

Title of meeting: City Council

Date of meeting: 11 February 2025 (Cabinet)
25 February 2025 (City Council)

Subject: Portsmouth City Council - Budget & Council Tax 2025/26,
Medium-Term Budget Forecast 2026/27 to 2028/29 & Capital
Strategy 2025/26 to 2034/35

Report by: Director of Finance & Resources (S.151 Officer)

Wards affected: All

Key decision: Yes

Full Council decision: Yes

1. Preface

- 1.1 The climate for Local Government generally continues to be one where the pace at which costs rise is not matched by the pace at which income and funding rise, creating an underlying structural imbalance within the overall financial system.
- 1.2 The Local Government financial envelope is set by Council Tax, the proportion of Business Rates that the Council can retain and Government Funding which is bound within the Comprehensive Spending Review and distributed through the Local Government Finance Settlement. The financial year 2024/25 marks the end of the current Comprehensive Spending Review period, with the next Spending Review due to take place in the Spring of 2025. In the interim period, being the financial year 2025/26 a "roll over" financial settlement from Government was announced on 18 December 2024.
- 1.3 Local Government continues to suffer from exceptional levels of both price rises and demand increases across Social Care and Housing, which is destabilising the sector to the extent that many more Councils are seeking Exceptional Financial Support from Government through the approval to borrow to fund their deficits and to increase their Council Taxes beyond the referendum thresholds. The burden of Exceptional Financial Support arrangements ultimately falls to the local taxpayer as the borrowing must be repaid and the Council Tax is increased to fund both the borrowing undertaken and any underlying deficit.
- 1.4 The Budget setting process continues to be as challenging as ever.
- 1.5 The Budget proposals for 2025/26 are framed by the experience of the unexpected and unplanned exceptional cost pressures of over £16m being felt in the current year that will inevitably carry over into 2025/26 and future years. The impact of those cost pressures plus further growth in demand and inflation generally requires that the

following sums substantial increases are provided within the 2025/26 Budget proposals:

- Adult Social Care - £8.2m
- Children's Social Care - £9.3m
- Homelessness and Temporary Accommodation costs - £5.2m.

1.6 For the Council, additional spending of £17.5m in Children's Social Care Services and Adult Social Care is required next year simply to maintain services at existing levels. It accommodates the National Living Wage increase of 6.7% as well as the impact of changes to the Employer's National Insurance rates and thresholds.

1.7 Whilst there has been some relief for the escalating costs of Social Care within the Provisional Local Government Finance Settlement (£5.2m) and there remains the ability to increase the Council Tax by a further 2% (amounting to £2.1m), there remains a very substantial Social Care Funding Gap of £10.2m between the additional costs amounting to £17.5m and the additional funding of just £7.3m.

1.8 The emergence of unanticipated costs at this scale has had a significant impact on the Council's overall financial position as well as the Council's future forecast deficit and as a result:

- It is proposed that the Council increases the Council Tax by 4.99% for 2025/26
- The Council's Savings Requirement for 2025/26 is increased from £1m to £2m
- The Council will have a Balanced Budget in 2025/26 but only by relying on "one-off" funding sources and leaving an underlying deficit (or "structural imbalance) of £4.4m
- The Council's Forecast Deficit to the end of the period 2028/29 is now estimated at £9m and consequently the Council's Forecast Savings Requirements for future years has increased to £3m per annum (compared to £1m per annum previously forecast).

The increase in the Council Tax of 4.99% and a Savings Requirement of £2m in 2025/26 will support the Council's record of being a well-run and fiscally responsible Local Authority and will put the Council on a path to a "Structurally Balanced" Budget in 2026/27, assuming that £3m of savings are made in that year.

The revised Forecasts now presented to the Council illustrating a £9m deficit to 2028/29, are founded on several assumptions relating to cost, demand and funding and that Council Tax will increase by 4.99% per annum. Cognisant of the risks associated with funding, social care cost pressures and inflation generally, the Council's Forecasts have the potential to vary by +/- £6m over the forecast 3-year period (or £2.0m p.a).

1.9 Given the uncertain nature of the Forecast for future years, the forecast of £3m savings from 2026/27 must be considered as indicative at this stage.

1.10 During this extreme level of uncertainty, it is imperative that the Council continues to exercise financial restraint and manage its cost base carefully if it is to remain well placed to respond to any inflation and service demand volatility, as well as the review

of Local Government Funding. Equally, the Council should retain reserves at the levels proposed in this report to secure the necessary financial resilience to be able to respond in all reasonable circumstances.

- 1.11 The Capital Programme makes proposals for new Capital Expenditure of £53.4m, of which £16.3m is from Corporate Capital Resources, therefore leveraging in borrowing capability, reserves and external funding amounting to £37.1m.
- 1.12 Capital Funding largely comprises either specific grants for schemes, grant funding which is required to be passported to Services or borrowing for Invest to Save Schemes. Genuinely unrestricted Capital Funding (within Corporate Resources) remains scarce and arises from Community Infrastructure Levy receipts and contributions from the Revenue Budget.
- 1.13 Available Capital Resources for 2025/26 have been targeted to:
- Provide for statutory requirements including School Places and Early Years Places, Transport Safety, Homelessness and necessary Health and Safety obligations
 - Ensure that the Council's services to residents continue to operate from safe "fit for purpose" buildings
 - Support the renewal of the Council's aging Leisure Estate and end of life sports and play facilities across the City
 - Continue the Council's efficiency and environmental agenda, including the downsizing of the Civic Offices (part of the Council's emerging Transformation Programme) and further greening initiatives
 - Continue with the Council's key regeneration opportunity for the City Centre North, aiming to stimulate housing and employment in the Council's most deprived area.
- 1.14 The Council's proposed Budget for 2025/26 will inevitably carry substantial risk, seeking to accommodate the uncertain demand and inflationary environment characterised by the continuing pressures in Social Care and Housing, plus the forthcoming review of Local Government Funding all making a compelling case for maintaining the minimum level of General Reserves to be held at £10m.
- 1.15 The key proposals within this report recommend a Budget for 2025/26 that provides for:
- The full financial impact of the extraordinary inflation and associated demand related cost pressures experienced over the past year and extending into 2025/26
 - £2.0m of Budget Savings driven by the Social Care Funding Gap that the Council has been unable to mitigate
 - A Council Tax increase of 4.99% (2.0% of which is raised specifically to be passported to Adult Social Care)
 - Increased spending in Adult Social Care of £8.2m
 - Increased spending in Children's Services of £9.3m

- Increased spending on Temporary Accommodation of £5.2m
- A forecast £9m deficit for the 3-year period to 2028/29 but which could vary between +/- £6m
- A minimum savings requirement for 2026/27 of £3m but with any future years' savings beyond 2026/27 subject to review at next year's Annual Budget Meeting (February 2026)
- New Capital Investment of £53.4m.

1.16 An Executive Summary of these key points and others is set out on the next page.

EXECUTIVE SUMMARY

Context

- Since 2011/12, the Council will have made £110m in savings (50% of controllable spend)
- Adult Social Care and Children's Services representing circa. 60% of controllable spend, provide services to the most vulnerable, experience the greatest cost pressures and have historically received significant protection from savings
- Funding levels (e.g. Government Funding, Council Tax and Business Rates) have not kept pace with the cost pressures arising from rising levels of demand and exceptional inflation
- The Council continues to operate in a climate of uncertainty created by inflation and its volatility, escalating demand for services and the forthcoming review of the Local Government Funding system
- The Council's Medium Term Financial Strategy seeks to maximise savings through income generation, economic regeneration and efficiency measures.

Budget Consultation - September 2024

- The "Top Three" most important service areas for residents at present are, in order of popularity:
 - Making sure people feel safe and supported in their homes and communities (61%)
 - Regenerating major sites to create homes, jobs and economic opportunities in the city (54%)
 - Ensuring the city has a healthy and resilient natural environment by improving greening and air quality and enhancing local nature (51%)
- 59% of residents agree with the current levels of spending in Portfolio areas
- Priorities for Capital Investment were:
 - Giving residents the opportunity to live a healthy lifestyle including investing in leisure and sports facilities (46%)
 - Prioritising sustainable travel and transport systems to reduce environmental impact and improve journey times (43%)
 - Downsizing the council's office space to reduce the cost to the taxpayer (42%)
 - Building new homes, especially council homes, to reduce the housing register/waiting list (40%)
 - Investing in public space as part of the new sea defences (38%)

EXECUTIVE SUMMARY (Cont'd)

Revised Budget 2024/25

- A Balanced Budget for 2024/25
- Contingency provision of £22.6m for forecast overspendings arising from unexpected and unplanned exceptional cost pressures across Services (an increase of £5.6m)
- Increased losses at Portico - £2.4m
- Improvement in Treasury Management activities £6.3m
- General Reserves at £22.0m.

Budget 2025/26

- A Balanced Budget for 2025/26 but with an underlying Budget Deficit of £4.4m (once the "one-off" items are discounted)
- A "one-off" surplus on the Council Tax & Business Rate Collection Fund of £3.7m
- A pathway towards a "Structurally Balanced" Budget by 2026/27 but predicated on £3m savings being achieved in 2026/27
- General Reserves at £22.1m
- Total increase in net spending of £18.8m (including all cost and inflationary pressures)
- Total Savings of £2.0m
- Additional Spending in Adult Social Care of £8.2m
- Additional Spending in Children's Services of £9.3m (to cover existing overspendings and other unavoidable cost pressures)
- An inflationary uplift for all Services at an average of 5.2% to maintain "steady state" services and amounting to £3.4m (excluding Adult Social Care & Children's Services above)
- Additional Government Funding of £11.3m for 2025/26, with £5.2m provided for Social Care, a new Recovery Grant of £5.1m to support more deprived areas and £1.0m for services generally
- A Council Tax increase of 4.99%, of which:
 - 2.99% is for general council services
 - 2.0% (amounting to £2.1m) is to be passported directly to Adult Social Care
- Sums set aside within the Council's Corporate Contingency for known risks including Temporary Accommodation, Port Health, Buildings Maintenance and all other known and potential liabilities.

EXECUTIVE SUMMARY (Cont'd)

Future Forecast - 2026/27 to 2028/29

- A Forecast Deficit for the new 3 Year Period to 2028/29 of £9m but predicated on continuing Council Tax increases of 4.99% per annum, representing 2.99% for general purposes and 2.0% for Adult Social Care
- A minimum requirement for Budget Savings of £3m for 2026/27
- Potential for the "Forecast Deficit" of £9m to vary between +/- £6m due to the considerable uncertainty associated with inflation and unavoidable cost pressures that may arise (particularly in Care Services and Homelessness), and the reform of Local Government Funding
- Future forecasts make some provision for contributions towards necessary Capital Investment requirements
- General Reserves are maintained at circa. £22m over the period
- The Council will need to continue to exercise financial restraint and manage its cost base carefully to remain well placed to respond to any inflation and service demand volatility as well as the review of Local Government Funding.

Capital Programme 2025/26 to 2029/30

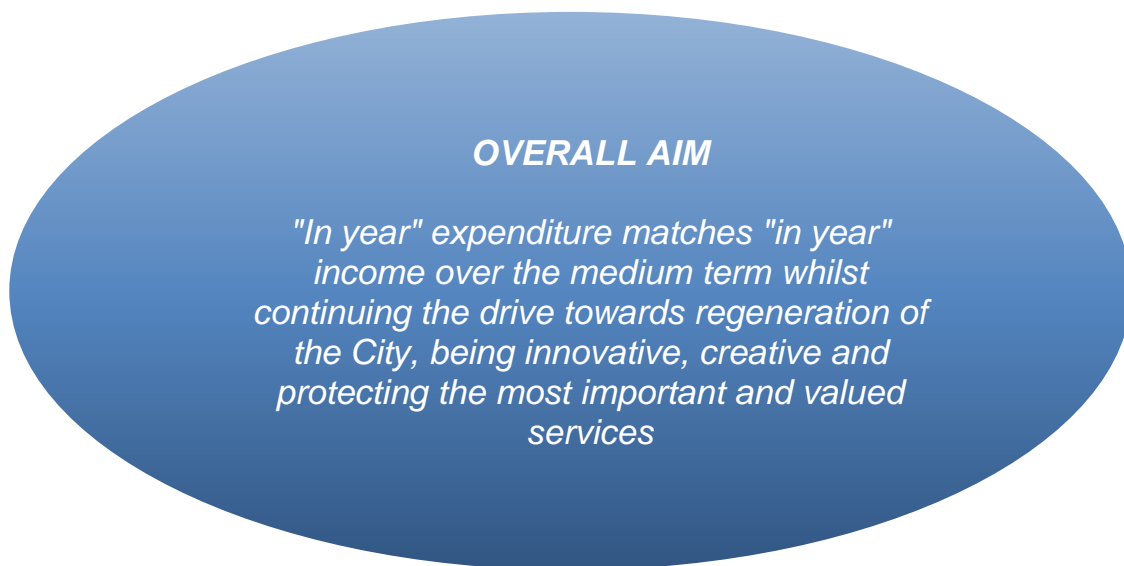
- Total New Capital Investment of £53.4m
- Key Investments include:
 - Acquisition of Temporary Accommodation - £31.3m
 - Critical Buildings Maintenance - £2.4m
 - Leisure Infrastructure - £2.3m
 - Educational Outcomes - £3.8m
 - Transport and Street Environment improvements (including active travel) - £3.4m.
 - Extra Care and Supported Living - £5.6m
 - Efficiency and environmental projects - £2.4m

Conclusion

- The Council's financial health is currently sound, but future risks remain relating to inflation volatility and accelerating demand for care services as well as the uncertainty arising from the review of 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 2025/26 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 2025/26 and the level of Council Tax in the context of the Council's Medium Term Financial Strategy, with its stated aim as follows:



- 2.3 The recommended Budget for 2025/26 has been prepared based on the following:
- The requirement to meet savings amounting to £2.0m to provide some mitigation against the unanticipated additional costs of Social Care and Temporary Accommodation being driven by extraordinary levels of inflation and service demand in those areas
 - An increase in the level of Council Tax for 2025/26 for general purposes of 2.99%
 - The flexibility to increase the level of Council Tax for an "Adult Social Care Precept", within the limits set by Central Government at 2.0%, and the direct passporting of that additional funding to Adult Social Care
- 2.4 This report also provides a comprehensive revision of the Council's rolling 3 Year Forward Financial Forecast for the new period ending 2028/29 (i.e. compared to the previous forecast ending 2027/28).
- 2.5 The new 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 needs and aspirations for the City, as well as maintaining the Council's overall financial resilience throughout this uncertain period.

2.6 This report sets out the following:

- (a) The unexpected cost pressures in Social Care and Housing in the current year and how that has affected the financial position of the Council in 2025/26 and beyond
- (b) A summary of the Medium-Term Financial Strategy for achieving the necessary savings
- (c) The revised Revenue Budget and Cash Limits for the current year
- (d) The Local Government Finance Settlement for 2025/26
- (e) The Business Rate income for 2025/26 and future years
- (f) The Council Tax base and recommended Council Tax for 2025/26
- (g) The forecast Collection Fund balance as at 31 March 2025 for both Council Tax and Business Rates
- (h) The detailed indicative savings (Appendix C) that could be made by each Portfolio / Committee in meeting its overall savings amount to provide the Council with the assurance necessary to approve the recommended savings amount for each Portfolio / Committee
- (i) The proposed Revenue Budget and Cash Limits for 2025/26
- (j) The forecast Revenue Budgets for 2026/27, 2027/28 and 2028/29
- (k) Estimated General Reserves over the period 2024/25 to 2028/29
- (l) The Medium-Term Resource Strategy (MTRS) Reserve, its financial position and proposed use to achieve cashable savings
- (m) The proposed Capital Strategy for 2025/26
- (n) The proposed Capital Programme and "new starts" (including the Housing Investment Capital Programme) for 2025/26 and future years in accordance with the Capital Strategy
- (o) 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 2024/25 and the Revenue Estimates for the financial year 2025/26 as set out in the General Fund Summary (Appendix A)
- 2) The Portfolio Cash Limits for the Revised Budget for 2024/25 and the Budget 2025/26 incorporating the savings amounts for each Portfolio and amounting to £2.0m as set out in Sections 7 and 11, respectively
- 3) To maintain the overall financial resilience of the Council, any underspends arising at the year-end (outside of those made by Portfolios) be transferred either to Capital Resources to fund future Capital Programmes, the MTRS Reserve or General Reserves with the level of each transfer to be determined by the S.151 Officer

- 4) 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
- 5) The S.151 Officer be given delegated authority to make any necessary adjustments to Cash Limits within the overall approved Budget and Budget Forecasts
- 6) That the level of Council Tax be increased by 2.99% for general purposes in accordance with the referendum threshold¹ for 2025/26 announced by Government (as calculated in recommendation 3.4 (d))
- 7) That the level of Council Tax be increased by a further 2.0% beyond the referendum threshold (as calculated in recommendation 3.4 (d)) to take advantage of the flexibility offered by Government to implement a "Social Care Precept", and that in accordance with the conditions of that flexibility, the full amount of the associated sum generated of £2,054,500 is passported direct to Adult Social Care
- 8) Managers be authorised to incur routine expenditure against the Cash Limits for 2025/26 as set out in Section 11
- 9) That a minimum savings requirement of £3m for 2025/26 be set at this stage but that this is kept under review, pending any significant impact on the Council's future Forecast that may arise during 2025/26
- 10) That the S.151 Officer be given delegated authority to make transfers to and from reserves to ensure that they are maintained as necessary and in particular, adjusted when reserves are no longer required or need to be replenished
- 11) The minimum level of General Reserves as at 31 March 2026 be maintained at £10.0m to reflect the known and expected budget and financial risks to the Council
- 12) The Revised Capital Programme 2024/25 to 2029/30 attached at Appendix E which includes all additions, deletions and amendments for slippage and re-phasing
- 13) The S.151 Officer be given delegated authority to determine how each source of finance is used to fund the overall Capital Programme and to alter the overall mix of financing, as necessary, to maximise the flexibility of capital resources used and minimise the ongoing costs of borrowing to the Council
- 14) That the S.151 Officer in consultation with the Leader of the Council be given delegated authority to release capital resources held back for any contingent items that might arise, and for any match funding requirements that may be required of the City Council in order to secure additional external capital funding (e.g. bids for funding from Government or any other external source)
- 15) Subject to a satisfactory financial appraisal approved by the S.151 Officer, the schemes described in Appendix D be reflected within the recommended Capital Programme 2024/25 to 2029/30
- 16) Subject to a satisfactory financial appraisal approved by the S.151 Officer, that delegated authority to borrow up to £15m per year be granted in order that the

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

Council can enter into transactions in an efficient and timely fashion and avoid the risk of lost opportunities which may be of a time critical nature

- 17) The Prudential Indicators described set out in Appendix F be approved
- 18) Part 1 of the Capital Strategy (Capital Expenditure and Aspirations) set out in Appendix G be approved.
- 19) Part 2 of the Capital Strategy (Borrowing and Investing) set out in Appendix G be approved.
- 20) Members have had regard for the Statement of the S.151 Officer in accordance with the Local Government Act 2003 as set out in Section 16.

3.2 That the following be **noted** in respect of the Council's Revenue Budget and Capital Programme:

- 1) The Budget Consultation 2024 at Appendix H
- 2) The Revenue Estimates 2025/26 as set out in Appendix A have been prepared on the basis of a 2.0% tax increase for the "Social Care Precept" (amounting to £2,054,500) and that this is passported to Adult Social Care in order to provide for otherwise unfunded budget pressures
- 3) 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 2.0% tax increase is not taken, then equivalent savings will need to be made in Adult Social Care in 2025/26
- 4) In general, any reduction to the proposed increase in the level of Council Tax for 2025/26 will require equivalent offsetting savings to be made for the Budget 2025/26 to be approved. Each 1% reduction requires additional savings of £1,027,300 to be made
- 5) The indicative savings proposals set out in Appendix C which are provided for the purpose of demonstrating to the Council that the Portfolio savings as recommended in paragraph 3.1 2) above, are robust and deliverable
- 6) The likely impact of savings as set out in Appendix C
- 7) That the responsibility of the Council is to approve the overall Budget and the associated cash limits of its Portfolios and Committees; it is not the responsibility of the Council to approve any individual savings within those Portfolios / Committees
- 8) That it is the responsibility of the individual Portfolio Holders (not Full Council) to approve the individual savings proposals and the Portfolio Holder can therefore, in response to any consultation, alter, amend or substitute any of the indicative savings proposal(s) set out in Appendix C with alternative proposal(s) amounting to the same value within their Portfolio
- 9) Managers will commence the implementation of the approved savings required and any necessary consultation process or notice process
- 10) The Revenue Forecast for 2026/27 to 2028/29 as set out in Section 12 and Appendix B
- 11) That, at this stage, the Council's Future Forecast for the 3 Year Period 2026/27 to 2028/29 is estimated to be a £9m Deficit; this is the Council's "central base

case scenario" but due to the uncertainty associated with inflation, unavoidable cost pressures that may arise (particularly in Care Services), business rate appeals and the forthcoming overhaul of Local Government Funding, this could vary by +/- £6m

- 12) The MTRS Reserve held to fund the upfront costs associated with Spend to Save Schemes, Invest to Save Schemes and redundancies will hold an uncommitted balance of £4.8m 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
- 13) The Council's share of the Council Tax element of the Collection Fund surplus for 2024/25 is estimated to be £2,432,432
- 14) The Council's share of the Business Rate element of the Collection Fund surplus for 2024/25 is estimated to be £1,246,432
- 15) The Retained Business Rate income² for 2025/26 is based on the estimated Business Rate element of the Collection Fund surplus as at March 2025, the Non Domestic Rates poundage for 2025/26 and estimated rateable values for 2025/26 and has been determined at £68,794,505
- 16) That Cabinet Members, in consultation with the S.151 Officer, have authority to vary Capital Schemes and their associated funding within or across Portfolios to manage any potential overspending or funding shortfall or to respond to emerging priorities
- 17) That Cabinet Members, in consultation with the S.151 Officer, have authority to vire funding between Portfolios (both Revenue and Capital Budgets) to manage any potential overspending or funding shortfall or to respond to emerging priorities
- 18) The City Council note that Prudential Borrowing can only be used as a source of capital finance for Invest to Save Schemes.

3.3 That the S.151 Officer has determined that the Council Tax base for the financial year 2025/26 will be **59,340.0** [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 below be now calculated by the Council for the financial year 2025/26 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992:

² Includes Retained Business Rates £44,435,003, "Top Up" £6,819,876, a surplus on the Collection Fund of £1,246,432 plus S.31 Grants of £16,293,194 for compensation due to national Government business rate relief initiatives

(a)	£616,413,305	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act.
(b)	£508,555,734	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	£107,857,571	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)	£1,817.62	Being the amount at 3.4(c) above (Item R), all divided by Item 3.3 above (Item T), calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year.

(e) Valuation Bands (Portsmouth City Council)

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
1,211.75	1,413.70	1,615.66	1,817.62	2,221.54	2,625.45	3,029.37	3,635.24

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

- 3.5 That it be noted that for the financial year 2025/26, the Hampshire Police & Crime Commissioner is consulting upon the following amounts for the precept to be issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Valuation Bands (Hampshire Police & Crime Commissioner)

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
183.64	214.25	244.85	275.46	336.67	397.89	459.10	550.92

- 3.6 That it be noted that for the financial year 2025/26, for Hampshire and Isle of Wight Fire and Rescue Authority will be recommended to consider that 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 and Isle of Wight Fire and Rescue Authority)

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
58.56	68.32	78.08	87.84	107.36	126.88	146.40	175.68

- 3.7 That having calculated the aggregate in each case of the amounts at 3.4(e), 3.5 and 3.6 above, the Council, in accordance with Sections 31A, 31B and 34 to 36 of the Local Government Finance Act 1992 as amended, hereby sets the following amounts as the amounts of Council Tax for the financial year 2025/26 for each of the categories of dwellings shown on the next page:

Valuation Bands (Total Council Tax)

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
1,453.95	1,696.27	1,938.59	2,180.92	2,665.57	3,150.22	3,634.87	4,361.84

- 3.8 The Council determines in accordance with Section 52ZB of the Local Government Finance Act 1992 that the Council's basic amount of Council Tax for 2025/26, which represents a 4.99% increase, is not excessive in accordance with the principles approved by the Secretary of State under Section 52ZC of the Act; and it be noted that:
- i) The 4.99% increase includes a 2.0% 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 Hampshire Police & Crime Commissioner or the Hampshire and Isle of Wight Fire and Rescue Authority) that its relevant basic amount of Council Tax for 2025/26 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 and Isle of Wight Fire and Rescue Authority precepts.

4. Budget Consultation

- 4.1 The budget consultation was included within a broader online survey - The Big Portsmouth Survey Wave 6. The survey was available from 1 August to 15 September 2024 and has been used to assist the Cabinet in formulating its Budget proposals. The consultation was promoted through the following channels:
- Press release announcing start of consultation
 - Social media promotion including boosted posts and paid advertising
 - Website news story, banners and 'your city your say' page

- Inclusion in news bulletins
- Inclusion in staff bulletins and all-staff emails
- Posters in key locations around the city
- Promoted with voluntary and community sector organisations
- Made available as a paper survey in key locations around the city e.g. Southsea Library
- Face-to-face engagement events

4.2 Using the various channels of marketing and communications listed above, the consultation attracted 1,581 responses. Assuming a 'total population' of 170,818 people (the latest 2021 census data from the Office for National Statistics for people aged 16+ in Portsmouth), this volume of responses ensures a 95% confidence level with a margin of error of 2%.

4.3 The Executive Summary of the "Budget Consultation 2024 (Relating to 2025/26 Fiscal Year)" is reproduced below:

Summary of Findings - "The Big Portsmouth Survey" (September 2024)

4.4 Key findings from the budget consultation are outlined below:

- The priority areas the highest proportion of residents feel are important are 'making sure people feel safe and supported in their homes and communities', 'regenerating major sites to create homes, jobs and economic opportunities in the city', and 'ensuring the city has a healthy and resilient natural environment by improving greening and air quality and enhancing local nature'
- When asked to rank priority areas in order of importance, 'making sure people feel safe and supported in their homes and communities' and 'regenerating major sites to create homes, jobs and economic opportunities in the city' were consistently ranked in the top five by the highest proportion of respondents. 'Working to support individuals and families struggling to make ends meet', 'ensuring the city has a healthy and resilient natural environment by improving greening and air quality and enhancing local nature', and 'building new homes, especially council homes, to reduce the housing register/ waiting' were also ranked in the top five by around a third of respondents.
- 'Making sure people feel safe and supported in their homes and communities' is consistently ranked in the top five for importance by all postcode districts. 'Regenerating major sites to create homes, jobs and economic opportunities in the city' is ranked in the top five by the second highest proportion of respondents for most postcode districts.
- Most respondents would keep the priority of funding order for the council's portfolios as set out in the existing budget allocation.
- Those who would change the order of funding largely agree with Community, Wellbeing, Health and Care and Children, Families and Education receiving the two highest proportions of funding. However, they would re-order the list to place Central Services and Transport at the bottom of the priority order and move Housing and Tackling Homelessness to the third position.

- Those who would change the priority order of funding in the council's budget largely feel that improving funding to particular portfolio areas would have a knock-on effect to produce benefits in other areas, meaning less funding would need to be directed to these areas. Others feel that portfolio areas are currently either receiving too much or too little funding.
- A larger proportion of females compared to males took part in the consultation survey (61%). In line with usual trends in council consultations a large proportion of respondents are aged 55 and over (55%). The vast majority of respondents are White (96%), and 26% of respondents in the consultation sample have a disability or long-term illness

4.5 The full analysis can be found in Appendix H.

5. Medium Term Financial Strategy

- 5.1 The Council has now been required to make £110m in savings and efficiencies over the past 13 years in order to balance the Budget, ensuring that spending remains in line with income and funding levels. This represents 50% of all controllable spending.
- 5.2 The Council's Medium Term Financial Strategy (for both Revenue and Capital) has an emphasis on regeneration, innovation and creativity leading to a 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

- 5.3 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.

6. Revised Budget 2025/25

- 6.1 The original Revenue Budget approved by the City Council on 13 February 2024 was £221,698,100 and relied on a draw down from General Reserves of £0.2m.

- 6.2 The Cabinet has received regular quarterly Budget Monitoring reports on the 2024/25 Budget throughout the year. The most recent forecast at Quarter 2 highlighted a substantial overspending position for Portfolios of £16.3m but which overall was anticipated to be met from a combination of the Council's Corporate Contingency, Portfolio Reserves and a significant forecast underspending in the Council's Treasury Management activities. The underlying concern however being the extent to which those overspendings would recur in future years.

- 6.3 The main forecast overspendings in the current year are:

- Children, Families and Education - £7.3m
- Adult Social Care - £3.4m
- Housing & Tackling Homelessness - £5.9m.

- 6.4 Additional care costs of over £10m in the current year have been driven by the exceptional inflationary costs associated with specialist placements for children in care plus the increasing costs of care packages for adult residents in residential and nursing care. This, combined with escalating numbers of households in temporary

accommodation rising by 54% in the last year and with associated costs increasing by 84%, are the defining causes of the Council's overspendings.

- 6.5 To accommodate these current forecast Portfolio overspends and other potential risks in the final quarter of the year, £22.6m (an increase of £5.6m) has been set aside within the Council's Corporate Contingency.
- 6.6 Other key adjustments to the Council's Revised Budget 2024/25 have been made to accommodate the following:
- Increased losses at Portico - £2.4m
 - Improvement in Treasury Management activities £6.3m.
- 6.7 Whilst the additional costs have been substantial, the combination of improved returns from the Council's Treasury Management activities plus the funding provided by the Council's Corporate Contingency and Portfolio Reserves has enabled the Budget 2024/25 to remain in balance.
- 6.8 The Original Budget has now been comprehensively revised, and it is proposed to increase the Budget to £222,195,600, an overall increase of £497,500 or 0.22%. Whilst spending has increased, estimated funding has also increased by £1,332,562, a net movement of £835,062.
- 6.9 As a consequence of the net improvement in the Council's financial position of £835,062, the originally planned £243,415 withdrawal from General Reserves is now a £591,647 contribution to General Reserves.
- 6.10 The Revised Revenue Budget is set out in the General Fund Summary (Appendix A).

7. Revised Cash Limits 2024/25

- 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 2024/25 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 / from Portfolio reserves, additional unavoidable costs and other City Council decisions throughout the year.
- 7.3 The table on the next page sets out the revised Cash Limits for 2024/25 and those items outside the Cash Limit (e.g. capital and similar charges, levies and insurance premiums), which together form the Revised Budget for each Portfolio.

Portfolio	Revised Cash Limits 2024/25 £'000	Items Outside the Cash Limit £'000	Revised Budget 2024/25 £'000
Central Services	26,499	7,177	33,676
Children, Families & Education	54,110	17,923	72,033
Climate Change and Greening the City	54	0	54
Community Safety, Leisure & Sport	6,590	556	7,146
Community Wellbeing, Health & Care	60,047	5,034	65,081
Culture, Regeneration & Economic Development	7,726	5,107	12,833
Environmental Services	15,828	1,567	17,395
Housing & Tackling Homelessness	3,782	3,138	6,920
Leader	(33,212)	5,566	(27,646)
Planning Policy & City Development	1,436	0	1,436
Transport	19,754	5,871	25,625
Licensing Committee	(169)	102	(67)
Portfolio Expenditure	162,445	52,041	214,486

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 2025/26

8.1 As described in the previous section, the ongoing impact of the exceptional and unanticipated costs of Social Care and Homelessness in the current year of over £16m alongside pay related pressures including the National Living Wage rise of 6.7% and the impact of the changes to Employers Rates of National Insurance rates and the lower earnings limit represent the main drivers of additional cost between 2024/25 and 2025/26.

8.2 It was initially expected that the National Insurance changes would be budget neutral to Local Government Authorities, but this is now anticipated to be a deficit of £1.3m (including the Housing Revenue Account deficit of £0.7m) for the Councils own direct workforce. The impact of the Employer's National Insurance changes will also impact the Council's contractors who will seek to pass on this additional cost burden to the Council.

8.3 In total the Council's net spending is estimated to increase by £18.8m (8.5%) in 2025/26 compared to the current year representing additional costs but offset by additional income and the savings proposals of £2.0m set out later in this report.

Budget & Inflationary Pressures 2025/26

8.4 The Social Care and Housing related cost pressures emanating in 2024/25 and their ongoing impact plus all other inflationary and unavoidable Budget Pressures have been factored into the Budget for 2025/26. The Budget proposal for 2025/26

represents an increase in spending of £18.8m over the Budget for 2024/25 and includes additional costs and inflationary pressures as follows:

- Additional Spending in Adult Social Care of £8.2m (to include overspendings in the current year, inflation and the uplift in the National Living Wage of 6.7% that will be used to support care providers as well as all other cost and inflationary pressures)
- Additional Spending in Children's Social Care of £9.3m (to include inflation, existing overspendings in the current year relating to Placement Costs and additional Social Worker costs)
- An inflationary uplift for all Services to maintain "steady state" provision amounting to £3.4m (excluding Adult Social Care and Children's Social Care above)
- An increase in the Council's Corporate Contingency of £5.2m to cover the risks associated with Temporary Accommodation and any further escalation of costs in Social Care
- The Council has also made Budget provision within the Corporate Contingency for the costs associated with the centenary celebrations
- Offset by savings in Treasury Management of £4.8m

8.5 The paragraphs that follow describe the Council's funding position alongside the spending and savings proposals that provide for a balanced Budget for 2025/26.

Funding - Summary of the Local Government Finance Settlement

8.6 The Local Government Finance Settlement is the term used to describe the main non-ring-fenced Revenue and Capital grant funding allocations from Government.

8.7 In overall terms the provisional Local Government Settlement has provided additional grant funding in 2025/26 of £11.2m as follows:

- i) Increase in Social Care Grant (for Adult Social Care and Children's Services) - £3.6m
- ii) New Children's Social Care Prevention Grant - £1.6m
- iii) New Recovery Grant (Deprivation related) - £5.1m
- iv) Net increase in Grants for all other Services - £0.9m

8.8 Set against the new funding of £5.2m of funding from Social Care (Adults and Children) are the existing and known Budget Pressures across those Services of £17.5m. Therefore, further funding from the Adult Social Care Precept of £2.1m is necessary to narrow the gap between these cost pressures and the funding available to £10.2m.

8.9 Other features of the Settlement include:

- A 1-year Settlement for 2025/26
- No increase in the Improved Better Care Fund, therefore remaining "cash flat"

- Council Tax increase thresholds of:
 - 3.0% or £5 for Shire District Councils
 - 3.0% for Upper Tier and Unitary Councils
 - 2.0% for Adult Social Care (Upper Tier Authorities only)
 - £5 for Fire and Rescue Authorities
 - £14 for Police & Crime Commissioners
- Household Support Fund to continue through to March 2026 (likely to be at 90% of the current grant)
- Commencement of the Consultation on Local Government Funding Reform

8.10 It has now been 9 years since the Government first announced that it would consult and implement a Local Government Funding Review. The Funding Review has now been confirmed by the new Government and the first consultation document has been launched. The Funding Review covers the following:

- The "Fair Funding Review" (to determine a new formula methodology which will set each Local Authority's baseline funding level and create "winners and losers")
- The Retained Business Rates system which involves the removal of all existing growth retained to date (amounting to £3.1m) and re-distributing that growth nationally according to relative need (rather than where it was generated) and in accordance with the "Fair Funding Review" formula (above).

8.11 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 financial position 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.

Funding - Retained Business Rates 2025/26 & Future Forecasts

8.12 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%³ 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

³ 49% To the City Council and 1% to the Hampshire and Isle of Wight Fire & Rescue Authority

- iv) A "safety net" set at 7.5% below a pre-determined baseline below which retained Business Rates will not fall.

- 8.13 In total, for 2025/26, Retained Business Rates are estimated at £68.8⁴ which includes a surplus relating to the previous year of £1.2m and is of a "one off" nature.
- 8.14 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 determine whether a rating appeal is successful, and the level of reduction granted with the Council having no right of challenge. To help mitigate against this risk, the Council maintains a reserve to provide the Council with a degree of funding stability in the event of fluctuations within and between years.
- 8.15 Despite the complications and risks associated with appeals, there remains the financial incentive within the system for many Local Authorities (including Portsmouth⁵) to generate economic growth and job creation.
- 8.16 From 2026/27, there is expected to be a review of the Business Rate Retention Scheme, the details of which are not yet known. The review will include a "Reset" which will remove all current business rate growth currently being enjoyed by authorities and which, for the Council, amounts to £3.1m.
- 8.17 The Business Rate growth enjoyed by all Councils will be removed from Councils, aggregated and then re-distributed based on "Need" through the Fair Funding Review. If the Council's "Relative Needs" have increased by more than the average of all other Councils, then the Council will be a "winner" in terms of the re-distribution and vice versa.

Funding - Council Tax Proposals 2025/26 & Future Years

Collection Fund Balance (Council Tax Element) 2024/25

- 8.18 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 (83.4% share)
 - Hampshire Police & Crime Commissioner (12.6% share)
 - Hampshire and Isle of Wight Fire and Rescue Service (4.0% share)

If 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.

For 2024/25, it is estimated that the Collection Fund will be in surplus by £2,916,207. The Portsmouth City Council element of that amounts to £2,432,432.

This surplus is factored into the Council Tax income estimates for 2025/26.

⁴ Includes Retained Business Rates £44,435,003, "Top Up" £6,819,876, a surplus on the Collection Fund of £1,246,432 plus S.31 Grants of £16,293,194 for compensation due to national Government business rate relief initiatives

⁵ Applies to Local Authorities that, in general, remain above the safety net threshold over time

Council Tax Amount

- 8.19 The Council has a relatively low taxbase and a relatively low tax charge. That means that both the average Council Tax band is low, and the amount of Council Tax charged to residents is also low compared with our statistical neighbours. By illustration, the Council receives circa £10.1m per annum less in Council Tax than the average Unitary Authority within its statistical neighbour group, and therefore Portsmouth City Council has a 9.1% lower Council Tax.
- 8.20 The level of Council Tax charged 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 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 in Government Funding than the Council currently raises in Council Tax.
- 8.21 Council Tax is expected to represent 46% of the Council's total revenue funding next year and as Government funding has reduced, this has become an increasingly more important and dependent funding source for the Council.
- 8.22 Council Tax for the average Council Taxpayer in Portsmouth (Band B) currently amounts to £1,614.24, of which £1,346.45 (83%) 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, circa. 58% of all properties are subject to the full level of Council Tax.
- 8.23 The Provisional Local Government Finance Settlement for 2025/26 confirmed a Council Tax increase limit for general purposes (i.e. referendum threshold) of 2.99%. Any increase beyond the 2.99% threshold can only be implemented following a "Yes" vote in a local referendum.
- 8.24 As described more fully earlier in this report, the actual level of inflation for the Council in 2025/26, taking into account pay and price rises that the Council is exposed to specifically, significantly exceeds the level of increase allowed in the Council Tax. The Council's estimated inflation amounts to a composite 5.2%
- 8.25 The additional flexibility to apply a Council Tax increase for the Adult Social Care Precept has been provided in recognition of the extreme cost pressures facing Adult Social Care, both through the increase in the National Living Wage as well as the demographic pressures from general aging and a "living longer" population.
- 8.26 For Portsmouth City Council, it is vital that the flexibility of the Adult Social Care (ASC) Precept is taken to mitigate against and reduce the Social Care Funding Gap to £10.2m
- 8.27 Given the scale of cost and inflationary pressures generally and the demographic pressures within both Adult Social Care and Children's Services, it is proposed that:

- i) The Council Tax for General Purposes be increased by 2.99% for 2025/26, representing 78p per week for a Band B taxpayer and yielding £3.1m
- ii) Adult Social Care precept be increased by 2.0% for 2025/26, representing 52p per week for a Band B taxpayer and yielding £2.1m to be passported direct to Adult Social Care.

8.28 The Council could elect not to increase the level of Council Tax by 4.99% but if it chose to do so would need to identify additional savings over and above the £2.0m savings proposed to maintain its financial position. For every 1% reduction in Council Tax, additional savings of £1,027,300 will be required.

Council Tax Base

8.29 The Council Tax Base (i.e. the number of Band D equivalent properties paying the full Council Tax) has been determined as **59,340.0** for 2025/26.

Total Council Tax Income 2025/26 & Future Years

8.30 Considering the Council Tax increase, Council Tax Base and the surplus on the Collection Fund, the total Council Tax income for 2025/26 is estimated at £110,290,003.

8.31 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 £124,823,470 by 2028/29 and is based on the following assumptions:

- Annual increase in the amount of Council Tax of 4.99% for 2025/26 and each year thereafter (including 2% p.a. for the Adult Social Care Precept)
- No net increase in the Council Tax Base over the period (affected by the number of households, discounts, exemptions Local Council Tax Support Scheme and the collection rate)

Funding Summary

8.32 Over the 3-year period of the Council's Future Forecast, funding is anticipated to rise by just 8.6% (or an average of 2.8% p.a.), reflecting:

- Increases in Council Tax of 4.99% per annum and the introduction of a 100% Premium on Second Homes
- Government Funding rising in line with inflation and no detriment associated with the Fair Funding Review
- Inflation related rises in Business Rate income but increased by a £0.5m additional distribution arising from the Business Rate Reset.

Cumulative Effects of the Overall Local Government Funding System

- 8.33 Over the past 12 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 and increase employment. This is illustrated by the following:
- The Business Rates retention scheme allows the City Council to retain (for a period of time between "resets") circa £0.7m for every 1% increase in Business Rate growth (under the 50% BRR scheme). Equally, the City Council will lose £0.7m for every 1% decline in the Business Rate base
 - 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 2025/26 is £11.5m. Each 1% change therefore will represent a cost / saving of £115,000.
- 8.34 Whilst the Fair Funding Review and Business Rate Retention Scheme (to be introduced in 2026/27) 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.

Revenue Contributions to Capital

- 8.35 As described in detail later in this report, new Capital Investment totalling £53.4m is proposed. This level of investment relies on a number of funding sources provided either by the Council or from external grants and contributions. For 2025/26, £17.5m is being provided by the Council in the form of "cash backed" funding. A further £2.0m is provided from Earmarked Reserves and £33.9m from Council borrowing, both sums, being subject to a satisfactory business case and financial appraisal approved by the S.151 Officer.
- 8.36 Capital Funding available for new Capital Investment remains constrained. It largely comprises:
- i) Specific grants for schemes awarded through a bidding process for external funding and therefore only available to support that bid
 - ii) Grant funding which is required to be passported to Services
 - iii) Borrowing for Invest to Save Schemes
 - iv) Genuinely unrestricted Capital Funding (within Corporate Resources) arising from Community Infrastructure Levy receipts and contributions from the Revenue Budget.
- 8.37 Furthermore, the ability to provide funding from the Revenue Budget has also been constrained due to the scale of the demand and inflationary pressures that the Council are experiencing, this has denied the Council the opportunity to make any Revenue Contribution to the Capital Programme in 2024/25. Should the Council

return a Balanced Budget in 2025/26, then at year end a contribution to Capital of £3.5m is planned. Though careful financial stewardship, the Council was able to make a Revenue Contribution to the Capital Programme of £4.4m in 2023/24.

- 8.38 Looking ahead, if the Council is to meet both its aspirations and operationally essential Capital Investment needs, future Revenue Contributions to the Capital Programme will inevitably be required. Whilst bidding for external capital funding will always form part of the strategy to fund Capital Investment requirements, not all investments will be either eligible or successful. The scale of the funding required for these obligations and aspirations is such that it far outstrips the annual capital funding which may be available. With core capital funding of circa £5.5m from annual capital grants (mainly passported), capital receipts and CIL contributions that the Council receives, there is a hugely significant shortfall ("Capital Gap") to be met.
- 8.39 Given that this Capital Investment is necessary for both the Council's statutory obligations and to transform the City's growth potential, it is vital that the Council makes provision for Revenue Contributions to Capital wherever possible. To fulfil even some of the future obligations and aspirations, further revenue contributions to Capital will be required in future years and will need to be embedded within the Council's financial planning process.

9. Budget Savings Proposals for 2025/26

- 9.1 At last year's Annual Budget Meeting in February 2024, it was estimated that Budget Savings of £1.0m would be required for 2025/26 and the subsequent two years. That report however, cautioned that the Forecast could vary by +/- £1.67m per annum due to the uncertainty and volatility associated with inflation alongside unavoidable cost pressures that may arise in Social Care.
- 9.2 Since those forecasts were prepared in February last year, as described, the financial environment has worsened substantially with escalating and unplanned costs in Social Care and Housing. There is now a need for the Council to approve £2m of Budget Savings to contribute towards the Social Care Funding Gap and to progress towards a "structurally balanced" Budget by 2026/27.
- 9.3 The Cabinet's budget savings proposals are aligned with the Medium-Term Financial Strategy previously described in Section 5 and have been prepared, paying due regard to the responses from the Budget Consultation described previously and the Cabinet's strategic priorities. The proposed savings amounts to be made by each Portfolio, and which are recommended for approval, are attached at Appendix C.
- 9.4 A summary of the overall savings proposals for 2025/26, by Portfolio, is set out below:

Portfolio	Saving 2025/26	
	£	%
Central Services	246,000	0.9%
Children, Families and Education	460,000	0.9%
Climate Change and Greening the City	0	0.0%
Community Safety, Leisure & Sport	11,000	0.2%
Community, Wellbeing, Health & Care	637,000	1.1%
Culture, Regeneration, and Economic Development	0	0.0%
Environmental Services	190,000	1.3%
Housing & Tackling Homelessness	0	0.0%
Leader	15,000	0.1%
Planning Policy and City Development	85,000	5.9%
Transport	356,000	4.1%
Grand Total	2,000,000	1.3%

- 9.5 Inevitably, there are several financial risks contained within the proposals for making savings of the scale of £2.0m (or 1.3%) on the back of making £110m in savings and efficiencies over the past 13 years. The risks are unavoidable. For those risks with the highest likely impact, mitigation strategies are being developed.
- 9.6 It is important to note that the Council's responsibility is to set the overall Budget of the Council and determine the cash limits for each Portfolio. It is not the responsibility of the Council to approve the detailed savings that need to be made for the Portfolio to meet its cash limit. The Council do need to have the confidence that the recommended savings for each Portfolio are deliverable and what the likely impact of delivering those savings might be. Indicative savings that are likely to be necessary in delivering the overall Portfolio savings are attached at Appendix C, and whilst the detailed savings are not a matter for the Council to decide, they are presented to inform the decision of Council relating to the overall savings to be made by each Portfolio / Committee.
- 9.7 For the City Council to be able to implement the Savings Requirement in good time, several savings proposals will require that consultation take place and notice periods be given. Should the Portfolio savings set out above be approved, Managers will commence the implementation of those savings and any consultation process or notice periods necessary.
- 9.8 For savings proposals that require consultation, the actual method of implementation or their distributional effect will not be determined until the results of consultation have been fully considered. Following consultation, the relevant Portfolio Holder may alter, amend or substitute any of the indicative savings proposal(s) set out in Appendix C with alternative proposal(s) amounting to the same value.

10. Summary of Proposed Revenue Budget 2025/26

10.1 The proposed Budget for 2025/26 has been prepared to include the following:

Spending 2025/26:

- Total increase in Spending (including all cost, inflation and savings) of £18.8m
- A provisional sum of £3.5m as a Revenue Contribution to Capital to support future Capital Investment needs but which can only be released if the Council returns a Balanced Budget at the end of 2025/26
- Overall contingency provision to cover known and anticipated financial risks of the Council amounting to £22.2m (£17.0m in 2024/25), especially those relating to the volatility of inflation and demand, increases in demand for services provided by Adult Social Care and Children's Services, Emergency Repairs risks and the delivery of budget savings more generally
- Adjustments to pension costs, forecast borrowing costs and investment rates
- The £2.0m savings proposals as set out in Appendix C.

Funding 2025/26:

- An increase in funding from Government of £11.2m with £5.2m provided for Social Care
- Underlying Business Rate income for 2025/26 is an increase of 2.5%, largely reflecting an inflationary uplift (of 1.7%)
- An overall increase in Council Tax of 4.99%, yielding £5.0m
- An increase in the Council Tax base equivalent to 1,040.6 Band D properties resulting in additional Council Tax income of £1.9m
- A "one-off" surplus on the Council Tax Collection Fund of £2.4m
- A "one-off" surplus on the Business Rate Collection Fund of £1.2m.

10.2 Financial risks remain across the whole Budget for 2025/26 relating to both cost pressures and the delivery of necessary savings. All Services of the Council are expected to be able to manage within their overall cash limit with any necessary support from the Council's Corporate Contingency or Portfolio Reserve to enable any such pressures to be managed over time.

10.3 The proposed Budget for 2025/26, including the main changes described above results in net spending of £240,526,500. This amounts to a net increase in spending of £18,828,400 (or 8.5%) over the Original Budget 2024/25.

10.4 The proposed Budget for 2025/26 as described in this Section is recommended for approval.

11. Cash Limits

11.1 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 2025/26 described in Section 10 and include:

- Reductions to Cash Limits to take out the approved Budget savings
- Additions to reflect new initiatives and budget pressures
- Inflation
- 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.

11.2 The table below shows the proposed Cash Limits for 2025/26 and those items outside Cash Limits (i.e. capital and similar charges, levies and insurance premiums), which together form the Budget for each service.

Portfolio	Cash Limits 2025/26 £'000	Items Outside the Cash Limit £'000	Budget 2025/26 £'000
Central Services	28,653	10,502	39,155
Children, Families & Education	62,678	15,125	77,803
Climate Change and Greening the City	104	11	115
Community Safety, Leisure & Sport	7,193	4,299	11,492
Community Wellbeing, Health & Care	66,868	7,453	74,321
Culture, Regeneration & Economic Development	7,171	4,986	12,157
Environmental Services	17,160	1,221	18,381
Housing & Tackling Homelessness	4,421	2,376	6,797
Leader	(35,438)	20,808	(14,630)
Planning Policy & City Development	1,441	642	2,083
Transport	18,633	9,776	28,409
Licensing Committee	(158)	147	(11)
Portfolio Expenditure	178,726	77,346	256,072

11.3 Managers will be expected to contain their expenditure in 2025/26 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 2025/26.

11.4 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 underspends 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 2026/27 Cash Limit.

- 11.5 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.
- 11.6 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.
- 11.7 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.

12. Future Year's Medium-Term Forecasts - 2026/27 to 2028/29

- 12.1 A new medium-term forecast has now been completed and "rolled on" a further year to cover the period 2026/27 to 2028/29. All of the financial assumptions have been comprehensively revised, and a new 3 Year Forecast determined.
- 12.2 The previous medium-term forecast estimated an overall Budget Deficit of £3m to the end of the Forecast period. The Revised Forecast (having "rolled on" a year) estimates that there will now be a Budget Deficit of £9m to the end of the Forecast period and largely caused by the escalating costs of Social Care, not met by equivalent funding and the resulting Social Care Funding Gap.

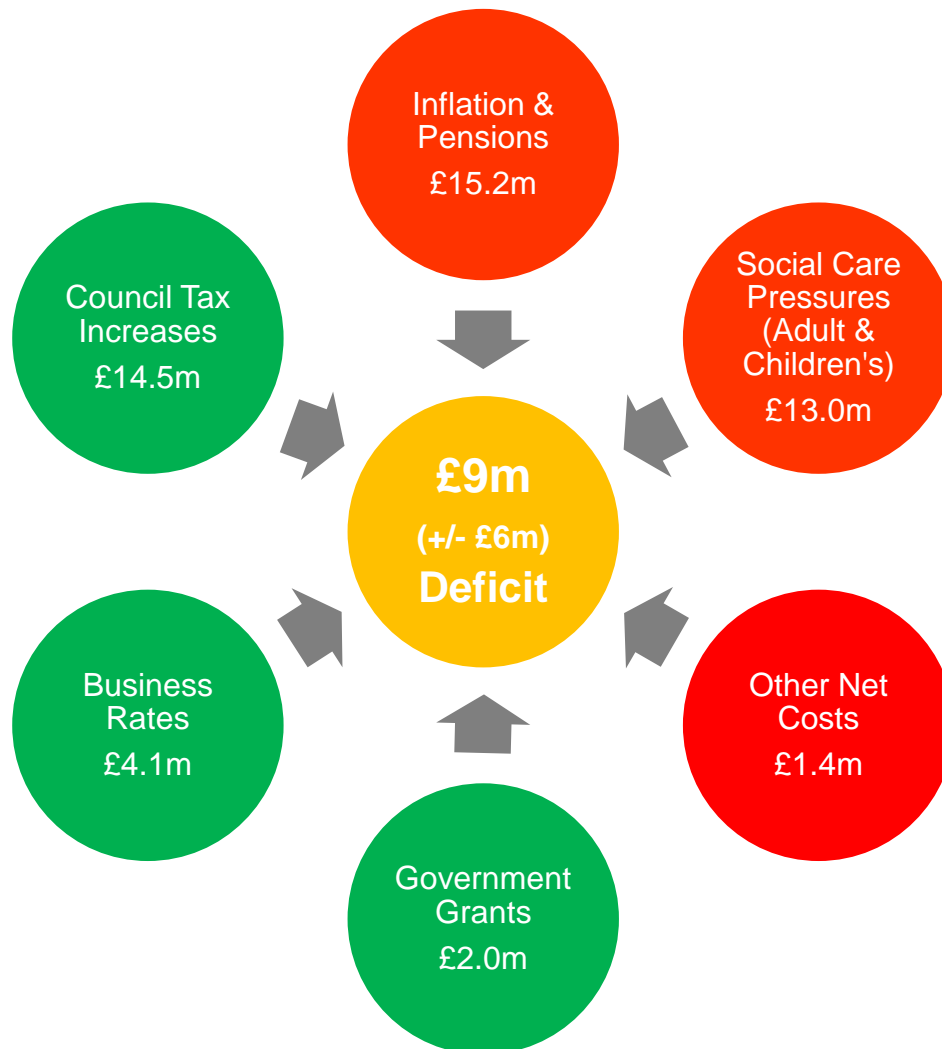
Deficit Reduction Strategy 2026/27 to 2028/29

- 12.3 The estimated 3 Year Budget Deficit of £9m is recommended to be phased evenly over the next 3 years (see table below), drawing on reserves where necessary in order to "smooth" the impact on services. This provides for a managed reduction in spending, giving good opportunity for alternative income / efficiency initiatives to take effect and the opportunity to make annual adjustments as estimates and assumptions change.

Financial Year	Revised Budget Deficit	In Year Budget Savings	Revised Cumulative Saving
£	£	£	£
2026/27	2.9m	3.0m	3.0m
2027/28	6.2m	3.0m	6.0m
2028/29	9.0m	3.0m	9.0m

- 12.4 Budget Savings requirements for the future years beyond 2025/26 will be £3m per annum. Given the uncertain nature of the Forecast for future years, the forecast of £3m savings for the years 2026/27, 2027/28 and 2028/29 must be considered as indicative at this stage and subject to the annual review of the 3 Year Forecast.

- 12.5 The Forecast is "finely balanced" due to the uncertainty associated with Social Care cost pressures, inflation generally the impact of the review of Local Government Funding to be implemented for 2026/27. As is usual, the Forecast will be revisited and adjusted on an annual rolling basis.
- 12.6 The 3 Year Budget Deficit of £9m to 2028/29 is described in the paragraphs that follow with the most significant changes illustrated below.



- 12.7 The most significant assumptions in the medium-term forecasts for the period 2026/27 to 2028/29 are described below:

Spending:

- An overall inflationary provision covering all pay and prices amounting to £15.2m
- Demand related pressures in both Adult Social Care and Children's Social Care of £13.0m
- Other net costs £1.4m
- An assumption of a "steady state" service provision for all Council activities.

Funding:

- An increase in Business Rate income relating to annual increases in the multiplier (linked to the September Consumer Price Index), no business rate growth and a £0.5m gain from the Business Rate Reset
- An overall increase in Council Tax Income of £14.5m which incorporates:
 - Increase of 4.99% for each of the years 2026/27, 2027/28 and 2028/29 (including 2% for the Adult Social Care Precept)
- An inflation-based increase in Government Grants of £2.0m
- Indexation uplifts on retained Business Rates of 2.7% for 2026/27, 2.2% for 2027/28 and 2.1% for 2028/29
- An underlying zero growth assumption for changes in Business Rates from 2026/27 onwards, to reflect the uncertainty relating to any recession / recovery, 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.

12.8 Future funding from Government from 2026/27 onwards is heavily dependent on the outcome of the Fair Funding Review and Business Rate Retention scheme review. It must be recognised that the outcome of these reviews remains uncertain.

12.9 It is also important to recognise that this forecast extends beyond the Fair Funding Review and the revised Business Rate Retention Scheme expected to be implemented in 2026/27. It moves two years beyond these events and makes broad assumptions at the macroeconomic level pending any indicative information at the local level. Inflation assumptions are also potentially volatile and therefore a significant level of uncertainty remains surrounding the Future Forecast which could realistically vary by +/- £6m.

12.10 Due to the uncertain nature of the future years' forecasts, it is imperative that the Council continues to manage its cost base carefully if it is to remain well placed to respond to the review of Local Government Funding.

12.11 A plan for £2m savings in 2025/26 but with General Reserves and the Corporate Contingency held at current levels is a balanced approach appropriate to an eventuality where the Council's forecasts are either too pessimistic or too optimistic. For example, if the 3 Year Forecast improves, the Council has not prematurely made a level of savings and service reductions that could have been avoided. If the forecast deteriorates, the Council will still be able to spread any deficit over a 3-year period and have sufficient General Reserves to avoid significant "spikes" in Savings Requirements in any single year in the future.

12.12 Crucially, this savings strategy, as described above, can only work if the Council retains General Reserves at the levels set out in this report.

12.13 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.

12.14 The fundamental aim of the Medium-Term Resource Strategy (MTRS) is for in-year expenditure to equal in-year income, excluding items of a "one-off" nature to achieve "structural balance".

13. Medium Term Resource Strategy Reserve

13.1 The Medium-Term Resource Strategy (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.

13.2 Historically, the reserve has been replenished by transfers of underspends from previous years. Under the financial framework where Portfolios retain their own underspends, 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 or if a Portfolio does not have any of its own Reserves to call on.

13.3 It is anticipated that the main call on the MTRS Reserve over the next few years will be Invest to Save Schemes of a capital nature and the revenue costs associated with transforming Services. Additionally, redundancy costs may also be required through Service re-organisation.

13.4 For 2025/26 there are commitments against the reserve totalling £0.5m for new Capital Invest to Save schemes as set out in the Capital Programme 2024/25 to 2029/30 section of this report.

13.5 To provide for future years anticipated redundancy costs, 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 a modest £4.8m. Importantly, Invest to Save (or avoid cost) proposals are becoming an increasingly important component of the Capital Programme and it can reasonably be expected that future Capital Programmes will rely more heavily on this as a funding source in the future.

13.6 In future years, for this reserve to continue in this capacity, it will be necessary to replenish it either from non-Portfolio underspends or alternatively from the Revenue Budget.

14. Estimated General Reserves 2024/25 to 2028/29

14.1 In general, maintaining adequate reserves is a measure of responsible financial management and strong financial health. They are required to be able to respond to "financial shocks" without having to revert to the alternative of quick and severe

reductions in services. Importantly, they also enable differences between expenditure and funding levels to be "smoothed out" and managed in a planned way over time.

- 14.2 General Fund Revenue Reserves as at 31 March 2025 (Revised Estimate) are anticipated to be £22.0m after transfers to and from other reserves, and remaining steady during 2025/26. Assuming that the forecast future savings are made in accordance with proposed Deficit Reduction Strategy of £3m p.a, then General Reserves are expected to remain broadly constant over the period to March 2029. The Council is expected therefore to remain within the recommended level of minimum General Reserves of £10.0m.
- 14.3 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 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.
- 14.4 The experience of financial shocks including the Covid pandemic, the cost of living crisis and currently the escalating costs of social care and homelessness has highlighted the scale at which the Council's Reserves could be exposed to, making the compelling case for the minimum level of reserves to be held of £10m.
- 14.5 The minimum level of balances for future years will be reviewed annually as part of the budget process.
- 14.6 The statement below gives details of the General Reserves in hand at 01 April 2024, together with the proposed use of reserves from 2024/25 to 2028/29, and the resultant balances at 31 March 2029.

General Reserves Forecast - Up to 2028/29					
Financial Year	Current Year £m	Budget 2025/26 £m	Forecast 2026/27 £m	Forecast 2027/28 £m	Forecast 2028/29 £m
Opening Balance	21.4	22.0	22.1	22.2	22.0
In Year Surplus / (Deficit)	0.6	0.1	0.1	(0.2)	0.0
Forecast Balance	22.0	22.1	22.2	22.0	22.0

- 14.7 The level of balances held over the period will be higher than the minimum level recommended. This prudent approach is being taken for several specific reasons, which include:
- The Council is not permitted to budget for a level of General Reserves below the minimum level determined by the S.151 Officer
 - The susceptibility of the Council's forecast to vary by +/- £6m due to inflation and demand volatility plus the outcome of the Fair Funding Review and the Business Rate Retention "reset"
 - There remain continuing risks associated with the escalating cost pressures for both Social Care and Homelessness
 - The uncertainty over the future reform of Local Government funding

- The uncommitted balance available in the MTRS reserve of just £4.8m means there are only limited funds available to fund the implementation costs of future efficiency savings (see Section 13).

15. Capital Programme 2024/25 to 2028/29

Summary

15.1 In accordance with the Council's Capital Strategy and Medium-Term Financial Strategy, the Cabinet have prioritised those schemes that:

- 1) Provide for statutory requirements including School Places, Transport Safety, Homelessness and necessary Health and Safety obligations
- 2) Ensure that the Council's services to residents continue to operate from safe "fit for purpose" buildings
- 3) Support the renewal of the Council's aging Leisure Estate and end of life sports and play facilities across the City
- 4) Continue the Council's efficiency and environmental agenda, including the downsizing of the Civic Offices and further greening initiatives
- 5) Continue with the Council's key regeneration opportunity for the City Centre North, aiming to stimulate housing and employment in the Council's most deprived area.

15.2 As described earlier in this report the key responses arising from the Budget Consultation for the future investment of the Council's Capital Programme selected by respondents are, in order of popularity:

- Giving residents the opportunity to live a healthy lifestyle including investing in leisure and sports facilities (46%)
- Prioritising sustainable travel and transport systems to reduce environmental impact and improve journey times (43%)
- Downsizing the council's office space to reduce the cost to the taxpayer (42%)
- Building new homes, especially council homes, to reduce the housing register/waiting list (40%)
- Investing in public space as part of the new sea defences (38%)

15.3 The Cabinet's new scheme proposals contained within this report will lead to additional capital investment totalling £53.4m, of which £16.3m is funded by Corporate Capital Resources.

15.4 The Council has the opportunity, through its capital programme and borrowing powers, to invest in both the regeneration of the City and cost reduction schemes for the Council itself. Capital Investment needs and aspirations, however, continue to significantly exceed the resources available. Importantly, there are likely to be opportunities throughout the year to lever in additional external capital funding for schemes that have strong potential to be catalytic for economic growth, but only if the Council itself can provide matched funding contributions. Consequently, to maximise

the Capital Investment opportunities for the City, it is recommended that any underspends arising at the year-end (outside of those made by Portfolios) be transferred either to Capital Resources to fund future Capital Programmes, the MTRS Reserve or General Reserves.

Overall Strategy

15.5 The Capital Strategy (Appendix G) sets out the overarching capital aspirations and how both capital expenditure and investment decisions are made, whilst taking into consideration risks and rewards. There are 2 parts to the Capital Strategy:

- Part 1 - provides an overview of the Council's plans for capital expenditure.
- Part 2 - considers the implications of the Council's future capital expenditure plans on borrowing and investing decisions.

15.6 The key features of the Capital strategy, which have been considered in the development of the Cabinet's Capital Programme proposals, are as follows:

- Contribution to Council Plan / Priorities
- Statutory Obligations
- Financial Appraisal
- Option Appraisal
- Risk and approach to risk - the expected benefits must outweigh the risk
- Any overspendings on approved Capital Schemes being the first consideration for the use of any available capital resources.

15.7 As also described in the Medium-Term Financial Strategy, the strategy is to maximise the capital resources available and then target new capital expenditure towards income generation and economic growth whilst ensuring the Council's statutory obligations are also met, (e.g. school places).

15.8 The development of a Capital Strategy considers investments that will be made in the acquisition, creation or enhancement of tangible or intangible fixed assets to yield benefits to the Council for a period of more than one year. It also considers how stewardship, value for money, prudence, sustainability and affordability will be secured. The priority of new capital expenditure will be assessed in accordance with the capital expenditure criteria and principles set-out within Part 1 of the Capital Strategy.

15.9 Whether to take long-term borrowing or use surplus cash in the short-term and delay a decision to take longer term borrowing forms part of the **Treasury Management Policy** and is not considered here.

Total New Corporate Capital Resources

15.10 New Corporate Capital resources available as a funding source for 'new starts' in 2025/26 and onwards have been reviewed and the amount available to be allocated has been determined as £16.3m.

- 15.11 This sum includes allocating indicative grant funding amounts for 2025/26, 2026/27 and 2027/28 relating to Transport and Education. This will allow the services to continue to plan with more certainty over a 3-year period and with a larger and more certain capital allocation, providing the ability to take a more strategic approach to capital investment over a longer time horizon.
- 15.12 Additionally, a small contingency has been retained to mitigate the risk of capital receipts and grants being lower than anticipated. Some funding has been held back to meet unavoidable increases in costs to approved schemes, and to support match funding bids for additional external funding.
- 15.13 A summary of the total capital resources available to the Council for 'new starts' in 2025/26 and onwards are described below:

Corporate Capital Resources

- 15.14 This includes all non-ring-fenced capital grants, (e.g. local transport plan, education basic need and school condition funding), capital receipts and revenue contributions and are described later. Corporate Capital Resources include:
- Non-ring-fenced capital grants (Integrated Transport Block, Schools Capital Maintenance & Special Educational Needs & Disability) of £6.7m
 - Capital Receipts based on estimated values that have been declared surplus to requirements
 - Estimated City Wide Community Infrastructure Levy receipts
 - A contribution from reserves of £5.2m.

Ring Fenced Capital Funding

- 15.15 Funding passported to the Better Care Fund which is targeted at Disabled Facilities Grants and wider social care programmes. This is a Central Government initiative which creates a pooled budget arrangement between the Council and Health Services; an estimated £2.0m will be received by the Council in 2025/26.

Prudential Borrowing

- 15.16 Prudential Borrowing is only available for a Council's "Primary Purpose for Investment" which must be "consistent with statutory provisions, proportionate to service and revenue budgets and consistent with effective treasury management practice".
- 15.17 The arrangements for Prudential Borrowing were strengthened following growing concerns over Local Government commercial property investments and taking on disproportionate levels of commercial debt to generate yield. Borrowing for "debt-for-yield investment" is not permissible under the Prudential Code, as it does not constitute the primary purpose of investment and represents unnecessary risk to public funds.
- 15.18 Prudential borrowing is available for "Invest to Save" schemes only where those savings accrue directly to the Council on a sustained basis. Prudential Borrowing is governed by the Prudential Code and its associated tests of affordability,

sustainability and prudence. Prudential borrowing is what is termed “unsupported borrowing” and means that the Government does not provide any revenue support through government grant for the repayment of that debt (neither principal nor interest).

- 15.19 The Affordability test dictates that the Council must be able to demonstrate that it can afford the debt repayments over the long term. Given the forecast £9m Budget Deficit and the uncertainty of the Future Forecasts which could vary that deficit by +/- £6m, prudential borrowing is only available for invest to save schemes where there is a demonstrable case that the capital expenditure incurred will result in savings (i.e. cost reduction or additional income) that at least cover the cost of borrowing. Also, that those savings accrue directly to the Council and will be available on a sustained basis over the lifetime of any borrowing.
- 15.20 Prudential borrowing is strictly controlled and only proceeds once the S.151 Officer is satisfied as to its legality in accordance with the Prudential Code (e.g. the "Primary Purpose" test) as well as its affordability on a sustained basis. This necessarily requires a business case and financial appraisal to be prepared that satisfies the S.151 Officer.
- 15.21 Historically, all decisions to undertake borrowing have been referred to Full Council. Whilst this is a feature of strong financial governance, there are occasions where this can inhibit the Council from acting responsively with the associated risk of losing a potential time limited opportunity. This can be particularly relevant to property acquisitions. At the present time, the Council is seeking to pursue regeneration opportunities that can involve land assembly, and it is important that the Council can enter transactions in an efficient and timely fashion. It is recommended therefore that the Council's S.151 Officer be given delegated authority within the year to borrow up to £15m but only once a satisfactory business case and financial appraisal has been approved by the S.151 Officer.

New Capital Investment Proposals & Revised Capital Programme

- 15.22 The Cabinet's proposals for the allocation of the Council's 'new start' Capital Investment amounts to £53.4m are set out in Appendix D for approval. They comprise a balanced set of proposals described below.
- 15.23 To maintain the Council's operational facilities, £2.4m is being invested into Council buildings to provide for the highest priority maintenance needs.
- 15.24 The programme has also been designed to support environmental enhancements and the climate change agenda by investing £2.4m into environmental initiatives and clean economic growth. Proposals include:
- Further investments in green initiatives, such as Bio-dredging at Baffin's Pond and renewal of Southsea Common
 - Improved energy performance of existing and planned new buildings, and reduced carbon footprint as part of the Council's property rationalisation.
- 15.25 The Cabinet continue to bring certainty to the renewal of the Leisure Estate whilst also replacing / upgrading end of life play and sports facilities across the City, by investing £2.3m.

- 15.26 The Cabinet continues to invest in the City's educational outcomes, with further investment of £3.8m in the expansion of Nursery Provision, additional places for Children with Special Educational Needs and school building maintenance.
- 15.27 The capital programme also includes investment in Children's Services and Adult Social Care of £5.6m. This includes provision of funding to create accommodation within the City for both Care Experienced Young Adults, as well as Extra Care accommodation for Adult Social Care clients.
- 15.28 As a key enabler of vibrant local communities, the underpinning and enabling of regeneration and the move towards a sustainable future, significant investment continues to be made into the core local transport infrastructure amounting to £3.4m to ensure transport networks are reliable and efficient; improve road and transport safety; manage the adverse impact of transport on the environment and promote healthier travel.
- 15.29 In Portsmouth, the number of households in temporary accommodation has risen by 54% in the last year to more than 500, while the costs have risen by 84%. To address this, the Capital Programme includes an investment of £31.3m to acquire properties to use as temporary accommodation for residents who might find themselves in situations where they have been made homeless. This would reduce the current need to rely on less suitable but costly privately rented accommodation, with an expectation this will start to ease the existing budget pressure this year and significantly improve the position over the following 2 years.

Proposed Capital Programme 2024/25 to 2028/29

- 15.30 The overall Capital Programme, including all existing schemes which have been reviewed and considered as a continuing priority and proposed new schemes, is set out in Appendix E for approval.

Future Capital Obligations, Priorities and Aspirations

- 15.31 The proposals for capital investment contained within this report complement the existing capital programme and provide further solidity to secure the Council's financial viability for the medium term. Nevertheless, the Council will inevitably face future obligations of a statutory nature as well as wishing to further develop its priorities and aspirations for future capital investment to meet its overall aim of financial and public service sustainability.
- 15.32 The Cabinet has identified some further specific priority and aspirational capital schemes to be pursued as further capital funding becomes available:
- Investing in a rolling programme of investment into council assets subject to the outcome of the Asset Management Strategy
 - Enabling works and land assembly associated with the City Centre North scheme
 - The Civic Offices regeneration / replacement scheme
 - Greening and environmental improvement schemes

- Investing in replacing play park equipment across the City based on the strategy prepared by the Parks team
- Investing in refurbishing outside sports courts based on the strategy prepared by the Parks team
- Investing into schemes delayed due to inflationary pressures and higher than anticipated interest rates
- Completing the East-West cycle corridor
- Delivering future stages of the Eastern Road cycle lane scheme
- Enhancing the Southsea Sea Defences.

15.33 The scale of the funding required for these obligations and aspirations is such that it far outstrips the annual capital funding which may be available. With core capital funding of circa. £5.5m per annum, there is a hugely significant shortfall ("Capital Gap") to be met. From this £5.5m there is an expectation from Central Government that amounts allocated for Education (circa. £0.7m) should be allocated for School Condition and there is an obligation to maintain a Local Transport Plan from the annual £1.8m provided from the Department for Transport. The overall implication being that routine annual funding available for Capital Investment is extremely limited.

15.34 In the context of the scarcity of capital funding, the Council is currently preparing its overall Asset Management Strategy which will consider matters such as condition, sufficiency and performance and therefore whether the overall size of its building estate could be rationalised. Should this be achieved, it would have the dual benefit of:

- i) Reducing the drain on capital resources to equip and maintain their use which in turn could release resources to be made available for as yet unfunded priorities and aspirations
- ii) Reducing the day-to-day costs of delivering services that could either contribute to future savings or be re-invested in enhancing service provision.

15.35 Given the scale of the "Capital Gap" described above, the necessity to supplement the Capital Resources available remains an explicit feature of the Council's approved Medium Term Financial Strategy. This ensures that the Council can continue to fund essential services but also fund Regeneration and Income Generation schemes aimed at improving the overall financial sustainability of the Council and the economy of the City, whilst fulfilling its role in addressing the challenge of climate change. For this reason, the standing recommendations remain intact that enable the S.151 Officer be given delegated authority to transfer all or part of any further savings made in 2024/25 arising at the year-end to supplement the Capital Resources available for future years.

Prudential Borrowing Indicators

15.36 The Prudential Indicators of the Council are determined largely from its Capital Investment decisions. The 5 indicators are presented in Appendix F for approval. In summary, the Council's indicators illustrate that its current Capital Programme is affordable. Further details setting out what each indicator shown in Appendix F represents is set out below:

Ratio of Financing Costs to Net Revenue Stream

15.37 This indicator shows the proportion of the net revenue stream (i.e. the Council's Revenue Budget) that is attributable to the cost of financing capital expenditure.

Capital Financing Requirement (CFR)

15.38 This represents the Council's underlying need to borrow to fund current and future capital expenditure. The CFR arises directly from the capital activities of the Council and the resources applied to fund that capital activity. The CFR represents the unfinanced element of capital expenditure and is the difference between the value of total fixed assets on the balance sheet and the Revaluation Reserve and Capital Adjustment Account.

Authorised Limit for External Debt & Operational Boundary for External Debt

15.39 The Council's Limit for External Debt, recommended for 2025/26, should be broadly equivalent to its CFR (described above) but should allow for a little headroom in excess of it. This has been set accordingly. Furthermore, the Operational Boundary for external debt serves as an early warning tool to highlight whether the External Limit is nearing a breach. This, therefore, is set at the level to which external debt is more likely to be.

Ratio of Net Income from Commercial & Service Investments to Net General Fund Revenue Stream

15.40 This represents the proportion of net General Fund expenditure funded from investment income.

16. Statement of the S.151 Officer in Accordance with the Local Government Act 2003

16.1 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.

16.2 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 continues to be uncertainties in both the current and future years i.e. beyond 2025/26. Uncertainties exist regarding:

- The volatility of inflation
- The increased levels of demand for Council Services generally
- The legacy impacts of the Covid pandemic and the "cost of living" crisis on costs, Council Tax and Business Rate income levels

- The general uncertainty surrounding Business Rate income from the recent revaluation and the extent of successful appeals and mandatory reliefs, all of which affect Retained Business Rates
- Government Funding levels (including the outcome of the Fair Funding Review and the Business Rate Retention scheme review expected in 2026/27)
- The ability of the Council to continue to make necessary savings at the required scale and pace
- The likely demographic cost pressures arising in demand driven services such as Adult Social Care, Children's Services and Housing
- The extent to which new policy changes will be funded.

All of these uncertainties increase the need for adequate reserves and balances to be maintained in current and future years.

- 16.3 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.
- 16.4 Should the level of reserves fall below the minimum approved sum of £10m 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 issue a S.114 notice, imposing spending controls until a balanced budget is approved by the Council.

(a) Robustness of the Budget

- 16.5 In setting the Budget, the 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.
- 16.6 Estimates and forecasts have been prepared to include all known significant financial factors over the medium term to inform spending decisions.
- 16.7 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 12 and use the following sources as their evidence base:
- Government funding as set out in the adjusted provisional settlement for 2025/26
 - An assumption that the overall outcome of the Fair Funding Review and Business Rate Retention scheme review will lead to a net increase in funding of £0.5m
 - A "no growth" assumption for Retained Business Rates from 2025/26 onwards on the basis that any income arising from growth will be offset by appeals, reliefs and change of use
 - An assumption that the value of successful appeals against the 2023 rating list will be based on the most up to date information from the Valuation Office Agency

- 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 OBR
- Specific provisions for increases in demand for both Adult Social Care and Children's Services based on current trends
- 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.

16.8 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.

16.9 The most volatile budgets are those of Adult Social Care 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.

16.10 Additionally, Portfolios will be able to retain any underspends in 2024/25 and utilise them as necessary in 2025/26 and future years for any purpose but with a clear priority to meet essential cost pressures in the first instance.

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

16.12 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.

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

16.14 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.

16.15 Future years' budgets will remain challenging due to inflation and demand volatility, the uncertainties associated with the reform of Local Government Funding and the continuing demographic pressures on Care Services.

(b) The Adequacy of Proposed Financial Reserves

- 16.16 During 2024/25, 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 at £10m as at 31 March 2026.
- 16.17 Reserves 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.
- 16.18 The level of balances held will be higher than the minimum level recommended. This prudent approach is being taken for several specific reasons as set out in Sections 8 and 12. The position will continue to be reviewed and reported to Members on an annual basis.
- 16.19 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.
- 16.20 The MTRS Reserve is the Council's primary vehicle for funding Spend to Save and Spend to Avoid Costs Initiatives, Feasibility Studies and redundancy costs. Taking account of all approvals from this reserve and future estimated redundancy costs over the next 4 years, it is estimated that the Reserve will have an uncommitted balance of £4.8m. For this Reserve to continue in this capacity, it will be necessary to replenish it from any non-Portfolio underspends, transfers from other reserves no longer required or alternatively from the Revenue Budget.
- 16.21 The Council maintains several 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.
- 16.22 The Council's contingency provision for 2025/26 has been set on a risk basis at £22.2m (£17.1m in 2024/25) 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.

17. Conclusion

- 17.1 The Council's financial health is currently sound, but future risks remain relating to inflation volatility and accelerating cost and demand for Care Services and

Homelessness as well as the uncertainty arising from the reform of Local Government Funding.

18. Integrated Impact Assessment (EIA)

- 18.1 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 savings proposals set out within this report are 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 Integrated 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.
- 18.2 A public consultation was held in relation to the Budget across the period from 1 August to 15 September 2024 to assist the Cabinet in formulating its Budget proposals as described in Section 4.
- 18.3 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 10 February 2025, where a presentation was made of the proposed Council Tax and Revenue Budget 2025/26, the Council's future financial forecasts for 2026/27 to 2028/29 and the proposed Capital Investment plans.

19. City Solicitor's Comments

- 19.1 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.
- 19.2 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.

20. S.151 Officer's Comments

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

.....
Signed by:

Appendices:

A	General Fund Summary
B	Forecast Expenditure 2026/27 to 2028/29
C	Indicative Budget Savings 2025/26
D	New Capital Schemes Starting in 2025/26
E	Capital Programme 2024/25 to 2029/30
F	Prudential Indicators
G	Capital Strategy 2025/26 to 2034/35
H	Budget Consultation 2024

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Budget Working Papers	Office of Director of Finance & Resources & Deputy Director of Finance
Local Government Finance Settlement 2025/26	Office of Director of Finance & Resources

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

.....
Signed by