Business Rate growth / loss will be implemented, taking away all existing growth and re-distributing that growth, nationally according to relative need (rather than where it was generated). For that reason, the Council's future forecast deficits could reasonably be expected to vary between +/- £3m.
- 1.4 During this unprecedented level of uncertainty, it is imperative that the Council continues to plan for savings of £2.5m per year, retaining reserves at the levels proposed in this report and retain the necessary financial resilience to be able to respond in all circumstances.
- 1.5 An Executive Summary of these key points and others is set out below.

## EXECUTIVE SUMMARY

### Context

- ❖ Since 2011/12 the Council will have made £102m in savings (48% of controllable spend)
- ❖ Government funding reductions have been the driving force behind the need to make £12m in savings over the period 2019/20 to 2021/22
- ❖ Adults and Children's Social Care represent 46% of controllable spend, provide services to the most vulnerable, experience the greatest cost pressures and have historically received significant protection from savings - resulting in proportionally higher savings across other Council Services
- ❖ The Autumn Budget has provided some short-term relief for cost pressures in Adults and Children's Social Care, but announced for 2019/20 only
- ❖ The Council's Medium Term Financial Strategy delivers necessary savings through income generation, economic regeneration and efficiency measures

### Revised Budget 2018/19

- ❖ A Balanced Budget for 2018/19 accommodating all forecast overspendings in Adults Social Care, Children's Social Care, MMD and the costs of disposing of Victory Energy Supply Limited

### Budget 2019/20

- ❖ Incorporates £4m of Savings as approved by Council in December 2018
- ❖ Accommodates Government funding reductions of £5.3m
- ❖ Provides additional funding for Children's Social Care of £4m plus details of their financial sustainability plan for the future
- ❖ Provides additional funding for Adult Social Care of £1.4m plus details of their financial sustainability plan for the future
- ❖ A Council Tax increase of 4.49%, of which:
  - 2.99% for general council services (at an inflation based level)
  - 1.5% (amounting to £1.1m) to be passported directly to Adult Social Care
- ❖ A Council Tax exemption scheme is introduced for Care Leavers, recognising the Council's Corporate Parenting role
- ❖ A Council Tax premium is introduced for long term empty properties to incentivise bringing empty properties into productive use
- ❖ The successful application to be a 75% Business Rate Retention pilot provides additional funding of £1.6m to be used to support essential Capital Investment

## EXECUTIVE SUMMARY (Cont'd)

### **Future Forecast - 2020/21 to 2022/23**

- ❖ New forecast for the new 3 Year Period (now extended to 2022/23) is a £7.5m deficit
- ❖ New forecast is subject to unprecedented uncertainty due to the forthcoming Comprehensive Spending Review, Fair Funding Review and the 75% Business Rate Retention Scheme and could vary by +/- £3m
- ❖ Proposed that Savings are phased evenly at £2.5m p.a over the next 3 years beyond 2019/20
- ❖ Balanced approach to savings if the forecast proves to be too pessimistic or too optimistic. Savings of £2.5m p.a. ensure that for any improvement in the forecast, the Council has not prematurely made a level of savings that could have been avoided and for any deterioration good progress towards the necessary savings will have been made

### **Conclusion**

- ❖ Balanced Budgets for both 2018/19 and 2019/20
- ❖ Council's financial health is sound, and the Council remains well placed to face the future uncertainty for Local Government funding

## 2 Purpose of Report

- 2.1 The primary purpose of this report is to set the Council's overall Budget for the forthcoming year 2019/20 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 2019/20 and the level of Council Tax in the context of the Council's Medium Term Financial Strategy with its stated aim as follows:

### OVERALL AIM

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

- 2.3 The recommended Budget for 2019/20 has been prepared on the basis of the decisions taken by the City Council on the 11 December 2018 relating to:
- An increase in the level of Council Tax for 2019/20 for general purposes of 2.99%
  - A continuation of the opportunity to increase the level of Council Tax for an "Adult Social Care Precept" within the limits set by Central Government (i.e. a 1.5% increase for 2019/20), and the direct passporting of that additional funding to Adult Social Care to provide for otherwise unfunded cost pressures.
  - The approved budget savings amounting to £4m
- 2.4 This report also provides a comprehensive revision of the Council's rolling 3 year future financial forecast for the new period 2020/21 to 2022/23 (i.e. compared to the previous forecast covering 2019/20 to 2021/22, this forecast now replaces the forecast for the previous 3 year period). The forecast considers the future outlook for both spending and funding, and 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 resilience.

2.5 In particular, this report sets out the following:

- (a) The challenging and uncertain financial climate facing the City Council in 2019/20 and beyond and the consequential budget deficits that result
- (b) A brief summary of the Medium Term Financial Strategy for achieving the necessary savings
- (c) A brief recap of the budget decisions taken by the City Council at its meeting of the 11 December 2018
- (d) The Revised Revenue Budget and Cash Limits for the current year
- (e) The Local Government Finance Settlement for 2019/20
- (f) The Business Rate income for 2019/20 and future years and the financial effect of participating in the Solent 75% Business Rate Retention Pilot in a pooled arrangement with the Isle of Wight Council and Southampton City Council
- (g) The Council Tax base and recommended Council Tax for 2019/20 alongside changes to Council Tax policy
- (h) The forecast Collection Fund balance as at 31 March 2019 for both Council Tax and Business Rates
- (i) The proposed Revenue Budget and Cash Limits for 2019/20
- (j) The forecast Revenue Budget and revised Savings Requirements for 2020/21, 2021/22 and 2022/23
- (k) Estimated General Reserves over the period 2018/19 to 2022/23
- (l) The Medium Term Resource Strategy (MTRS) Reserve, its financial position and proposed use to achieve cashable efficiencies
- (m) The statement of the S. 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:

- 1) The revised Revenue Estimates for the financial year 2018/19 and the Revenue Estimates for the financial year 2019/20 as set out in the General Fund Summary (Appendix A)
- 2) The Portfolio Cash Limits for the Revised Budget for 2018/19 and Budget for 2019/20 as set out in Sections 7 and 9, respectively
- 3) That the transfer to the Revenue Reserve for Capital in 2018/19 be reduced by £3.5m to offset overspendings within the current year and maintain General Reserves at levels consistent with maintaining the Councils financial resilience over the medium term

- 4) That the Council's share of the of the £650m national allocation for Adults and Children's Social Care (confirmed for 2019/20 only) and amounting to £2.4m is allocated as follows:
  - Adult Social Care - to meet the costs of Winter Pressures and contribute towards the cost of the increase in the National Living Wage (4.9%) for care providers - £1.4m
  - Children's Social Care (to contribute towards the costs of rising numbers of Looked After Children) - £1m
- 5) That a further £3.0m be added to the Children's Social Care Budget on an on-going basis, recognising the financial impact of the sustained rise in Looked After Children over the last 5 years amounting to over 40%
- 6) The additional £1.6m received from the 75% Solent Business Rate Retention Pilot (currently guaranteed for 1 year only) be used to enable the Council to make a Revenue Contribution to the Capital Programme in 2019/20 to supplement the Capital Resources available in order to fund essential Capital Investment priorities
- 7) Any underspendings for 2018/19 arising at the year-end outside of those made by Portfolios be transferred to Capital Resources in order to provide funding for known and potential future commitments in future years such as School Places, Sea Defences, enabling infrastructure for Regeneration and the Digital Strategy all necessary for the City's development and growth which have, as yet, insufficient funding
- 8) Any variation to the Council's funding arising from the final Local Government Finance Settlement be accommodated by a transfer to or from General Reserves
- 9) The S.151 Officer be given delegated authority to enter into the Solent<sup>1</sup> 75% Business Rates Retention Pilot agreement with the Department for Communities and Local Government
- 10) The S.151 Officer be given delegated authority to make any necessary adjustments to Cash Limits within the overall approved Budget and Budget Forecasts
- 11) That the level of Council Tax be increased by 2.99% for general purposes in accordance with the referendum threshold<sup>2</sup> for 2019/20 announced by Government (as calculated in recommendation 3.4 (d))
- 12) That the level of Council Tax be increased by a further 1.5% 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 £1,144,300 is passported direct to Adult Social Care
- 13) Managers be authorised to incur routine expenditure against the Cash Limits for 2019/20 as set out in Section 9

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<sup>1</sup> Includes Isle of Wight Council, Portsmouth City Council and Southampton City Council

<sup>2</sup> Council Tax increases beyond the referendum threshold can only be implemented following a "Yes" vote in a local referendum

- 14) That the savings requirement for 2020/21 be set at a minimum on-going sum of £2.5m
- 15) 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
- 16) Directors be instructed to start planning how the City Council will achieve the savings requirements shown in Section 10 and that this be incorporated into Service Business Plans
- 17) The minimum level of General Reserves as at 31 March 2019 be maintained at £8.0m to reflect the known and expected budget and financial risks to the Council
- 18) Members have had regard for the Statement of the Section 151 Officer in accordance with the Local Government Act 2003 as set out in Section 13.

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

- 1) The Revenue Estimates 2019/20 as set out in Appendix A have been prepared on the basis of a 1.5% tax increase for the "Social Care Precept" (amounting to £1,144,300) and that this is passported to Adult Social Care in order to provide for otherwise unfunded budget pressures including the current underlying budget deficit, the cost of the new National Living Wage and demographic pressures arising from a "living longer" population
- 2) The decision on the amount at which to set the Adult Social Care precept will be critical for the Social Care and wider Health system in the City; in the event that the additional flexibility of the "Social Care Precept" and associated 1.5% tax increase (amounting to £762,900 for each 1%) is not taken, then equivalent savings will need to be made in Adult Social Care in 2019/20
- 3) In general, due to the savings of £762,900 for each 1% reduction in order for the Budget 2019/20 to be approved
- 4) The Revenue Forecast for 2020/21 onwards as set out in Section 10 and Appendix B
- 5) The estimated Savings Requirement of £7.5m for the 3 year period 2020/21 to 2022/23, for financial and service planning purposes, be phased as follows:

<b>Financial Year</b>	<b>In Year Savings Requirement £m</b>	<b>Cumulative Saving £m</b>
2020/21	2.5	2.5
2021/22	2.5	5.0
2022/23	2.5	7.5

- 6) The MTRS Reserve held to fund the upfront costs associated with Spend to Save Schemes, Invest to Save Schemes and redundancies will hold an uncommitted balance of £8.3m<sup>3</sup> and will only be replenished in future from an approval to the transfer of any underspends, contributions from the Revenue Budget or transfers from other reserves which may no longer be required
- 7) The Council's share of the Council Tax element of the Collection Fund surplus for 2018/19 is estimated to be £1,573,500
- 8) The Council's share of the Business Rate element of the Collection Fund surplus for 2018/19 is estimated to be £837,500
- 9) The Retained Business Rate income<sup>4</sup> for 2019/20 is based on the estimated Business Rate element of the Collection Fund surplus as at March 2018, the Non Domestic Rates poundage for 2019/20 and estimated rateable values for 2019/20 and has been determined at £66,700,841

3.3 That the S.151 Officer has determined that the Council Tax base for the financial year 2019/20 will be **57,075.4** [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 2019/20 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992:

(a)	£481,710,889	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act.
(b)	£401,994,819	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	£79,716,070	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)	£1,396.68	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.

<sup>3</sup> Including the net transfers from the reserve of £2.241m contained with the recommendations of the Capital Programme 2018/19 to 2023/24 report elsewhere on this agenda

<sup>4</sup> Including the Portsmouth City Council element of the Collection Fund surplus of £837,539, S31 Grants of £6,848,028, the "Tariff" paid to Government of £2,544,842, and the contributions to the "Growth Pool" of £2,444,000, and from the "Growth Pool" of £1,630,000



(e) Valuation Bands (Portsmouth City Council)

<b>A</b> £	<b>B</b> £	<b>C</b> £	<b>D</b> £	<b>E</b> £	<b>F</b> £	<b>G</b> £	<b>H</b> £
931.12	1,086.31	1,241.49	1,396.68	1,707.05	2,017.43	2,327.80	2,793.36

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

- 3.5 That it be noted that for the financial year 2019/20 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)

<b>A</b> £	<b>B</b> £	<b>C</b> £	<b>D</b> £	<b>E</b> £	<b>F</b> £	<b>G</b> £	<b>H</b> £
134.31	156.69	179.08	201.46	246.23	291.00	335.77	402.92

- 3.6 That it be noted that for the financial year 2019/20 Hampshire Fire and Rescue Authority are recommended to approve 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)

<b>A</b> £	<b>B</b> £	<b>C</b> £	<b>D</b> £	<b>E</b> £	<b>F</b> £	<b>G</b> £	<b>H</b> £
45.14	52.66	60.19	67.71	82.76	97.80	112.85	135.42

- 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 2019/20 for each of the categories of dwellings shown below:

Valuation Bands (Total Council Tax)

<b>A</b> £	<b>B</b> £	<b>C</b> £	<b>D</b> £	<b>E</b> £	<b>F</b> £	<b>G</b> £	<b>H</b> £
1,110.57	1,295.66	1,480.76	1,665.85	2,036.04	2,406.23	2,776.42	3,331.70

- 3.8 The Council determines in accordance with Section 52ZB of the Local Government Finance Act 1992 that the Council's basic amount of Council Tax for 2019/20, which represents a 4.49% increase, is not excessive in accordance with the principles approved by the Secretary of State under Section 52ZC of the Act; and it be noted that:
- i) The 4.49% increase includes a 1.5% increase to support the delivery of Adult Social Care
  - ii) As the billing authority, the Council has not been notified by a major precepting authority (the Police and Crime Commissioner for Hampshire or the Hampshire Fire & Rescue Authority) that its relevant basic amount of Council Tax for 2019/20 is excessive and that the billing authority is not required to hold a referendum in accordance with Section 52ZK of the Local Government Finance Act 1992.
- 3.9 The S.151 Officer be given delegated authority to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire Police & Crime Commissioner and Hampshire Fire and Rescue Authority precepts.
- 3.10 That the Council Tax policy for Second Homes & Long Term Empty Properties discount scheme, aimed at bringing additional properties into productive use attached at Appendix C be approved
- 3.11 That the Council Tax Exemption Scheme for Care Leavers be approved and be implemented by way of a write-off procedure under the delegated powers of the S. 151 Officer in accordance with the scheme attached at Appendix D to be incorporated into the Council's Financial Rules.

## 4 Economic & Financial Context

4.1 Whilst the picture for the national public finances is improving with lower than forecast levels of total debt and overall debt as a proportion of Gross Domestic Product falling, it remains to be seen whether this will filter through into additional funding for local Councils for both day to day revenue spending and capital investment.

4.2 The key announcements from the Autumn Budget for Local Government are summarised below:

- £240m of additional Adult Social Care funding for 2018/19 to support Winter Pressures
- £240m continuation of the Adult Social Care (Winter Pressures) funding into 2019/20
- £410m for Adults and Children's Social Care in 2019/20 and states "*..... to ensure that adult social care pressures do not create additional demand on the NHS. Local councils can also use it to improve their social care offer for older people, people with disabilities and children*"
- £55m of additional funding for Disabilities Facilities Grant in 2018/19;
- £420m in 2018/19 to tackle pot holes and other minor road highways works;
- £400m of in-year capital funding allocations to schools in 2018/19 to spend on equipment and facilities;
- An additional £84m of Children's Services funding over 5 years to help more children stay at home safely with their families, but across only 20 councils;
- For 2 years up until the next Revaluation in 2021 all retail premises with a Rateable Value below £51,000 will have their bills reduced by one third (expected to benefit 90% of retail properties);
- Introduction of 100% business rate relief for public lavatories in 2020/21;
- £675m to be provided across the period to 2023/24 through a new "High Streets Fund" to assist with rejuvenation of High Streets and, in particular, changing unused business and commercial property into residential accommodation;
- Additional funding for the Housing Infrastructure Fund of £500m will be provided, taking the total fund to £5.5bn;
- The government will abolish the future use of PFI and PF2, saying there is compelling evidence that it does not deliver value for taxpayers or genuinely transfer risk to the private sector.

4.3 The implications from the Autumn Budget itself are not generally expected to materially alter the Council's expected revenue funding from Central Government over the medium term, upon which the Council's forecasts are based. However, the announcement related to Adults and Children's Social Care of £650m nationally, but

announced for 2019/20 only, will help to alleviate the existing and emerging financial pressures in those areas in the short term but unless confirmed into future years will not have any impact on future budget deficits. Other factors such as inflation generally, the "living longer" population and the increase in the National Living Wage (4.9%), all of which are on-going, will impact on the Council's forecasts for future years beyond 2019/20.

- 4.4 The provisional Local Government Finance Settlement for 2019/20 was announced in December alongside 2 further consultations of the Fair Funding Review and the 75% Business Rate Retention Scheme. The Local Government Finance Settlement for 2019/20 itself is in line with expectations, with continued reductions to Council funding, but since this was anticipated it does not affect the Council's future forecasts. The Fair Funding Review and the 75% Business Rate Retention Scheme however, have the potential to have a significant effect on the Council's future funding and therefore its overall financial forecasts. This is described in more detail in Section 8.
- 4.5 A Comprehensive Spending Review is planned for the forthcoming year and this will set the overall envelope for the Public Sector, and alongside the Local Government Finance Settlement for 2020/21, will provide much more certainty for Council funding over the subsequent 4 year period.
- 4.6 This report includes a new financial forecast for the next 3 year period covering both expenditure and funding to 2022/23 after taking account of the £4.0m savings decisions made by the City Council in December 2018 and incorporating the further financial year of 2022/23. Taking the £4m of savings approved for 2019/20 together with the savings in previous years will mean that the Council will have achieved £102m of savings and efficiencies equating to circa 48% of the Council's controllable spending.

## 5 Medium Term Financial Strategy and Budget Decisions 2019/20

- 5.1 In response to the considerable financial challenge, the City Council has an approved Medium Term Financial Strategy (for both revenue and capital) with a renewed emphasis on regeneration, innovation and creativity leading to stimulation of the funding base (Council Tax and Business Rates) and income generation as a means to make savings and avoid cuts to services. This is illustrated below:

### OVERALL AIM

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

#### STRAND 1 - Short / Medium Term

Transforming to an Innovative and Creative Council - through income generation

#### STRAND 2 - Medium / Long Term

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

#### STRAND 3 - Short / Medium Term

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

#### STRAND 4 - Short Term

Withdraw or Offer Minimal Provision for Low Impact Services

- 5.2 With an emphasis on innovation and regeneration activities, there is a presumption that Capital investment will also be targeted towards income generation and economic growth once the Council's statutory obligations have been met.
- 5.3 Despite the challenging financial circumstances, the City Council made a series of Budget decisions in December 2018 that were strongly aligned with that strategy.
- 5.4 The key Budget decisions made included:
- (a) Budget savings of £4m characterised as follows:

Description of Saving	Savings	
	£	%
Efficiency Savings (little or no reduction in Services)	£2.9m	72%
Additional Income	£0.8m	21%
Service Reduction	£0.3m	7%
<b>Total</b>	<b>£4.0m</b>	<b>100%</b>

Those savings being a balanced suite of savings devised in accordance with the response from the Budget Consultation which provided:

- (i) An average saving across the Council of 2.5% of current spending
- (ii) No savings from Children's Social Care
- (iii) Savings in Education amounting to just 0.9%
- (iv) Savings in Adult Social Care Services amounting to 1.9% (although when the passporting of the Adult Social Care Precept and other grants are included, Adult Social Care will receive a cash increase)

The allocation of those approved savings is set out below:

Portfolio / Committee	Savings Proposal	
	£	% Budget
Children's Social Care	0	0.0%
Culture, Leisure & Sport	347,000	3.5%
Education	70,000	0.9%
Environment & Community Safety	489,900	3.9%
Health & Social Care - Adults Social Care	966,000	1.9%
Housing	228,000	5.4%
Planning, Regeneration & Economic Development	435,800	5.6%
Resources	1,358,000	4.0%
Traffic & Transportation	105,300	2.0%
<b>Grand Total</b>	<b>4,000,000</b>	<b>2.5%</b>

- (b) An increase in the level of Council Tax for 2019/20 for general purposes of 2.99%
- (c) A continuation of the opportunity to increase the level of Council Tax for an "Adult Social Care Precept" within the limits set by Central Government (i.e. a 1.5% increase for 2019/20), and the direct passporting of that additional funding to Adult Social Care to provide for otherwise unfunded cost pressures.

- 5.5 The combined effect of all of these decisions has enabled the Council to:
- Meet its £4.0m savings requirement, consistent with the Budget Consultation and largely avoiding service reductions
  - Provide real growth in funding to Adult Social Care (after passporting the ASC Precept and Improved Better Care funding)
  - Provide full protection to Children's Social Care from savings
  - Maintain the overall financial health and resilience of the Council for the future financial challenge and uncertainties ahead

## **6 Revised Budget 2018/19**

- 6.1 The original revenue Budget approved by the City Council on 13 February 2018 was £164,776,000.
- 6.2 The Cabinet has received regular quarterly Budget Monitoring reports on the 2018/19 Budget throughout the year which have consistently reported a forecast overspend for the year. In Quarter 2, the overall overspend for the Council was forecast to be £4.5m by the year end. That forecast overspend has been driven by the cost pressures facing both Adults (£1.7m forecast overspend) and Children's Social Care (£5.6m forecast overspend) but offset by contingency provision specifically set aside for these pressures and improved returns from the Council's Treasury Management activities.
- 6.3 Of critical importance is the extent to which the overspending positions in both Adults and Children's Social Care are expected to continue into future years. This is described as the underlying deficit (or "structural deficit"). These deficits represent the level of savings that will either need to be met from the Services themselves through their own strategies and action plans or which, if proved to be unachievable to remedy, require a corporate response through an increase in the Portfolio Budget which will add to the overall Budget deficit of the Council and increase Savings Requirements to be made in future years.
- 6.4 Current estimates assess this underlying deficit to amount to £7.6m in aggregate, and comprise:
- Adults Social Care - £2.5m
  - Children's Social Care - £5.1m (of which circa £1m relates to the unfunded additional costs (from the Government re-imburement scheme) of Unaccompanied Asylum Seeking Minors (UAMs))

The proposed remedy for these underlying deficits in 2019/20 is set out in Section 8.

- 6.5 The Original Budget has now been comprehensively revised and it is proposed to increase the Budget to £166,953,000, an increase of £2,177,000. Whilst overall spending has increased, overall funding has also increased by a broadly equivalent amount resulting in an overall change to the Council's 2018/19 financial position of

£348,000. Consequently, the transfer from General Reserves will increase by an equivalent amount.

6.6 Significant changes to the Original Budget now being proposed as part of the Revised Budget are as follows:

#### Budget Increases

i) A net increase in the Council's Corporate Contingency of £3.5m<sup>5</sup> sufficient to cover the following additional costs / overspendings:

- Forecast overspend in Children's Social Care of £6.9m
- Forecast overspend in Adults Social Care (not met by transfers from Reserves) of £1.7m

ii) Forecast net cost of the disposal of Victory Energy of £2.5m

iii) Forecast losses at MMD amounting to £3.0m - MMD is progressing through a transition phase since the loss of its largest customer (Geest - who reluctantly left due to MMD being unable to accommodate their revised scheduling requirements alongside all other existing customer requirements). This is causing the business to experience financial losses whilst it seeks to diversify its client and product handling base. The forecast position for MMD in 2019/20 is forecast to reduce significantly with new business from Seatrade, MHI Vestas other potential business in advanced stages of negotiations. MMD is expected to return to profit in 2020/21 and improving in future years but this will be subject to further capital investment. An overall strategic review of the MMD site, facilitated by independent consultants, is in its final stages of completion and will be the subject of a report to Cabinet in the near future. The review has evaluated a long list of options, including:

1. Liquidating MMD
2. Retaining MMD
3. Liquidate MMD and sell the site for residential use
4. Liquidate MMD and rent the site for industrial use
5. Liquidate MMD and expand the Cruise and Ferry Port
6. Liquidate MMD and expand the Cruise and Ferry Port and use part of the site for non-fruit cargo

The emerging conclusions are that the continuation of MMD is likely to deliver the greatest overall financial return to the City Council over both a 5 and 20 year period in both an expected and pessimistic scenario and having taken account of all costs including all capital investment requirements and all borrowing costs associated with that capital investment. The likely level of risk associated with the delivery of these returns has been assessed as medium in the expected scenario and low to medium in the pessimistic scenario.

The borrowing for Capital Investment of £15m over a 10 year period has been recommended for approval in principle as part of the Capital Programme report contained elsewhere on this Agenda. That borrowing being conditional on the

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<sup>5</sup> Total increase is net of provisions made within the Original Budget that are no longer expected to be required in 2018/19



approval of Cabinet on their preferred option for the MMD site (i.e. to continue to operate MMD) and also conditional on the following:

1. Any draw down from the loan facility must first demonstrate, by way of a Business Case and proper Financial Appraisal approved by the S.151 Officer, that:
  - a) The 20 Year Business Plan demonstrates the continuing viability of MMD and that the continued operation of MMD delivers the best financial return compared with all other viable alternatives
  - b) The Capital Investment is necessary either for the sustainability of existing income streams or for the generation of additional income
  - c) The proposed Capital Investment itself represents the most favourable return when assessed against the balance of:
    - The financial return on a Net Present Value basis and over the whole life of the asset created versus other potential options for the same outcome
    - The relative risk of each alternative option
2. The Council loan being provided at a rate consistent with State Aid rules

#### Budget Reductions / Increases in Funding

- i) A reduction in the Revenue Contribution to the Capital Programme of £3.5m, made possible by the successful application for the Solent 75% Business Rate Retention Scheme Pilot providing an estimated direct funding allocation of £1.6m, the successful award of £16m Capital Grant for new School Places to be provided and being able to maintain the provision within the original forecast for 2019/20 of the planned £5m Revenue Contribution to Capital.
- ii) Improvement in Treasury Management activities of £3.3m
- iii) An increase in funding totalling £1.8m, mainly relating to the distribution by Government of the surplus on the "Levy Account" (i.e. the excess funding remaining after Local Authorities have been protected from significant falls in Business Rates) and other adjustments to the Business Rate Retention scheme

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

## 7 Revised Cash Limits 2018/19

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 2018/19 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 2018/19 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.

<b>PORTFOLIO</b>	<b>Revised Cash Limits 2018/19 £'000</b>	<b>Items Outside the Cash Limit £'000</b>	<b>Revised Budget 2018/19 £'000</b>
Children's Services	24,822	105	24,927
Culture Leisure & Sport	4,461	3,870	8,331
Education	4,390	18,989	23,379
Environment & Community Safety	14,661	1,784	16,445
Health & Social Care	38,781	3,314	42,095
Housing	2,602	5,743	8,345
Leader	165	20	185
Planning Regeneration Economic Development	(19,222)	13,041	(6,181)
Resources	19,933	4,244	24,177
Traffic & Transportation	15,786	684	16,470
Governance & Audit Committee	232	10	242
Licensing Committee	(240)	16	(224)
<b>PORTFOLIO EXPENDITURE</b>	<b>106,371</b>	<b>51,820</b>	<b>158,191</b>

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 2019/20

- 8.1 At last year's Annual Budget Meeting in February 2018, forecasts for this coming financial year 2019/20 and the subsequent 2 financial years estimated that an overall 3 year savings requirement of £12m would be necessary to meet the budget deficits over that period.
- 8.2 Since those forecasts were prepared in February last year, the Council has now received the Local Government Finance Settlement for 2019/20. The Council's forecast was in line with the settlement with the exception of the additional funding announced in the Autumn Budget for Adults and Children's Social Care, which for Portsmouth amounts to £2.4m but which has been announced for 2019/20 only. Due to its "one-off" nature, this additional allocation has no effect on the overall 3 year budget deficit and therefore the consequent savings requirements for 2019/20. The additional allocation, in part (£0.9m), comes with passporting and spending obligations to maintain the "Winter Pressures" programme to support the discharge of hospital patients and therefore maintain the efficiency of the Queen Alexandra Hospital throughout the Winter of 2019/20. The remaining £1.5m is available to support both Adults and Children's Social Care, it is proposed to be applied to those Services to meet unfunded budget and inflationary pressures that will arise in 2019/20 and is described later in this section.
- 8.3 In addition, the other key change for 2019/20 is the successful application to become a 75% Business Rate Pilot, in a pooled arrangement with Southampton City Council and the Isle of Wight Council. Whilst, the Council is currently within a similar arrangement on a 100% basis (i.e. retaining 100% of Business Rate growth rather than the 75% retention for 2019/20), that scheme was guaranteed for 1 year only and therefore not factored into the Council's forecasts on an on-going basis. The new pilot scheme is also only for 2019/20 pending the introduction of the national 75% Business Rate Retention scheme for 2020/21 accompanied with the review of the whole system of Local Government Funding under the Fair Funding Review. The financial impact of the 75% Solent Business Rate Retention pilot scheme for 2019/20 is expected to be a direct funding allocation of £1.6m, but for 2019/20 only.
- 8.4 Both the additional £2.4m for Adults and Children's Social Care and the direct allocation of £1.6m arising from the 75% Business Rate Retention Pilot are "one-off" additional sums and their proposed use is described later in this section. Due to their "one-off" nature, neither of these additional allocations have had an effect on the Council's overall £12m forecast Budget Deficit. Other factors and amended assumptions for future years have led to an overall improvement in the Council's forecast deficit, this is explained in Section 10.
- 8.5 Other changes both funding and spending, including significant inflationary pressures are expected in the forthcoming year and have been factored into the proposed Budget for 2019/20. All elements of funding and spending have now been comprehensively reviewed which include the following:

## Funding

- Central Government Funding (Local Government Finance Settlement)
- Business Rate Income (including the impact of the 75% Business Rate Retention pilot)
- Council Tax Income

## Expenditure

- Budget Pressures and Inflationary Costs
- Savings proposals (agreed by the City Council in December 2018)
- Other cost pressures (including "new burdens" passed down from Central Government)
- Port and MMD trading results
- Debt Financing costs and interest rates
- Contingencies

- 8.6 As reported to the City Council in December 2018, the advice of the S.151 Officer was that "whilst it is likely that the overall financial forecasts will change, the savings requirement for 2019/20 at £4.0m remains robust and prudent but only on the basis of the Council Tax proposals set out within this report. Given what is known, or reasonably expected, regarding future funding reductions and given future uncertainties, a savings requirement of less than these sums would not be prudent". Now that the Local Government Finance Settlement has been received and the Council's forecasts for future years have been comprehensively revised, that advice still holds.
- 8.7 Details of all expenditure and funding changes proposed within the Budget for 2019/20 are described in the following paragraphs.

## Funding

### Local Government Finance Settlement 2019/20

- 8.8 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 13 December 2018 and the final settlement will be announced at the end of January / early February 2019.
- 8.9 The Council resolved to accept the Government's 4 year Settlement in October 2016 which was accepted by Government. Whilst providing some certainty of future Government Funding, the funding reductions for the Council remain significant and challenging.

8.10 The Government published the provisional Local Government Finance Settlement 2019/20 in December 2018 and it is in line with the accepted 4 Year Settlement which reflects the following:

- A reduction in general funding (the equivalent of Revenue Support Grant and other grants) as part of the 4 Year Settlement of £5.3m
- An additional allocation for 2019/20 only for Adults and Children's Social Care of £2.4m

8.11 The £5.3m reduction in funding is in line with expectations and has not had any effect on the Council's position for 2019/20 or the overall 3 year budget deficit. The additional £2.4m for 2019/20 only is available for otherwise unbudgeted costs and inflationary pressures in 2019/20 only but not the on-going impact in future years.

8.12 Other key announcements as part of the Provisional Local Government Settlement are:

- Revenue Support Grant - There is no change to the distribution methodology for 2019/20 although "negative RSG" has been removed
- Council Tax:
  - The basic referendum principle of a 3% increase is confirmed
  - Adult Social Care Precept remains intact (6% increase over the 3 years 2017/18 to 2019/20).
  - Police Council Tax can increase by a maximum of £24 (which for Hampshire would equate to a 13.5% increase in their share of the Council Tax)
- Proposals for new 75% Business Rates Pilots in 2019/20 have been approved for 15 areas and the Solent application was successful
- A £180m balance on the national Levy Account will be distributed based on need (this amounts to £0.7m and was distributed in the current year). At this quantum it is not significant at a local level but is an important principle for the future funding of Local Government
- Two consultation papers have been published on the Fair Funding Review and Business Rates Retention) to come into effect in 2020/21. This is important to all Council's and is one of the largest risks within the Council's future financial forecasts. The consultations are described below:
  - The Fair Funding review (i.e. the review of the 'needs element' embedded with the Revenue Support Grant and the Business Rates Retention system) covers the structure of the funding formula, the formulas,

weightings and data to be used in the calculations. It also covers how the level of Council Tax raised locally will be calculated for the purposes of reducing the need for Central Government funding. Finally the basis of any transitional funding that may be required for those local authorities suffering significant reductions in funding is also included.

- The 75% Business Rate Retention Scheme covers: Resets (i.e. how long any growth / loss in business rates will be retained before it is reset to a new baseline), safety nets, levy, tier splits and hereditaments to be held on the local and central lists as well as how to best deal with appeals and an alternative model of business rates retention.

- The New Homes Bonus scheme remains unaltered (described below)

8.13 The scheme for the New Homes Bonus is intended to "sharpen the incentive" for housing delivery beyond a natural rate of growth and is summarised below:

- A threshold of a 0.4% increase in new homes (or "deadweight") before any New Homes Bonus (NHB) will be paid (i.e. 0.4% growth will need to be achieved before any NHB funding will be paid)

- Payments made for 4 years from 2019/20 and thereafter

8.14 The final grant settlement should be available by late January / early February, it is not expected to vary significantly from the provisional settlement and it is recommended that any variation should be accommodated by a transfer to or from General Reserves.

8.15 Given that the 2019/20 Local Government Finance Settlement is broadly in line with the Council's forecasts upon which the minimum £4m savings requirement was based, and subject to the approval of the Council Tax proposals contained within this report, there is no need to seek any further savings beyond those approved at the December 2018 Council meeting.

8.16 Whilst the Local Government Finance Settlement is a significant factor in determining the Council's overall financial position and therefore any necessary savings, other significant factors that will affect the Council's future Savings Requirements include Business Rates income, Council Tax income, inflation, interest rates and any new unfunded burdens passed down from Government. These are described in the paragraphs that follow.

## Retained Business Rates 2019/20 & Future Forecasts

- 8.17 The Retained Business Rates system is complex and subject to a significant degree of inherent risk. The current national system is characterised by a complex formula which includes the following:
- i) Retention of 50%<sup>6</sup> of all business rates received and which is affected by the value of successful appeals, the number of mandatory reliefs (e.g. charitable relief) and the overall collection rate (i.e. how much is uncollectable and written off)
  - ii) Increased by a fixed amount "top up" which increases annually by the rate of inflation
  - iii) Compensation through S.31 Grants for national government initiatives which have the effect of reducing Business Rates to the Local Authority such as business rate capping for small businesses
  - iv) A "safety net" set at 7.5% below a pre-determined baseline<sup>7</sup> below which retained Business Rates will not fall (set at £56.3m for 2019/20)
- 8.18 In 2017/18 the National Non Domestic Rate system was subject to a re-valuation. This revised both the rateable values and the multiplier. The entire re-valuation is financially neutral at a national level with the increase in rateable values overall offset by a reduction in the multiplier.
- 8.19 The Retained Business Rates system for Local Authorities is likewise intended to be financially neutral. Inevitably, this will not be the case and there will be "winners" and "losers" across the country. The key risk is the extent to which successful appeals are greater or less than the assumed allowance for appeals contained within the new multiplier set by Government.

### 75% Business Rate Retention Pilot (BRR Pilot)

- 8.20 The Council has been successful in its application to become a 75% Business Rate Pilot (BRR Pilot) for 2019/20 in a pooled arrangement with Southampton City Council and the Isle of Wight Council. The arrangement is one where both risks and rewards must be shared across all authorities. The scheme is intended to reduce volatility in the income from Business Rates as well as maximise the incentive to grow the business rate base. The scheme also provides for a "Safety Net" across the Pool whereby the Pool cannot fall below 95% its "Baseline Funding Level" (compared to 92.5% in the national 50% Business Rate Retention Scheme). It does however, provide the opportunity for the 3 Councils to retain 75% of any growth in Business Rates so long as it is used to:
- i) Promote financial stability and sustainability across the pooled area
  - ii) Re-invest in promoting further growth across the area

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<sup>6</sup> 49% To the City Council and 1% to the Hampshire Fire & Rescue Authority

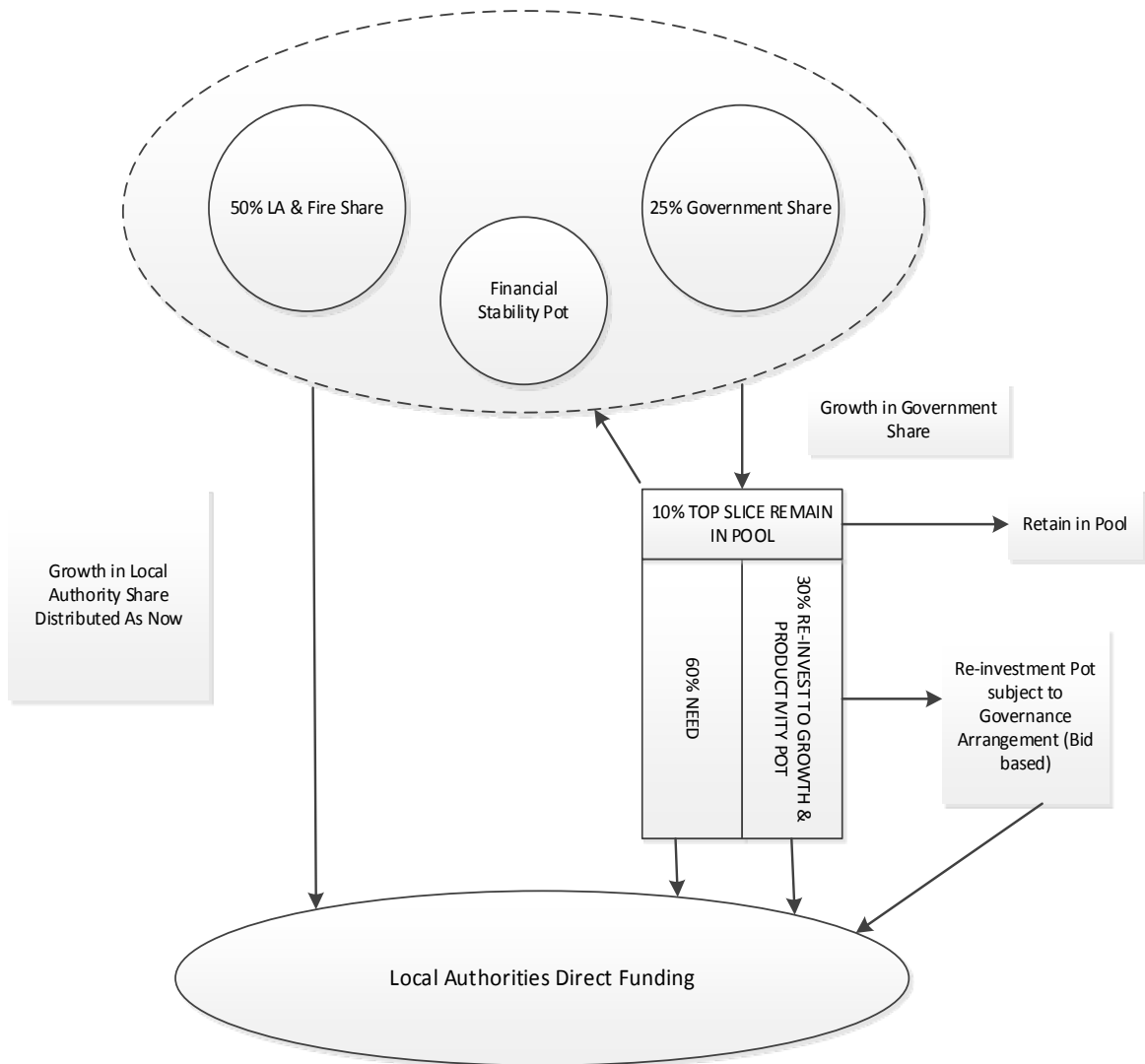
<sup>7</sup> Known as the Baseline Funding Level, set in 2013/14 and increased by inflation each year

- 8.21 The pilot scheme is guaranteed for 1 year only and will be replaced by a national 75% Business Rate Retention Scheme in 2020/21. The Solent Authorities are expected to be able to elect whether they wish to remain in a pooled arrangement, sharing risks and rewards.
- 8.22 The scheme has been designed to retain the arrangements for the existing 50% share of business rate growth to remain intact with the relevant Councils and then for half of the Government's existing 50% share to be distributed through a "Growth Pool". The total "Growth Pool" that would otherwise have been passed back to Government but which is now available for distribution to the 3 Councils is estimated to amount to £7.6m.
- 8.23 The scheme has significant benefits to the City Council that it would otherwise not receive if it wasn't in the pooled arrangement as follows:
- i) Half of the Government's share of any growth (estimated at £7.6m) that used to be returned to Government, is now accumulated into a pool - this is additional funding available to the 3 Councils but, importantly includes all growth since 2013/14 (not 2019/20) although it is not backdated
  - ii) The pool is then allocated as follows:
    - 60% shared out on the basis of need (defined by the Government's current grant funding formula) - This is expected to be an additional £1.6m for the City Council and available for any purpose
    - 30% is allocated to a "Growth & Productivity Pot", to be re-invested across the 3 Councils into schemes that generate growth and productivity - This is expected to be £2.2m in total and to be shared between the 3 Councils
    - 10% is retained in the pool and held back in the event of future reductions in business rates - This is expected to be £0.7m across all Councils to be available to offset any potential future business rate loss

This is set out diagrammatically below:



BUSINESS RATE POOL - Distribution of Growth Scenario



8.24 As mentioned, the Business Rates Growth Pool is essentially half of that element of Business Rate growth that previously was returned to Government. In cash terms, every additional 1% increase in Business Rate Growth will result in additional funding to the Pool (to be distributed between the 3 Authorities as previously described) of £630,000 which would be allocated as follows:

- £378,000 directly to the Solent Authorities (£140,000 to PCC)
- £189,000 to the Growth & Productivity Pot
- £63,000 to the Financial Stability Pot

8.25 The estimated Growth Pool is significant for 2019/20 because it covers the growth for the total period 2013/14 to 2019/20 (rather than just 2018/19 to 2019/20) amounting to 13% across all 3 Councils.

- 8.26 In overall terms, it is estimated that the City Council will receive the following additional sums / benefits as a direct consequence of the 75% Business Rate Retention pilot:
- i) Direct allocation for general use £1.6m
  - ii) A share of the "Growth & Productivity Pot" which amounts in total to £2.2m
  - iii) A distribution from the "Financial Stability Pot" amounting to £0.7m in total in the event of future Business Rate reductions
- 8.27 In total, for 2019/20, Retained Business Rates are estimated at £66.7m<sup>8</sup> (now reflecting the retention of 75% Business Rates) and which includes a surplus relating to previous year of £0.8m arising from lower than anticipated losses due to appeals. Future estimated Business Rates have been assumed to increase by the rate of inflation only (as estimated by the Office for Budget Responsibility).
- 8.28 The estimation of Business Rate receipts is extremely complex, with the potential to be volatile and with many of the factors outside this Council's control. In particular, the Valuation Office Agency will both determine whether a rating appeal is successful and the level of reduction granted with the Council having no right of challenge. To help mitigate against this risk, the Council maintains a reserve to provide the Council with a degree of funding stability in the event of fluctuations within and between years. The Council will now also be afforded some protection through the Business Rate Pooling arrangements (i.e. the "Financial Stability Pot").
- 8.29 Despite the complications and risks associated with appeals, there remains the financial incentive within the system for many Local Authorities (including Portsmouth<sup>9</sup>) 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.

### Council Tax Proposals 2019/20 & Future Years

#### *Council Tax Amount 2019/20*

- 8.30 As described in the Budget report to Council in December 2018, the Council currently receives approximately £6.0m per annum less in Council Tax than the average Unitary Authority within its statistical neighbour group, a gap which if closed would reduce the Savings Requirements of the Council by the same sum.
- 8.31 This is an important factor in relation to the Fair Funding review, which will make a deduction to a Local Authority's overall funding allocation in respect of the amount that can be raised locally through Council Tax. The Council's past decisions to maintain a low level of Council Tax have been, and are expected to continue to be a

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<sup>8</sup> Includes transfer to the "Growth Pool" of £2.4m and transfer from the "Growth Pool" of £1.6m less the "Tariff" of £2.5m plus S.31 Grants of £6.8m for compensation due to national Government business rate relief initiatives

<sup>9</sup> Applies to Local Authorities that, in general, remain above the safety net threshold over time

disadvantage in relation to the Council's funding allocation after the Fair Funding Review. This is because the funding formula is expected to continue to make a deduction based on a national average level of Council Tax which is currently significantly higher than that of Portsmouth, resulting in a higher deduction than the Council currently raises in Council Tax.

- 8.32 Council Tax currently represents 45% of the Council's total revenue funding and as Government funding has reduced, this has become an increasingly more important and dependent funding source for the Council.
- 8.33 Council Tax for the average Council Tax payer in Portsmouth (Band B) currently amounts to £1,228.74, of which £1,039.59 (85%) is the City Council element. Not all residents are subject to the full amount of Council Tax with many benefitting from exemptions and discounts (such as the single person discount) and a significant number of residents receiving Local Council Tax Support bringing the level of Council Tax payable to an assessed affordable level. After discounts, exemptions and Local Council Tax support is taken into account, only 52% of all properties are subject to the full level of Council Tax.
- 8.34 In response to inflationary pressures faced by Councils (e.g. Consumer Price Index (CPI) 2.3% and Retail Price Index (RPI) 3.2%)<sup>10</sup>, the Provisional Local Government Finance Settlement for 2019/20 confirmed a Council Tax increase limit for general purposes (i.e. referendum threshold) of 3%. Any increase beyond the 3% threshold can only be implemented following a "Yes" vote in a local referendum.
- 8.35 As described more fully later in this report, the actual level of inflation for 2019/20 is £0.9m higher than had been originally forecast. This is principally due to the proposed pay award averaging at 3.0% being £0.2m higher than forecast, the National Living Wage set at 4.9% plus RPI / CPI (upon which contracts and other costs are linked) estimated to cost an additional £0.7m. The Council had originally forecast that it would increase the level of Council Tax by just 1.99% for general purposes, a further increase in Council Tax of 1% (to 2.99%) would generate a further £762,900, therefore largely alleviating those additional inflationary costs.
- 8.36 In addition, the remaining level of Council Tax increase allowed for the Adult Social Care precept for 2019/20 is 1.5%. The Council's forecasts are based on the full remaining 1.5% increase being applied in full. Should the Council elect to reduce the increase from 1.5%, each 1% reduction will lead to a further £762,900 pressure on Adult Social Care, requiring the Service to make further savings of an equivalent sum.
- 8.37 The additional flexibility to apply Council Tax increases for the Adult Social Care Precept has been provided in recognition of the extreme cost pressures facing Adult Social Care, both through the increase in the National Living Wage (which has increased by 4.9%) as well as the demographic pressures from general aging and a "living longer" population.
- 8.38 For Portsmouth City Council, it is vital that the flexibility of the Adult Social Care Precept is taken in order to mitigate the current underlying deficit in Adult Social Care currently standing at circa £2.5m. The alternative would be to increase the level of savings required by the Service.

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<sup>10</sup> As at November 2018

- 8.39 Given the upward inflationary pressures on pay and prices amounting to £4.7m in total (and an additional £0.9m versus the Council's original forecast, as previously described), the demographic pressures in Adult Social Care and the impact of the 4.9% increase in the National Living Wage on Care Services (estimated to cost an additional £1.6m), it is proposed that:
- i) The Council Tax for General Purposes be increased by 2.99% for 2019/20, representing 60p per week for a Band B tax payer and yielding £2.3m
  - ii) Adult Social Care precept be increased by 1.5% for 2019/20, representing 30p per week for a Band B tax payer and yielding £1.1m to be passported direct to Adult Social Care.
- 8.40 Given the extent of the unfunded cost pressures in Adult Social Care, both present and emerging, it is recommended that the Council increase the Council Tax for the Adult Social Care Precept by 1.5%. Setting a precept at a lower sum will inevitably result in additional service reductions to Adult Social Care services in 2019/20, this decision therefore will be critical for Adult Social Care services and the wider health system in the City.
- 8.41 The Council could elect not to increase the level of Council tax by 4.49% but if it chose to do so would need to identify additional savings over and above the £4m savings approved by the City Council in December 2018. For every 1% reduction in Council Tax, additional savings of £762,900 will be required.
- 8.42 The Council's future forecasts for the period 2020/21 to 2022/23 have been estimated on the following basis:
- i) General Purposes - 1.99% rise each year
  - ii) Adult Social Care Precept - No further increases thereafter

#### *Council Tax Base 2019/20*

- 8.43 The Council Tax Base (i.e. the number of Band D equivalent properties paying the full Council Tax) has been determined as **57,075.4** for 2019/20.

#### *Collection Fund Balance (Council Tax Element) 2018/19*

- 8.44 The Collection Fund is the account into which are paid amounts collected in respect of Council Tax and out of which are paid the Council Tax precepts to:
- Portsmouth City Council (84.6% share)
  - Hampshire Police & Crime Commissioner (11.2% share)
  - Hampshire Fire & Rescue Service (4.2% share)

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

8.45 For 2018/19, it is estimated that there will be a surplus on the Collection Fund of £1,859,761 which will be shared in proportion to the 2018/19 precepts and distributed to the preceptors as follows:

<b>COLLECTION FUND SURPLUS - 2018/19</b>		
<b>Preceptor</b>	<b>Distribution</b>	
	<b>£</b>	<b>%</b>
Portsmouth City Council	1,573,465	84.6%
Hampshire Police & Crime Commissioner	208,907	11.2%
Hampshire Fire & Rescue Service	77,389	4.2%
<b>Total Surplus 2016/17</b>	<b>1,859,761</b>	<b>100.0%</b>

The Portsmouth City Council Share of the surplus of £1,573,465 is factored into the overall Council Tax income for 2019/20.

#### Total Council Tax Income 2019/20 & Future Years

8.46 Considering the Council Tax increase, Council Tax Base and surplus on the Collection Fund, the total Council Tax income for 2019/20 is estimated at £81,289,535.

8.47 As Government funding reduces, rises in Council Tax income are fundamental to the Council's future financial position and therefore the future sustainability of Council Services. The Council's Medium Term Financial Forecast assumes that Council Tax Income will rise to £84,570,332 by 2022/23 and is based on the following assumptions:

- Increase in the amount of Council Tax of 4.49% for 2019/20
- Increases of 1.99% per annum from 2020/21 onwards

#### Changes to Council Tax Policy 2019/20

8.48 It is proposed that changes be made to Council Tax policy in respect of the following:

- i) Empty property discounts, phasing in additional premiums over the period April 2019 to April 2021 - to bring vacant homes into productive use (attached at Appendix C)
- ii) Discount for Care Leavers - recognising the Council's role as a Corporate Parent (attached at Appendix D)

### *Long Term Empty Property Discount Policy*

The Government announced their intention to amend the legislation regarding the charging of premiums on properties that have been empty for over 2 years. The bill to amend the regulations has now been given royal assent.

Accordingly, it is proposed that the Council amends its policy (proposed at Appendix C) to align with the legislation as follows:

- ❖ From 1 April 2019 to 31 March 2020 where the property has been empty over 2 years, a 100% premium.
- ❖ From 1 April 2020 to 31 March 2021 where the property has been empty between 2 to 5 years a 100% premium and where the property has been empty over 5 years, a 200% premium.
- ❖ From 1 April 2021 where the property has been empty between 2 to 5 years a 100% premium, where the property has been empty between 5 and 10 years a 200% premium and for property that has been empty over 10 years a 300% premium.

### *Care Leavers Discount Scheme:*

Care leavers are a particularly vulnerable group for council tax debt, and as they move into independent accommodation and begin to manage their own budget, it can be a challenging time, exacerbated if they fall behind with council tax.

It is proposed that, as a corporate parent, Care Leavers up to the age of 25, are granted a discretionary discount of up to 100% of the council tax liability. This will help our Care Leavers with financial support whilst they develop independent lives and life skills.

The financial support is proposed to be implemented by way of a write off under the delegated authority of the S.151 Officer as set out in Appendix D and be incorporated into the Council's Financial Rules.

## **Cumulative Effects of the Overall Local Government Funding System**

8.49 Over the past 8 years and including the coming year, the emphasis of the Local Government Funding system has changed considerably. There are 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 £460,000 for every 1% increase in Business Rate growth (under the 50% BRR pilot scheme but increasing to £692,000 under the 75% Business Rate Retention Pilot). Equally, the City Council will lose £460,000 (£692,000 under the 75% BRR pilot) for every 1% decline in the Business Rate base

- For every new home built, the City Council is able to retain circa £1,671 p.a. above the "deadweight" threshold of 0.4% (circa 317 homes) in New Homes Bonus grant for a period of 4 years
- The risk of increased numbers of households requiring financial support to pay their Council Tax (formerly Council Tax Benefit) falls on the City Council. The City Council therefore will be worse off if caseloads increase and better off if caseloads fall. The estimated value of the Council Tax support for 2019/20 is £9.9m. Each 1% change therefore will represent a cost / saving of £99,000.

8.50 Whilst the Fair Funding Review and 75% Business Rate Retention Scheme to be introduced in 2020/21 may alter these incentives, it is still expected that they will remain significant given the continued drive to incentivise Local Councils to stimulate their local economies. It is important therefore that when the Council is developing policy and strategy and making its decisions, particularly relating to the Capital Programme, it is cognisant of these financial incentives.

## **Expenditure**

### **Budget & Inflationary Pressures 2019/20**

- 8.51 In November 2013 the Council resolved that, as part of a new financial framework providing for a more autonomous approach to financial management and involving the right for Portfolios to retain all underspendings, that Portfolios would be expected to manage any budget pressures.
- 8.52 The Council's budget process provides each Portfolio with an allocation for inflation so that it is fully funded (excluding any savings requirements) to operate "steady state" services. Budget pressures are not funded (as described above) and tend to be related to additional burdens or additional demand. In certain circumstances (such as the National Living Wage), it can relate to an exceptionally large inflationary pressure.
- 8.53 As described in Section 6 , Adults and Children's Social Care are carrying underlying deficits of £2.5m and £5.1m, respectively. Significant progress has been made in addressing the underlying budget deficits in Adult Social Care and the Service has a well developed and costed 3 year plan. The Strategy and plan for Children's Social Care is at an earlier stage of development. The status of each Strategy and plan is described below:

#### **Adults Social Care:**

The service has developed a strategy which aims to provide greater independence to clients, providing modern services through better and more appropriate accommodation for client needs, reducing residential care with supported living where appropriate, introducing technology where desirable and engaging greater support through the voluntary sector. Current forecasts estimate that the full £2.5m underlying deficit can be remedied through the delivery of this strategy by the end of 2020/21.

The Service has both a Transformation Reserve (set aside from Government allocations of the improved Better Care Fund (iBCF)) and an In House Residential Reserve (received as part of the contractual settlement to cease the contract at Harry Sotnick House). These reserves are available to support the strategy as follows:

- i) Fund the expenditure required to invest in the modernisation of accommodation and services necessary to improve outcomes and make savings
- ii) Support the Revenue Budget with the costs associated with implementing the "In House" Residential Strategy amounting to £2.7m over the years 2019/20 and 2020/21

Given the availability of the Adult Social Care Reserves to deliver a balanced budget by the end of 2020/21, there is no requirement for any additional budget allocation from the Council.

Whilst it is expected that the underlying budget deficit is capable of remedy, Adult Social Care will be required to continue to provide a "Winter Pressures Programme", supporting the NHS to accommodate increased demand for hospital admissions and discharges over the Winter of 2019. Additionally, the National Living Wage will increase by 4.9% which is expected to confer a cost burden of circa £1.6m on Adult Social Care through their contracts with suppliers of Care. Whilst about half of this sum has been provided for within their inflation allocation, the remainder represents an unfunded Budget Pressure.

As previously mentioned, the Council have received additional funding from Government of £2.4m for both Adults and Children's Social Care and to ensure the continuation of the Winter Pressures Programme.

To accommodate the cost of the Winter Pressures Programme, the additional cost burden associated with the National Living Wage and to avoid adding to the Adult Social Care underlying budget deficit of £2.5m in 2019/20, it is proposed to allocate £1.4m (of the £2.4m additional funding) to Adult Social Care.

#### Children's Social Care:

The service has developed a Sustainability Strategy which seeks to:

- i) Improve Early Help to reduce safeguarding referrals
- ii) Improve Family Practice to reduce care proceedings, reduce repeat child protection plans, reduce care days and increase reunification
- iii) Improve Care to reduce the number of out of city placements and placements with independent foster carers, improve placement stability and increase support

The main cause of the underlying deficit in Children's Social Care has been the sustained increase in the growth of Looked after Children. Over the past 5 years, this has grown by over 40% (well in excess of 100 additional children which on average cost circa. £50,000 per additional Looked After Child). This increase has not been accompanied by any increase in budget although the Service, unlike all other



Services of the Council has generally been exempted from any requirement to contribute towards the overall Council savings requirements.

It is clear at this stage that the Sustainability Strategy set out will not be able to achieve savings of the magnitude of £5.1m. Current estimates forecast that the level of on-going savings that could be made through the strategy could amount to £2m and be delivered over a 2 to 3 year period. On that basis, and to establish the Children's Social Care Budget to a more sustainable level, it is proposed that for 2019/20 an additional £4m is added to the Children's Social Care Budget made up as follows:

- i) £3m is added on an on-going basis and that this is factored into the Council's future forecast deficit upon which the Council's overall future savings requirements are based
- ii) £1m is added for 2019/20 from the additional funding provided by Government for Adults and Children's Social Care of £2.4m (confirmed for 2019/20 only)

8.54 Risks remain to the delivery of both the Adults and Children's Social Care financial sustainability strategies and these will be managed as an integral part of their implementation, however adequate corporate contingency provision will be made to cover those risks to ensure that the overall Council Budget remains robust.

8.55 Budget pressures within all other Services of the Council are expected to be able to be managed within their overall cash limit with any necessary support from their Portfolio Reserve to enable any such pressures to be managed over time.

8.56 As described in the Capital Programme 2018/19 to 2023/24 report contained elsewhere on this agenda, there are very significant future capital obligations and aspirations. These include schemes both of a statutory nature plus schemes aimed at protecting and transforming the City's economy. These schemes are presently unfunded but will likely require funding in the short and medium term:

<b>Capital Scheme - Significant Obligation / Aspiration</b>	<b>Unfunded Requirement £m</b>
Additional School Places - Primary & Secondary	0 - 5.0
Anti-Poverty Projects	0.4
Development of Performing Arts	6.0 - 10.0
Digital Strategy (incl. move to cloud based Information Technology systems)	2.0 - 3.5
Landlord's Maintenance	2.0 - 4.0
Local Transport Plan - road safety and traffic improvement schemes	1.5 - 2.0
Park Life	2.0 - 4.0
Sea Defences	0 - 25.0
The Camber Quay Berth 4 Replacement	1.8 - 2.0
<b>Total Funding Requirement</b>	<b>15.7 - 55.9</b>

8.57 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 £7m per annum) plus any Government funding which may be available for school places. With core capital funding of £7m potentially available versus core obligations and aspirations of between £16m to £56m of Capital Investment, there is a hugely significant shortfall ("Capital Gap") to be met.

- 8.58 Given that this Capital Investment is necessary for both the Council's statutory obligations and also to transform the City's growth potential, it is vital that the Council makes provision for Revenue Contributions to Capital wherever possible.
- 8.59 Given "Capital Gap" described above, it is recommended that:
- i) The estimated additional £1.6m available to the Council for 2019/20 only arising from the 75% BRR Pilot is transferred to Capital in order to supplement the Capital Resources available for 2019/20
  - ii) Any further underspendings for 2018/19 arising at the year-end be transferred to Capital to supplement the Capital Resources available for future years

### **Summary of Proposed Revenue Budget 2019/20**

- 8.60 The proposed Budget for 2019/20 has been prepared to include the following:

#### **Spending 2019/20:**

- Additional funding for Children's Social Care, recognising the sustained increase in Looked after Children as well as the additional unfunded costs of UAMs - £4m
- Passporting the "Social Care Precept" funding of £1.1m (amounting to the equivalent of a 1.5% increase in Council Tax) to Adult Social Care to meet demographic pressures, some of the costs associated with the National Living Wage and to mitigate the current underlying deficit
- An additional £1.4m for Adult Social Care to meet the continuation of the "Winter Pressures" programme as well as some of the additional costs associated with the 4.9% increase in the National Living Wage
- An overall allowance for inflation of 3.5% (which includes pay at 3.0%) amounting to £4.7m
- Use of the additional £1.6m received from the Business Rate Retention Pilot (currently guaranteed for 1 year only) to enable the Council to make a Revenue Contribution to the Capital Programme to ensure the Council can properly meet its essential Capital Investment needs
- Other Revenue Contributions to Capital of £5m to fund the Capital Programme set out elsewhere on this agenda and the revenue implications arising from the Council's obligations to fund that Capital Programme
- Overall contingency provision to cover known and anticipated financial risks of the Council amounting to £9.5m (£10.2m in 2018/19), especially those relating to increases in demand for Adult & Children's Social Care services and the delivery of budget savings more generally

- Adjustment to forecast borrowing costs and investment rates
- The £4.0m savings proposals approved by the City Council in December 2018
- Forecast losses from MMD amounting to £1.0m (but returning to profit in 2020/21)

#### Funding 2019/20:

- Reduction in general Government funding of £5.3m (of which £4.4m is routed through the Retained Business Rates system of "Top Ups and Tariffs" - see below)
- Reduction in retained Business rates associated with the move from the current 100% Business Rate Retention Pilot to the 75% Business Rate Retention Pilot amounting to £1.6m (note that if the Council was not within the new 75% Business Rate Retention Pilot then Business Rates would reduce by a further £1.6m)
- Changes arising from the increase in Business Rates due to the inflationary uplift in the multiplier and a real decline in the Business Rate Base
- An overall increase in Council Tax of 4.49%, yielding £3.4m
- An increase in the Council Tax base equivalent to 1,218 Band D properties yielding £1.7m
- A reduction in retained Business Rates<sup>11</sup> of £7.3m, (of which £1.6m arises as a direct result of the move from a 100% BRR Pilot to a 75% BRR Pilot and £4.4m relates to the reduction in Revenue Support Grant but routed through the BRR system as described above)
- Overall "one-off" surplus on the Collection Fund attributable to the City Council amounting to £2.4m, representing a surplus on Council Tax of £1.6m and a surplus on Business Rates retained of £0.8m

8.61 The proposed Budget for 2019/20, including the main changes described above results in net spending of £165,327,000. This amounts to a net increase in spending of £551,000 or 0.3% over the Original Budget 2018/19 of £164,776,000.

8.62 The proposed Budget for 2019/20 as described in this Section is recommended for approval.

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<sup>11</sup> This includes an increase in the surplus brought forward from one year to the next on the Collection Fund of £0.3m

## 9 Cash Limits 2019/20

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 2019/20 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 2019/20 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.

<b>PORTFOLIO</b>	<b>Cash Limits 2019/20 £'000</b>	<b>Items Outside the Cash Limit £'000</b>	<b>Budget 2019/20 £'000</b>
Children & Education	29,496	105	29,601
Culture Leisure & Sport	5,047	3,870	8,917
Education	5,015	18,989	24,004
Environment & Community Safety	14,582	1,787	16,369
Health & Social Care	44,369	3,313	47,682
Housing	2,287	5,743	8,030
Leader	133	20	153
Planning Regeneration Economic Development	(20,742)	13,041	(7,701)
Resources	19,744	4,250	23,994
Traffic & Transportation	15,558	684	16,242
Governance & Audit Committee	161	49	210
Licensing Committee	(244)	16	(228)
<b>PORTFOLIO EXPENDITURE</b>	<b>115,406</b>	<b>51,867</b>	<b>167,273</b>

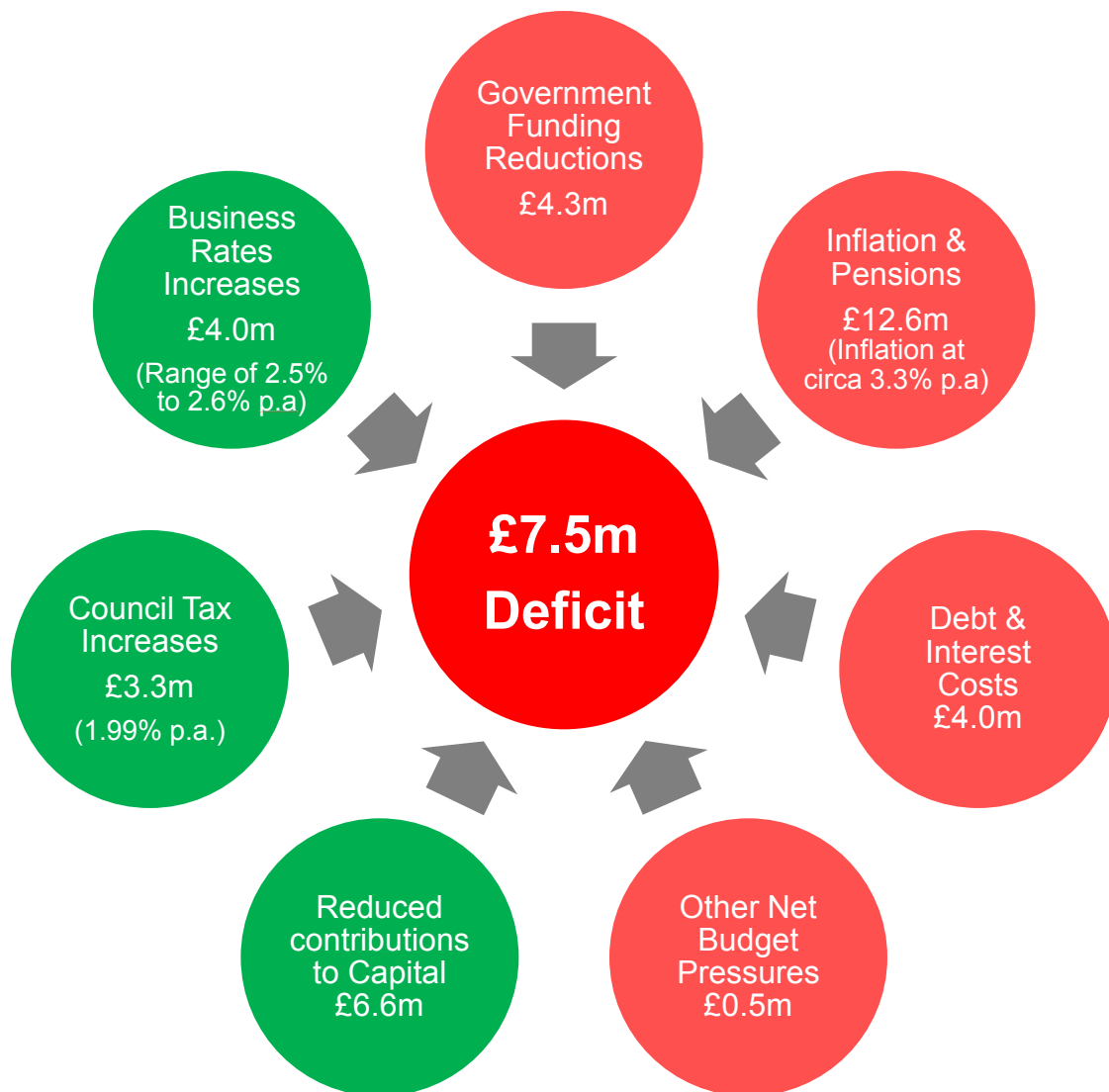
9.3 Managers will be expected to contain their expenditure in 2019/20 within Cash Limits and to regularly monitor their budgets to ensure this is achieved. Managers will continue to have the freedom to change their budgets within the Cash Limit in the year, provided they do not enter into commitments which would increase their expenditure in future years beyond the agreed Cash Limit for 2019/20, 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 2020/21 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 Cabinet will receive a report on the overall budget position every quarter.

## **10 Future Years' Medium Term Forecasts - 2020/21, 2021/22, and 2022/23**

- 10.1 A new medium term forecast has now been completed and "rolled on" a further year to cover the period 2020/21 to 2022/23. 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 £12m would be required across the previous 3 year period 2019/20 to 2021/22. The proposed Revenue Budget for 2019/20 provides for £4m of those savings that, based on the "old" forecast, would have left a residual £8m remaining to be found for the following 2 years.
- 10.3 The new medium term forecast takes account of the £4m savings being achieved in 2019/20, comprehensively revises the remaining £8m that was estimated to be required and makes a forecast for the additional year 2022/23. It is now estimated that the savings required for the new 3 year period 2020/21 to 2022/23 will now be £7.5m (or £15m 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 2020/21 to 2022/23 are as follows:



10.5 The most significant assumptions in the medium term forecasts for the period 2020/21 to 2022/23 are described below:

Spending:

- An overall composite inflationary provision covering all pay and prices at circa 3.3% per annum for the period plus additional pension obligations amounting to a total of £12.6m
- The ongoing effect of savings and passported funding for new burdens included in the 2019/20 budget
- Some provision for the potential on-going risks associated with the budget pressures within Children's and Adult Social Care

- Increased Debt and Interest costs of £4.0m
- Revenue contributions to Capital in reducing by £4.6m in 2020/21 and by £6.6m in 2022/23
- A contribution to the MTRS Reserve in 2021/22 in order to maintain the Reserve at levels consistent with continuing to be able to support Spend to Save initiatives and likely redundancy costs
- An assumption of a steady state for other budgets

#### Funding:

- Reductions in overall general Government funding from 2020/21 onwards amounting to £4.3m over the period, representing an overall reduction in Government Funding of 5.1%
- A 1.99% increase in Council Tax per annum from 2020/21 onwards, in total yielding £4.9
- Non recurrence of the current £1.6m surplus of the Council Tax element of the Collection Fund surplus
- The implementation of the Fair Funding Review and the 75% Business Rate Retention Scheme will have a broadly neutral effect on the Council's share of national funding.
- Indexation uplifts on retained Business Rates of 2.5% for 2020/21, a further 2.5% for 2021/22 and a further 2.6% for 2022/23 in line with forecasts from the Office for Budget Responsibility; but reduced by the £1.6m additional sum associated with the 75% Business Rate Retention Pilot (guaranteed for 1 year only) and the one-off surplus on the Collection Fund (£0.8m). The sum of all these factors is an increase of £4.0m.
- An underlying zero growth assumption for changes in Business Rates from 2019/20 onwards, to reflect the uncertainty relating to appeals and mandatory reliefs
- That any loss of business rates income arising from National Business Rate reduction / capping initiatives will continue to be recompensed by Government via S.31 grant funding
- An assumption that the New Homes Bonus will be subsumed within the new Fair Funding Review and an implied continuation of funding at current levels
- No changes to the Port dividend for 2020/21, 2021/22, and 2022/23 to reflect current forecasts

10.6 It is important to recognise that this forecast extends beyond the Comprehensive Spending Review planned for the coming year and the Fair Funding Review and the

75% Business Rate Retention Scheme due to be implemented in 2020/21. It also moves 2 years beyond these events making broad assumptions at the macroeconomic level pending any indicative information at the local level. Consequently there remains a significant level of uncertainty surrounding the £7.5m forecast deficit which could realistically vary between +/- £3m.

- 10.7 Due to the uncertain nature of the future years' forecasts it is imperative that the Council continues to plan for £2.5m of savings per annum as well as maintaining sufficient General Reserves. This is a balanced approach appropriate to an eventuality where the Council's forecasts are either too pessimistic or too optimistic. For example, in the event that the 3 year forecast improves, the Council has not prematurely made a level of savings and service reductions that could have been avoided and it allows more time for savings initiatives to take effect. If the forecast deteriorates, the Council will have made good progress towards the necessary savings and have sufficient General Reserves to avoid significant "spikes" in Savings Requirements in any single year in the future.
- 10.8 Crucially, this savings strategy, as described above, can only work if the Council retains General Reserves at the levels set out in this report.
- 10.9 In summary, the overall forecast budget deficit and therefore savings requirement has been reduced for both 2020/21 and 2021/22 and the forecast has been "rolled on" to now include a deficit in 2022/23 of £2.5m. The overall forecast budget deficit and savings requirement for the 3 year period 2020/21 to 2022/23 is £7.5m. Importantly, this level of budget deficit can only be maintained if the Council approves the proposed £4.0m of savings as well as the increase in Council Tax of 4.49% for 2019/20.
- 10.10 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.
- 10.11 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.
- 10.12 The Savings Requirements recommended below have been phased to have regard to a managed reduction in spending and service provision over a realistic period:

	<b>Revised Underlying Budget Deficit £m</b>	<b>Revised In Year Target £m</b>	<b>Revised Cumulative Saving £m</b>
2020/21	2.7	2.5	2.5
2021/22	4.8	2.5	5.0
2022/23	7.5	2.5	7.5

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



## 11 Estimated General Reserves 2018/19 to 2022/23

- 11.1 In general, maintaining adequate reserves is a measure of responsible financial management and strong financial health. They are required in order to be able to respond to "financial shocks" without having to revert to the alternative of quick and severe reductions in services. Equally, they can be a vehicle to take advantage of any opportunities that may arise which are in the financial interests of the Council (for example, matched funding opportunities which could lever in additional funding for the City or for Spend to Save schemes). Importantly, they also enable differences between expenditure and funding levels to be "smoothed out" and managed in a planned way over time.
- 11.2 General Fund Revenue Reserves as at 31 March 2019 (Revised Estimate) are anticipated to be £20.5m after transfers to and from other reserves. The Council is expected therefore to remain within the approved level of minimum General Reserves of £8.0m.
- 11.3 In accordance with Best Practice, the level and nature of all revenue reserves and balances has been reviewed as part of the budget process. The exercise has attempted to identify and assess all of the City Council's potential financial risks over the next few years in order to determine the prudent level of balances that should be retained, based on the City Council's risk profile. Each risk has been considered alongside the probability of it happening.
- 11.4 The outcome shows that for 2019/20 the City Council should continue to hold a minimum of £8.0m in General Reserves to cover these major risks. It is therefore recommended that the minimum level of General Reserves be maintained at £8.0m as at March 2020. Assuming the savings required to fund the forecast deficit in 2019/20 are achieved, General Reserves as at 31 March 2020 are forecast to be £20.2m.
- 11.5 The minimum level of balances for 2020/21 and future years will be reviewed annually as part of the budget process.
- 11.6 The statement below gives details of the General Reserves in hand at 1 April 2018, together with the proposed use of reserves from 2018/19 to 2022/23, and the resultant balances at 31 March 2023 **assuming that the target savings recommended in Section 10 are achieved.**

<b>General Reserves Forecast - Up to 2022/23</b>					
<b>Financial Year</b>	Current Year £m	Budget 2019/20 £m	Forecast 2020/21 £m	Forecast 2021/22 £m	Forecast 2022/23 £m
<b>Opening Balance</b>	20.6	20.5	20.2	20.0	20.2
<b>In Year Surplus / (Deficit)</b>	(0.1)	(0.3)	(0.2)	0.2	0.0
<b>Forecast Balance</b>	<b>20.5</b>	<b>20.2</b>	<b>20.0</b>	<b>20.2</b>	<b>20.2</b>

11.7 The level of balances held over the period will be higher than the minimum level recommended. This prudent approach is being taken for a number of specific reasons, which include:

- The Council is not permitted to budget for a level of General Reserves below the minimum level determined by the S.151 Officer
- There remain continuing risks associated with the financial sustainability plans for both Adults and Children's Social Care. For example, should forecast overspending arise in 2019/20 at levels similar to the current year, which were in excess of £10m, half of the Council's Reserves could be eliminated within a single year.
- The balances are predicated on total savings (as yet unidentified) of £7.5m being achieved over the next 3 years. If those savings are not made, balances would be below the minimum level by 31 March 2023.
- It is a crucial part of the strategy to mitigate against the uncertainty of the Fair Funding Review in 2020/21 in order to avoid potentially significant "spikes" in savings requirements in any single year (as described in Section 10 above)
- 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 £8.3m<sup>12</sup> means there are only limited funds available to fund the implementation costs of future efficiency savings (see Section 12)

11.8 Furthermore, the City Council is pursuing a number of initiatives that will rely temporarily on the use of the Council's reserves generally in order to deliver them in a more cost efficient way (i.e. as opposed to borrowing). Examples include, the City Deal, Dunsbury Hill Farm and the Investment Property Fund. In the current climate where borrowing rates are significantly greater than investment rates, it makes financial sense to utilise General Balances and Reserves (that would otherwise be invested until required) and defer any borrowing decisions to a later date once investment rates recover. Retaining reserves therefore is an extremely important element of delivering the Council's Regeneration Strategy that will ultimately result in increased jobs, new homes and improved prosperity for the City.

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<sup>12</sup> Including the net transfers from the reserve of £2.241m contained with the recommendations of the Capital Programme 2018/19 to 2023/24 report elsewhere on this agenda

## **12 Medium Term Resource Strategy Reserve**

- 12.1 The MTRS Reserve was originally established to fund:
- Spend to Save and Spend to Avoid Cost initiatives
  - Invest to Save capital schemes
  - Feasibility Studies where there is likely to be an efficiency gain
  - One-off redundancy costs arising from proposed savings
  - The funding of expenditure of a “one-off” nature that is critical to the successful achievement of the outcomes that the residents of Portsmouth value most highly and where no other alternative funding source is available
- 12.2 Historically, the reserve has been replenished by transfers of underspends from previous years. Under the new financial framework of retained underspendings by Portfolios, the opportunities for replenishing this reserve are now diminished. The calls on the reserve however, for smaller scale Spend to Save or Invest to Save schemes are also diminished, since these are funded from Portfolio Reserves where available. It is important that the reserve is maintained to fund larger scale Spend to Save schemes that would otherwise be unaffordable by a Portfolio.
- 12.3 It is anticipated that the main call on the MTRS Reserve over the next few years will be Invest to Save Schemes Invest to Save Schemes of a capital nature and the revenue costs associated with transforming Services. Additionally, redundancy costs will also be required, arising out of the savings needed to balance meet the £7.5m forecast Budget deficit.
- 12.4 In order to provide for future years anticipated redundancy costs (i.e. over the course of the coming year and the further 3 year forecast), satisfy the demands for Invest to Save Schemes and meet all other commitments, it is anticipated that the uncommitted balance on the MTRS Reserve will be £8.3m. Importantly, a Spend to Save (avoid cost) proposal for Children's Social Care of a substantial sum is anticipated in the near future in order to support the delivery of their Financial Sustainability Strategy.
- 12.5 In future years, for this reserve to continue in this capacity, it will be necessary to replenish it either from non Portfolio underspends or alternatively from the Revenue Budget.

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

- 13.1 Section 25 of the Local Government Act 2003 (“the Act”) requires the Chief Financial Officer to report to the City Council on the following matters:
- The robustness of the estimates included in the budget made for the purposes of setting the Council Tax; and
  - The adequacy of proposed financial reserves

- 13.2 Section 25 of the Act concentrates on uncertainties within the budget year rather than the greater uncertainties in future years. In the current economic climate, there continue to be uncertainties in both the current and future years i.e. beyond 2019/20. Particular uncertainties exist regarding the extent of successful appeals and mandatory reliefs which affect Retained Business Rates, Government Funding levels (including the outcome of the Fair funding Review and the 75% Business Rate Retention scheme), the ability of the Council to continue to make the necessary savings at the required scale and pace, the likely demographic cost pressures arising in demand driven services such as Adults and Children's Social Care and the extent to which new policy changes will be funded (most notably those arising from the Care Act). All of these uncertainties increase the need for adequate reserves and balances to be maintained in current and future years.
- 13.3 A minimum level of revenue reserves must be specified within the Budget. The Local Authority must take full account of this information when setting the Budget Requirement.
- 13.4 Should the level of reserves fall below the minimum approved sum of £8.0m 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 spending controls until a balanced budget is approved by the Council.

**(a) Robustness of the Budget**

- 13.5 In setting the Budget, the City Council should have regard to the strategic and operational risks facing the City Council. Some of these risks reflect the current economic climate and the national issues surrounding local authority funding levels.
- 13.6 Estimates and forecasts have been prepared to include all known significant financial factors over the medium term in order to inform spending decisions.
- 13.7 Assumptions for the Budget and forecasts for future years are considered to be sound and based on the best available information. These are set out in detail in Sections 8 and 10 and use the following sources as their evidence base:
- Government funding as set out in the provisional settlement for 2019/20.
  - A "no growth" assumption for Retained Business Rates from 2020/21 onwards on the basis that any income arising from growth will be offset by both appeals and reliefs
  - The 75% Business Rate Retention Pilot will run for 2019/20 only
  - An assumption that the value of successful appeals against the 2017 rating list will be the equivalent of 4.7% of the business rate multiplier.
  - Increases in Council Tax based on what is likely to be acceptable and within expected referendum limits

- 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"<sup>13</sup>
- Specific provisions for increases in demand for both Adult and Children's Social Care based on current trends
- A general provision for (as yet) unknown budget pressures based on the estimated probability of those pressures being unable to be managed within Portfolio cash limits
- Prudential borrowing requirements based on approved Capital schemes
- Revenue contributions to capital based on known commitments and estimates of future needs
- Balances and contingencies based on a risk assessment of all known financial risks

13.8 Savings contained within the Budget are those where Portfolio Holders and Directors assess the confidence level of achievement is medium and above. Savings proposals have also been subject to scrutiny by Members. Responsibility and accountability for delivering the savings rests with the relevant Portfolio Holders and Directors and progress will be monitored throughout the year as part of the Budget Monitoring process.

13.9 The most volatile budgets are those of Adult and Children's Social Care. Budget provision has been made available to cover these risks both directly within Service cash limits as well as within the City Council's overall contingency provision.

13.10 Additionally, Portfolios will be able to retain any underspendings in 2018/19 and utilise them as necessary in 2019/20 and future years for any purpose but with a clear priority to meet essential cost pressures in the first instance.

13.11 The forecasts prepared for the forthcoming and future years are robustly based and illustrate the expected costs the City Council will incur in order to deliver current levels of service.

13.12 Portfolio Holders will be given regular budget updates by Directors to ensure that action to address any potential over or underspend is taken promptly and quarterly budget monitoring reports will continue to be presented to the Cabinet.

13.13 To encourage budget discipline, all future overspendings will be deducted from any retained underspendings accumulated in Portfolio Earmarked Reserves in the first instance and once depleted from the following year's Cash Limits.

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<sup>13</sup> Relative need is based on the Government's "Relative Needs Formula" that is used in allocating general government funding

- 13.14 Prudential Indicators are accurately calculated based on the Council's audited Balance Sheet, notified income streams and in depth financial appraisals of proposed capital schemes. These are published and reviewed on a regular basis to ensure that the City Council complies with the concepts of Affordability, Prudence, and Sustainability. The City Council has agreed to consider Prudential Borrowing for "Spend to Save Schemes" only, as it is currently unaffordable for any other purpose given the forecast budget deficits in 2020/21 and future years.
- 13.15 Future years' budgets will remain challenging due to continued funding reductions and uncertainties. The Council's forecasts provide for a savings target of £2.5m in 2020/21, a further £2.5m in 2021/22 and a further £2.5 in 2022/23.

### **(b) The Adequacy of Proposed Financial Reserves**

- 13.16 During 2018/19, a review of the level and nature of all revenue reserves and balances has been undertaken. All of the City Council's potential financial risks over the next few years and the probability of each risk happening has been assessed. The outcome from this review concludes the need to maintain the minimum level of General Reserves of £8.0m as at 31 March 2020 (£8.0m in the current year).
- 13.17 Balances provide a buffer against unexpected costs such as pay awards, inflation, shortfalls in income and overspends and enable the City Council to manage change without undue impact on the Council Tax or immediate reductions to services. They are a key element of strong financial standing and resilience as they mitigate risks such as increased demand and other cost pressures.
- 13.18 The level of balances held will be higher than the minimum level recommended. This prudent approach is being taken for a number of specific reasons as set out in Section 11. The position will continue to be reviewed and reported to Members on an annual basis.
- 13.19 As previously mentioned, the Council will maintain Portfolio Earmarked Reserves to retain accumulated Portfolio underspends in order that Portfolios can better manage any known or unknown cost pressures that arise. It is forecast that Portfolio Reserves will amount to £8.1m as at 31 March 2019 which will be available for 2019/20.
- 13.20 The MTRS Reserve is the Council's primary vehicle for funding Spend to Save and Spend to Avoid Costs Initiatives, Feasibility Studies and redundancy costs. Taking account of all approvals from this reserve and future estimated redundancy costs over the next 4 years, it is estimated that the Reserve will have an uncommitted balance of £8.3m. In order for this Reserve to continue in this capacity, it will be necessary to replenish it from any non Portfolio underspendings, transfers from other reserves no longer required or alternatively from the Revenue Budget.
- 13.21 The Council maintains a number of other Earmarked Reserves for specific purposes, all of which are at the levels required to meet known future commitments. The major reserves include the following:
- Revenue Reserve for Capital – to fund the Capital Programme
  - Highways PFI Reserve – to fund future commitments under that contract

- Off Street Parking Reserve – to fund investment in transport
- Insurance Reserve – to fund potential future liabilities

13.22 The Council's contingency provision for 2019/20 has been set on a risk basis at £9.5m and reflects anticipated calls on the budget where the timing and value is not yet known. The use and application of the contingency will continue to be exercised tightly.

## 14 Conclusion

14.1 The proposed Budget 2019/20 has been prepared to incorporate the decisions of Council in December 2018 to make savings amounting to £4m and set a Council Tax increase of 4.49%.

14.2 The decisions made by the City Council in December 2018 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 drive towards regeneration of the City, being innovative, creative and protecting the most important and valued services*

14.3 The proposals contained within the December 2018 report and this report, now culminating in the proposed Budget for 2019/20, will:

- Balances the Budget for 2018/19, accommodating all forecast overspendings and drawing on the Council's General Reserves by just £44,000.
- Provide a suite of savings amounting to £4m of which the vast majority relate to either efficiency savings (£2.9m) or additional income (£0.8m) leaving just £0.3m, or 7%, to be achieved through service reductions
- In accordance with the Budget Consultation, provide significant protection to Education, Adults Social Care and Children's Social Care
- Provide for an overall Council Tax increase of 4.49% in 2019/20 comprising 2.99% for General Purposes and 1.5% to be passported direct to Adult Social Care services.
- That an additional £4m is allocated to Children's Social Care in recognition of the 40% plus rise in the number of Looked after Children over the past 5 years
- Provide assurance that with a 1.5% increase in Council Tax for Adult Social Care that existing and emerging cost pressures can be met and mitigation is provided to address the underlying deficit of £2.5m therefore avoiding any

further reductions to those services in 2019/20 which is critical for Adult Social Care services and the wider health system in the City

- Provide real growth in funding to Adult Social Care (after passporting the ASC Precept and additional funding for Winter Pressures and the National Living Wage)
- Support the strategies for the medium term financial sustainability of both Adults and Children's Social Care.
- Require that for 2020/21 a minimum on-going savings sum of £2.5m be made
- Supplement the Capital Resources available in 2019/20 by transferring the additional funding of £1.6m arising from the 75% Solent BRR pilot scheme to ensure that the Council's essential Capital Investment needs are met and that its priority aspirations can also be progressed.
- Provide for any further underspendings for 2018/19 arising at the year-end (outside of those made by Portfolios) to be transferred to Capital Resources in order to provide funding for known future requirements such as School Places, Sea Defences, essential maintenance for Council facilities, cultural regeneration and enabling infrastructure for the City's development. The culmination of the above results in a substantial funding shortfall but which, if addressed, is likely to have a significant transformational effect on the City's growth potential and social fabric.

14.4 The proposed Budget for 2019/20 is financially balanced, robustly based and provides sufficient cover for anticipated and potential financial risks within the year. Furthermore, the overall financial health of the Council currently remains sound providing a good degree of resilience against an uncertain future.

14.5 The challenge for the Council continues to be driven by anticipated Government funding reductions coupled with the demand led costs from essential care services. Due to prudent financial management over a number of years, the scale of those savings is now at more moderate levels and the forecast budget deficit for the 3 year period 2020/21 to 2022/23 has reduced to £7.5m amounting to £2.5m per annum for each of the next 3 years.

14.6 The essential care services of Adult Social Care and Children's Social Care continue to dominate the Council's costs at 46% of all controllable spend. Whilst innovative activities, income generation generally and improving the City's economy is a strong focus in its Medium Term Financial Strategy in its aim to avoid service reductions, all services of the Council, including essential care services, will need to continue to manage cost pressures and make meaningful contributions towards the overall £7.5m Budget Deficit.

14.7 Funding uncertainty still remains, particularly in 2020/21 when the Local Government funding system changes to 75% Business Rate Retention alongside the simultaneous implementation of the Fair Funding review; combined these have the potential to affect the Councils forecasts either positively or negatively by circa £3m.



14.8 Looking forward, the main risks to the Council's financial resilience include:

- The ability to make savings to meet the continuing anticipated real funding reductions from Government
- The demographic pressures arising from demand led essential Care Services and the ability to deliver financial sustainability strategies in Adult and Children's Social Care
- The extent to which new burdens arising from national policy changes will be fully funded
- The level of Business Rates appeals and reliefs experienced plus the extent of Business growth or contraction
- The level of uncertainty surrounding the forecast for Local Government funding from 2020/21.
- The ability of the Council to meet its statutory Capital Investment obligations and aspirations for economic growth in the future

14.9 Given the level of savings required over the next 3 years of £7.5m, 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 and maintain Reserves at adequate levels. The Council should also be particularly mindful of the potential future income or reduced demand / costs that the Council could derive through the delivery of its Capital Programme. This is likely to be the biggest influence on enabling jobs, growth and overall improved prosperity within the City.

## **15 Equality Impact Assessment (EIA)**

15.1 Consideration of the impact of budget pressures and proposed savings on all customers, services and staff has been taken into account in formulating this budget. The proposed Budget 2019/20 is based on the savings proposals set out in the report to Council in December 2018. Those savings were proposals only for the purposes of setting Portfolio Cash Limits and the overall City Council Budget. Whilst most are likely to be implemented, there will be some that require further consultation and appropriate Equality Impact Assessments to be considered before any implementation can take place. For this reason, Portfolio holders have the discretion to alter, amend or substitute any proposal with an alternative proposal following appropriate consultation.

15.2 A city-wide budget consultation took place during October and November to help inform how to make £12m of savings over the period 2019/20 to 2021/22 as well as how the Council should prioritise its spending plans. The consultation took the form of a survey questionnaire which was also supplemented by 10 consultation events at various locations across the City. There were 8 public consultation events and 2 tailored events - one seeking the views of younger residents at Portsmouth College and another focussing on business insight. The eight public consultation events were

held at supermarkets, leisure centres and markets across Portsmouth at various times of the day. Information about the consultation was also distributed throughout the City, in libraries, housing offices and community centres.

- 15.3 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. A public meeting of the Scrutiny Management Panel was held on the 01 February 2019 where a presentation was made of the proposed Council Tax and Revenue Budget 2019/20, the Council's future financial forecasts for 2020/21 to 2022/23 and the proposed Capital Investment plans.

## **16 City Solicitor's Comments**

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

## **17 S.151 Officer's Comments**

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

.....  
Signed by: Section 151 Officer

**Appendices:**

<b>A</b>	General Fund Summary
<b>B</b>	Forecast Expenditure 2019/20 to 2022/23
<b>C</b>	Council Tax - Empty Property Discounts
<b>D</b>	Council Tax - Care Leavers Council Tax Exemption Scheme

**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:

<b>Title of document</b>	<b>Location</b>
Budget Working Papers	Office of Director of Finance & Information Technology
Local Government Finance Settlement 2019/20	Office of Director of Finance & Information Technology

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the City Council on 12 February 2019.

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

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## APPENDIX A

### Calculation of the Council Tax 2019/20

<b><u>Portsmouth City Council</u></b>	<b>2019/20</b>	<b>2018/19</b>
	<b>£</b>	<b>£</b>
Gross Expenditure	481,710,889	486,934,953
LESS: Gross Income	(384,940,505)	(395,709,560)
Net Expenditure 2019/20	96,770,384	91,225,393
LESS: Government Grants	(17,054,314)	(16,565,834)
Council Tax Requirement - Portsmouth City Council Purposes	<b>79,716,070</b>	<b>74,659,559</b>
Council Tax Base	57,075.4	55,857.4
Council Tax - Portsmouth City Council Purposes at Band D		
<u>79,716,070</u>		
57,075.4 =	<b>£1,396.68</b>	<b>£1,336.61</b>

<b><u>Hampshire Police &amp; Crime Commissioner Precept</u></b>	<b>11,498,410</b>	<b>9,912,454</b>
Council Tax - Hampshire Police & Crime Commissioner Purposes at Band D	<b>£201.46</b>	<b>£177.46</b>

<b><u>Hampshire Fire and Rescue Authority Precept</u></b>	<b>3,864,575</b>	<b>3,672,065</b>
Council Tax - Hampshire Fire and Rescue Authority Purposes at Band D	<b>£67.71</b>	<b>£65.74</b>

### The Council Tax to be levied for all bands in 2019/20 will be as follows :

		Portsmouth City Council £	Hampshire Police & Crime Commissioner £	Hampshire Fire & Rescue Authority £	TOTAL 2019/20 £	TOTAL 2018/19 £
Estimated Valuation as 1 April 1991						
Up to £40,000	A	931.12	134.31	45.14	1,110.57	1,053.21
£40,001 - £52,000	B	1,086.31	156.69	52.66	1,295.66	1,228.74
£52,001 - £68,000	C	1,241.49	179.08	60.19	1,480.76	1,404.28
£68,001 - £88,000	D	1,396.68	201.46	67.71	1,665.85	1,579.81
£88,001 - £120,000	E	1,707.05	246.23	82.76	2,036.04	1,930.88
£120,001 - £160,000	F	2,017.43	291.00	97.80	2,406.23	2,281.95
£160,001 - £320,000	G	2,327.80	335.77	112.85	2,776.42	2,633.02
£320,001 and over	H	2,793.36	402.92	135.42	3,331.70	3,159.62

# GENERAL FUND SUMMARY - 2018/19 to 2022/23

# APPENDIX A

Original Budget 2018/19 £	NET REQUIREMENTS OF PORTFOLIOS	Revised Budget 2018/19 £	Original Budget 2019/20 £	Forecast 2020/21 £	Forecast 2021/22 £	Forecast 2022/23 £
24,904,800	Children & Families	24,926,600	29,600,800	34,178,800	35,151,500	36,194,100
8,993,160	Culture Leisure & Sport	8,330,960	8,917,160	9,294,460	9,560,560	9,839,460
24,294,457	Education	23,379,657	24,003,957	24,429,257	24,593,857	24,765,857
16,154,013	Environment & Community Safety	16,444,913	16,369,213	16,771,213	16,997,113	17,481,113
45,052,279	Health & Social Care	42,094,679	47,682,279	47,732,979	49,707,979	51,645,579
8,282,428	Housing	8,345,228	8,029,528	8,102,428	8,195,328	8,292,928
158,453	Leader	184,953	152,853	157,253	161,753	166,453
(4,490,371)	Planning Regeneration Economic Development	(6,181,171)	(7,700,971)	(8,783,371)	(9,684,471)	(10,023,371)
22,289,434	Resources	24,177,734	23,993,734	25,836,134	26,523,534	27,140,434
16,443,707	Traffic & Transportation	16,469,507	16,242,107	16,350,707	16,429,007	17,522,507
199,400	Governance, Audit & Standards Committee	241,800	210,200	219,300	114,600	238,100
(222,795)	Licensing Committee	(223,895)	(228,095)	(230,795)	(233,895)	(237,595)
<b>162,058,965</b>	<b>Portfolio Expenditure</b>	<b>158,190,965</b>	<b>167,272,765</b>	<b>174,058,365</b>	<b>177,516,865</b>	<b>183,025,565</b>
	<u>Other Expenditure</u>					
0	Precepts	0	0	39,400	40,400	41,500
(150,000)	Portchester Crematorium - Share of Dividend	(150,000)	(160,000)	(150,000)	(150,000)	(150,000)
7,672,000	Pension Costs	7,241,200	8,018,900	8,352,900	8,698,300	9,106,100
6,384,000	Contingency Provision	10,179,500	9,489,000	4,713,500	4,713,500	4,713,500
10,344,500	Revenue Contributions to Capital Reserve	7,648,300	6,600,000	2,000,000	0	0
3,155,900	Transfer to / (from) Other Reserves	6,260,300	(570,600)	1,124,100	1,396,300	396,300
(27,225,965)	Treasury Management	(30,528,865)	(28,318,765)	(25,931,665)	(24,050,165)	(24,290,565)
2,536,600	Other Expenditure	8,111,600	2,995,700	1,628,400	2,161,800	2,695,600
<b>2,717,035</b>	<b>Other Expenditure</b>	<b>8,762,035</b>	<b>(1,945,765)</b>	<b>(8,223,365)</b>	<b>(7,189,865)</b>	<b>(7,487,565)</b>
<b>164,776,000</b>	<b>TOTAL NET EXPENDITURE</b>	<b>166,953,000</b>	<b>165,327,000</b>	<b>165,835,000</b>	<b>170,327,000</b>	<b>175,538,000</b>
	<b>FINANCED BY:</b>					
(304,260)	Contribution (to) from Balances and Reserves	43,654	282,310	2,690,355	4,793,197	7,498,038
0	Revenue Support Grant	0	0	0	0	0
73,567,319	Business Rates Retention	73,971,976	66,700,841	66,577,515	67,454,236	68,424,771
15,827,049	Other General Grants	17,251,478	17,054,314	15,264,935	15,159,284	15,044,859
75,685,892	Council Tax	75,685,892	81,289,535	81,302,195	82,920,283	84,570,332
<b>164,776,000</b>		<b>166,953,000</b>	<b>165,327,000</b>	<b>165,835,000</b>	<b>170,327,000</b>	<b>175,538,000</b>
	<b>BALANCES &amp; RESERVES</b>					
20,645,474	Balance brought forward at 1 April	20,565,824	20,522,170	20,239,860	17,549,505	12,756,308
304,260	Deduct (Deficit) / Add Surplus for Year	(43,654)	(282,310)	(2,690,355)	(4,793,197)	(7,498,038)
<b>20,949,734</b>	<b>Balance carried forward at 31 March</b>	<b>20,522,170</b>	<b>20,239,860</b>	<b>17,549,505</b>	<b>12,756,308</b>	<b>5,258,270</b>
<b>8,000,000</b>	<b>Minimum Level of Balances</b>	<b>8,000,000</b>	<b>8,000,000</b>	<b>8,000,000</b>	<b>8,000,000</b>	<b>8,000,000</b>
<b>(304,260)</b>	<b>Underlying Budget Deficit / (Surplus)</b>	<b>43,654</b>	<b>282,310</b>	<b>2,690,355</b>	<b>4,793,197</b>	<b>7,498,038</b>

## APPENDIX B

### BUDGET AND FORECAST EXPENDITURE 2019/20 to 2022/23

	<b>Forecast 2019/20 £'000</b>	<b>Forecast 2020/21 £'000</b>	<b>Forecast 2021/22 £'000</b>	<b>Forecast 2022/23 £'000</b>
Service Cash Limits	115,404	122,188	125,644	131,150
Contingency	9,489	4,714	4,714	4,714
Debt financing costs	22,134	24,521	26,403	26,163
Levies and insurance premiums	1,416	1,418	1,420	1,422
Other income/expenditure	16,884	12,994	12,145	12,089
	<b>165,327</b>	<b>165,835</b>	<b>170,326</b>	<b>175,538</b>
<u>Less</u>				
- Council Tax Income	81,290	81,302	82,920	84,570
- Revenue Support Grant	0	0	0	0
- Business Rates Retention	66,701	66,578	67,454	68,425
- Other General Grants	17,054	15,265	15,159	15,045
	<b>165,045</b>	<b>163,145</b>	<b>165,533</b>	<b>168,040</b>
<b>Budget (Deficit)/Surplus</b>	<b>(282)</b>	<b>(2,690)</b>	<b>(4,793)</b>	<b>(7,498)</b>

Deficits in 2020/21 to 2022/23 reflect future savings requirements

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## APPENDIX C



### **Portsmouth City Council Council Tax**

**Policy for Second Homes, Long Term Empty  
Properties and determining discounts for certain  
dwellings.**

## Version control

<i>Version</i>	<i>Version date</i>	<i>Revised by</i>	<i>Description</i>
1	01/04/2014	Pete Middleton	Updated following Cabinet approval of changes to Council Tax regime.
1.1	09/12/2015	Matt Willis	Draft update on proposed changes to the first phase of empty dwellings - section 3.1 of this policy.  Approved at Council Meeting 08/02/2016
1.2	13/02/19	Matt Willis / Steven Ranaghan	Draft. Update following full council meeting 12/02/2019 to amend the maximum empty homes premium

## Contents

<a href="#">Introduction</a> .....	59
<a href="#">Second Homes - Policy effective from 1st April 2014 to remain unchanged</a> .....	59
<a href="#">Empty Homes - Policy effective from 1st April 2019</a> .....	60
<a href="#">Publication of the changes</a> .....	61

## **Introduction**

The Local Government Finance Act 2012 amends the Local Government Finance Act 1992 allowing local discretion over the implementation of certain discounts and charges applied within the Council Tax regime.

The following policy details the approach to be taken by Portsmouth City Council with effect from 1st April 2019.

### **Second Homes - Policy effective from 1st April 2014 to remain unchanged**

The City Council under this policy will make a charge for second homes of 100% (a discount of 0%). This is the level charged from 1st April 2014.

In the following cases a charge of 50% will apply (rather than the 100%) as required by legislation;

- Dwellings which are furnished but unoccupied because the owner is liable to a Council Tax elsewhere in job-related accommodation;
- Empty but furnished dwellings of service personnel resident in accommodation provided by the Ministry of Defence;
- If the dwelling is a caravan or houseboat;
- Clergy who are required to live in accommodation provided by their employer to perform the duties of their office.

The legislation outlining the above is the Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 as amended by the Council Tax (Prescribed Classes of Dwellings) (England) (Amendment) Regulations 2012. The regulations require the authority to determine the classes under which a discount will be granted. For the purposes of this policy the classes and discounts to be granted by the City Council from 1st April 2014 are as follows;

Class	Descriptions	Discount
A	A dwelling; a) which is not the sole or main residence of an individual; b) which is furnished; and c) the occupation of which is restricted by the planning condition preventing occupancy for a continuous period of at least 28 days in the relevant year.	0%
B	A dwelling; a) which is not the sole or main residence of an individual; b) which is furnished; and c) the occupation of which is not restricted by the planning condition preventing occupancy for continuous period of at least 28 days in the relevant year	0%

## **Empty Homes - Policy effective from 1st April 2019**

For Council Tax purposes, the revised legislation determines that the charge for empty dwellings will follow three phases namely;

**First Phase:** a period during which a dwelling will attract the discount of between 0% and 100% determined by the local authority (as a result of the measures outlined within the Local Government Finance Act 2012). If the dwelling remains empty and substantially unfurnished, this period will last up to 6<sup>14</sup> months as determined by the authority (12 months if the dwelling in addition to being unoccupied and substantially unfurnished is undergoing major repairs<sup>15</sup>);

**Second Phase:** a period during which the discount attracted will be between 0% and 50%. The rules for this phase are based on the Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 as amended by the Council Tax (Prescribed Classes of Dwellings) (England) (Amendment) Regulations 2012. During this phase the authority can determine (in accordance with Class C of the regulations) the level of discount between 0% and 50%. The second phase will last indefinitely unless the local authority has made a determination implementing the empty homes premium.

**Third Phase:** an indefinite period starting when the dwelling has been empty for two years. In this phase, the liability may be increased by an additional premium<sup>16</sup>.

### **The City Council has resolved that the following will apply from 1st April 2019:**

#### **Where a dwelling is unoccupied and substantially unfurnished**

If a dwelling becomes unoccupied and substantially unfurnished the City Council will apply a discount of 0%, requiring the full council tax charge to be payable.

#### **Where a dwelling is unoccupied and substantially unfurnished, requiring or undergoing structural alterations or major repair works to make it habitable**

(a) If a dwelling is unoccupied and substantially unfurnished, requiring or undergoing structural alterations or major repair works to make it habitable, a discount of 40% will be granted for any period up to one year so long as it remains so;

If a dwelling in (a) above remains unoccupied and substantially unfurnished for a period of greater than one year, 0% discount will be given after the end of that year.

#### **Where a dwelling remains unoccupied and substantially unfurnished for a period of two years or more**

(a) Where a dwelling remains unoccupied and substantially unfurnished for a period of two years or more, the City Council has resolved to charge an empty homes premium of the

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<sup>14</sup> This replaces Class C of the Council Tax (Exempt Dwellings) Order 1992

<sup>15</sup> This replaces Class A of the Council Tax (Exempt Dwellings) Order 1992

<sup>16</sup> Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018

relevant maximum in addition to the full Council Tax charge, as allowed within Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018.

For the financial year beginning 1 April 2019

The relevant maximum is 100% for dwellings that have remained unoccupied and substantially unfurnished for a period of at least 2 years.

For the financial year beginning on 1 April 2020

The relevant maximum is 100% for dwellings that have remained unoccupied and substantially unfurnished for a period of at least 2 years but less than 5 years.

The relevant maximum is 200% for dwellings that have remained unoccupied and substantially unfurnished for a period of at least 5 years.

For the financial year beginning on 1 April 2021

The relevant maximum is 100% for dwellings that have remained unoccupied and substantially unfurnished for a period of at least 2 years but less than 5 years.

The relevant maximum is 200% for dwellings that have remained unoccupied and substantially unfurnished for a period of at least 5 years but less than 10 years.

The relevant maximum is 300% for dwellings that have remained unoccupied and substantially unfurnished for a period of at least 10 years.

**Publication of the changes**

The City Council, in accordance with the legislation, will publish the changes to the Council Tax regime within 21 days of making such a resolution.

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## **APPENDIX D**



**Portsmouth**  
CITY COUNCIL

### **Portsmouth City Council Council Tax**

#### **Policy for Care Leavers Discount Scheme (Write-Off Procedure)**

Revenues & Benefits

## Version control

<i>Version</i>	<i>Version Date</i>	<i>Revised by</i>	<i>Description</i>
1	08/01/2019	Matt Willis & Steven Ranaghan	Draft policy

## Contents

<a href="#">Introduction</a> .....	65
<a href="#">Definition of a Care Leaver for the purposes of this scheme</a> .....	66
<a href="#">Support for care leavers falling into Part 1 of this scheme</a> .....	66
<a href="#">Support for care leavers falling into Part 2 of this scheme</a> .....	66
<a href="#">Exclusions</a> .....	67
<a href="#">Publication of the changes</a> .....	67
<a href="#">Application Process</a> .....	67
<a href="#">Notifying the council tax payer of any award decision</a> .....	67
<a href="#">Appeals</a> .....	68



## **Introduction**

Portsmouth City Council is introducing a discount from 1 April 2019 to exempt care leavers from Council Tax. This is being implemented to reflect challenges faced by many care leavers as they learn to budget their finances independently.

Care leavers are a particularly vulnerable group for council tax debt, and as they move into independent accommodation and begin to manage their own budget, it can be a challenging time, exacerbated if they fall behind with council tax.

Portsmouth City Council, as a corporate parent, wants to support care leavers up to the age of 25, by the granting of a discretionary discount of up to 100% of the council tax liability.

This means that Portsmouth City Council will be providing financial support to care leavers whilst they develop independent lives and life skills.

To deliver this support the council will determine that following the award of council tax disregards, exemptions and discounts, including local council tax support, any remaining charge will not be recovered from the care leaver, with the remaining charge reduced to nil through the provision of write off.

This policy sets out Portsmouth City Council's approach to this support.

There are two parts to this scheme, relating to:

### **Part 1**

- Care leavers who are sole occupants and have liability for council tax.
- Properties that are solely occupied by care leavers, where one or more of the occupants are liable for council tax.

### **Part 2**

- Care leavers who are jointly liable with one or more other liable parties who is not a care leaver.

The support will only be applied after the entitlement to other national discounts/exemptions have been applied, and will only apply to council tax liabilities with Portsmouth City Council.

## **Definition of a Care Leaver for the purposes of this scheme**

The term 'care leaver' is defined in The Children (Care Leavers) Act 2000 and refers to eligible, relevant and former relevant children:

- The person is someone for whom Portsmouth City Council has acted previously as a corporate parent;
- Relevant children are those young people aged 16 and 17 who have already left care, and who were 'looked after' for at least 13 weeks from the age of 14 and have been 'looked after' at some time while they were 16 or 17;
- Former relevant children are those young people aged 18, 19 or 20 who have been eligible and/or relevant.

Care leavers can also be classified as a 'qualifying' care leaver. This category applies to young people who:

- Left care after 1st October 2001, after they had turned 16, but who are not 'eligible' or 'relevant' because they did not fulfil the 13 week criteria;
- Were accommodated, but in residential education, mental/health provision private fostering or Special Guardianship.

For the purposes of this policy 'qualifying care leavers' will be treated in the same way as 'care leavers'.

Additionally former care leavers born before 2001 will be designated as a qualifying care leaver for the purposes of this policy.

## **Support for care leavers falling into Part 1 of this scheme**

The City Council under this policy will apply a write off to the amount of council tax payable to £0.00, after the application of all other national discounts, exemptions and entitlement to local council tax support, where:

- A care leaver, as defined in this policy, is liable for council tax, and any other adult occupants also meet the definition of care leaver as described in this policy.

## **Support for care leavers falling into Part 2 of this scheme**

The City Council under this policy will reduce the amount of council tax payable, by applying a write off up to 50% of the remaining charge, after the application of all other national discounts, exemptions and entitlement to local council tax support, where:

- One or more care leavers, as defined in this policy, are liable for council tax, and other adults occupy the property who are not care leavers.

## **Exclusions**

- This will only apply where the property is occupied. If the property is empty, the level of discount is as defined in Portsmouth City Council's Policy for Second Homes, Long Term Empty Properties and determining discounts for certain dwellings.
- Where the care leaver is liable for more than one property, this support will only be awarded in respect of their sole or main residence.
- Where a care leaver lives in a household and the liable person would be exempt from council tax if the care leaver did not reside at the property, the full charge will be reduced to nil.

## **Publication of the changes**

The City Council, in accordance with the legislation, will publish the changes to the Council Tax regime within 21 days of making such a resolution.

## **Application Process**

Where data sharing consent has been provided, the Council's Children and Families Service will provide Revenues & Benefits with information to identify recipients of this support. Where this is possible, a formal application is not required, as the Council's Revenues & Benefits team will be able to establish eligibility.

For other care leavers, applicants will need to make a request, including their written authority for the Council's Children and Families Service to provide the necessary evidence to confirm eligibility.

## **Notifying the council tax payer of any award decision**

This support will be administered by the Council's Revenues & Benefits Team, and the revised council tax charge will be notified to the council tax payer via the issue of a council tax bill.

Where an application for this support does not meet the policy's eligibility criteria, the applicant will be advised that their application has been rejected, and will be provided with an explanation of our decision.

## **Appeals**

Portsmouth City Council will accept an appeal in writing from a care leaver, or their appointees or recognised third party acting on their behalf, or the liable party where relevant for a re-determination of its decision.

Revenues & Benefits will provide its response to any appeal within 28 days of receiving any request.