

Agenda item:

Decision maker: Cabinet
City Council

Subject: Portsmouth City Council Revenue Budget 2016/17 -
Savings Proposals

Date of decision: 3rd December 2015 (Cabinet)
8th December 2015 (City Council)

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

Wards affected: All

Key decision: Yes

Budget & policy framework decision: Yes

1. Executive Summary

- 1.1 Overall, economic conditions are improving but the National Debt continues to rise. The Government have stated that growth alone will not fix the budget deficit and consequently the programme of fiscal consolidation (or public sector spending reductions) will continue to 2020.
- 1.2 Expectations for the Council over the next 3 years are characterised by increasing demand for services, particularly in the essential care services, at the same time as continuing reductions in funding. This simultaneous double impact requires the Council to make £31m of savings over the next 3 years.
- 1.3 The first tranche of savings amount to £11m and need to be realised for 2016/17. The proposals within this report seek to make those savings in a way that is consistent with the Council's Medium Term Financial Strategy approved in 2013 which aims to deliver the necessary savings whilst continuing the drive towards the regeneration of the City and protecting the most important and valued Services.
- 1.4 Over the last 3 years, the City Council has experienced Government funding reductions of £59m (representing 38%). When combined with the need to meet unavoidable cost pressures, the City Council has had to make savings of £75m through efficiencies and service reductions. In context, £59m represents 28% of the Council's controllable budget.

- 1.5 At the present time, the Council's essential care services (Children & Education and Health & Social Care) are currently overspending against their budgets with underlying deficits of £2.7m and £2.4m, respectively. Plans are in place to eradicate those deficits by 2016/17 but in doing so, the Council's ability to find savings from these Portfolios to contribute towards the £11m savings requirement for 2016/17 has been severely constrained.
- 1.6 Furthermore, Adult Social Care in particular will continue to face both significant demographic pressures as well as extraordinary inflationary pressures in the future. Of particular significance will be the potential cost associated with the introduction of the National Living Wage from April 2016, estimated to cost circa £1.5m if this is not to be funded by Central Government in some form.
- 1.7 The Education & Children's Portfolio, Environment & Community Safety Portfolio and Health & Social Care Portfolio have, to varying degrees, received meaningful protection from budget savings over the past 5 years due to the prioritisation of these Services over others as well as the more limited ability to make savings in these areas. In aggregate, these Portfolios account for two thirds of the Council's total controllable spending. The scale of the future savings requirements beyond 2016/17 will be such that the Council will no longer be able to afford the same levels of protection that have been provided in the past for these Services without severe cuts to all other Services.

- 1.8 Against the backdrop of having made savings of £75m over the past 5 years, the Council's Medium Term Financial Strategy to achieve the £11m savings requirement for 2016/17 and its total savings requirement of £31m over the next 3 years is as follows:

OVERALL AIM

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

STRAND 1

Reduce the City's dependency on Central Government Grant

STRAND 2

Reduce the extent to which the population needs Council Services

STRAND 3

Increase the efficiency & effectiveness of the Council's activity

STRAND 4

Withdraw or offer minimal provision of low impact Services

- 1.9 The proposals contained within this report are designed to follow the financial strategy and respond to the budget consultation. They include the following:
- To prepare towards the Council's Budget for 2016/17, to be approved in February 2016, on the basis of a 2% increase in Council Tax
 - A suite of savings amounting to £11m of the £31m required over the next 3 years (2016/17 to 2018/19)
 - Reflect the responses to the Budget Consultation, which generally suggest that services to the vulnerable should receive some measure of protection. Given that the Children & Education Portfolio and the Health and Social Care Portfolio need to remedy their current budget deficits of £2.7m and £2.4m respectively, the savings proposals provide significant protection for both of these Portfolios
 - Generally propose savings that have the least impact on residents but given that it is inevitable that there will be risks in delivering savings on this scale, that the appropriate mitigation measures are put in place where high risk exists
 - Savings decisions at this early stage provide greater opportunity for any necessary consultation, notice periods and other lead-in times to take place and therefore avoid a greater number or deeper savings associated with any delay
 - The use of £0.5m of the MTRS Reserve to continue to support the programme of interventions and provide capacity to increase the scale and pace of interventions as a means to support the achievement of future savings
- 1.10 The proposals within this report are a necessary pre-cursor to the Annual Budget and Council Tax Setting meeting of the 9th February 2016 when the Council will be requested to formally approve the Budget for 2016/17 and the associated Council Tax for the year. Should the savings proposals contained within this report be approved, they will form the basis of the Budget for 2016/17 presented to Council. That report will also include a comprehensive revision of the Council's future financial forecasts and set the consequent future savings requirements for the period 2017/18 to 2019/20.
- 1.11 The proposals within this report will maintain the Council's financial health and resilience and therefore its ability to respond in a measured and proportionate way to any "financial shocks" by having adequate reserves and contingencies available for a Council of this size and risk profile.

2 Purpose of Report

- 2.1 The report describes the challenging financial climate facing the City Council for the three years 2016/17 to 2018/19 and the likely implications for Council services to businesses and residents. It describes, in overall terms, the Medium Term Financial Strategy that the Council is following in order to achieve its stated aim as follows:

OVERALL AIM

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

- 2.2 The report sets out the need to find £31m of savings over the next three years with a minimum of £11m (or £12.2m if a Council Tax freeze) for 2016/17. It recommends the level of savings to be made across Portfolios and other activities in 2016/17 consistent with both the outcomes of the recent budget consultation exercise and the overall financial strategy. The report then proceeds to describe the likely savings and implications associated with the overall Portfolio savings levels proposed.
- 2.3 Associated with the delivery of future savings and in accordance with the Financial Strategy, is a proposal to increase the funding for the Business Intervention Fund by £0.5m so that the Council can continue its programme of service interventions at scale and at pace in readiness for the continued savings challenge for future years.
- 2.4 Finally, the report stresses the important contribution that the MTRS Reserve and the Capital Programme can make to the Council's overall Medium Term Financial Strategy. The General Fund Revenue Budget is the most constrained of all Council budgets and the sustainability of Council Services will be better protected if both MTRS funds and the Capital programme are directed towards generating savings.
- 2.5 This report is being brought at this time to provide greater opportunity for any necessary consultation, notice and other lead-in times to take place prior to implementation in order that full year savings can be made. Should approval of the savings be considered at a later date, a greater number or deeper savings will be required in order to compensate for any delay in implementation.

2.6 In particular, this report explains:

- (a) In broad terms the challenge for the City in the current economic climate
- (b) The general financial constraints on the City Council both currently and in future years
- (c) The difficulty that the Council's essential care Services have experienced in remaining within their cash limits in the current year and the implications for the coming year 2016/17
- (d) Key assumptions built into the City Council's forecasts for 2016/17 to 2018/19 which give rise to a forecast £31m deficit over the period and which include:
 - i. Revenue Support Grant
 - ii. Other Non-ring fenced grants
 - iii. Business Rates
 - iv. Council Tax yield
 - v. Inflation and interest rates
- (e) The level of uncertainty surrounding future years funding reductions from Government arising from the Comprehensive Spending Review and the extent to which this could affect the forecast £31m deficit
- (f) The Medium Term Financial Strategy aimed at meeting the Council's core aim whilst addressing the £31m deficit
- (g) The key themes arising from the budget consultation that took place over the September / October period to assist Members in their consideration over the level and nature of savings to be made across Portfolios
- (h) In the context of the Medium Term Financial Strategy and the Budget Consultation, the proposed savings amount for each Portfolio / Committee to be made in 2016/17
- (i) The detailed indicative savings (Appendix A) that could be made by each Portfolio / Committee in meeting its overall savings amount in order to provide the Council with the assurance necessary to approve the recommended savings amount for each Portfolio / Committee
- (j) The need to agree the Portfolio / Committee savings amounts at this early stage in order that any necessary consultation, notice periods or other lead times can commence in order to avoid greater and deeper savings arising from any delay
- (k) The spend to save investment required in order to support delivery of the Council's future savings requirements
- (l) How the proposals contained within this report will be fed into the formal Budget and Council Tax 2016/17 proposals to be considered by the City Council on 9th February 2016

3 Recommendations

3.1 That the following be approved:

- (a) That the Council's Budget for 2016/17 be prepared on the basis of a 2% Council Tax increase
- (b) That in the event that the Council has the ability to increase the level of Council Tax beyond 2% in order to fund Adult Social Care pressures, and if the Council elects to do so, that any additional funding that arises is passported direct to Adult Social Care to provide for those otherwise unfunded cost pressures.
- (c) The savings proposals for each Portfolio amounting, in total, to £11m for 2016/17 and continuing into future years as set out in Appendix A to enable appropriate consultation and notice periods to be given to affected parties
- (d) That £500,000 be released from the MTRS Reserve to increase the Business Intervention Fund in order to increase the scale and pace of the programme of Service interventions described in paragraphs 10.17 and the funding to be used flexibly across years
- (e) That the allocation of the Business Intervention Fund to Service interventions be delegated to the S151 Officer in consultation with the Leader of the Council.

3.2 That the following be noted:

- (a) The Budget Savings Requirement for 2016/17 of £11m approved by the City Council was based on a Council Tax increase of 2.0%; each 1% change (increase or decrease) in the Council Tax results in a change to the savings requirement of £625,000¹
- (b) The key themes arising from the budget consultation
- (c) The indicative savings proposals set out in Appendix B which are provided for the purpose of demonstrating to the Council that the Portfolio savings as recommended in paragraph 3.1 (c) above are robust and deliverable
- (d) The likely impact of savings as set out in Appendix B based on the scale of the Portfolio savings as recommended in paragraph 3.1(c)
- (e) That the responsibility of the City Council is to approve the overall Budget and the associated cash limits of its Portfolios and Committees; it is not the responsibility of the City Council to approve any individual savings within those Portfolios / Committees

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

- (f) That it is the responsibility of the individual Portfolio Holders (not the City 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 B with alternative proposal(s) amounting to the same value within their Portfolio
- (g) Managers will commence any necessary consultation process or notice process necessary to implement the approved Portfolio / Committee savings
- (h) That there is no general provision for Budget Pressures and that it is the responsibility of the Portfolio Holder to manage any Budget Pressures which arise from the overall resources available to the Portfolio (which includes their Portfolio Reserve)
- (i) In accordance with the approved financial framework, it is the responsibility of the Portfolio Holder, in consultation with the Director of Finance & Information Services (S151 Officer), to release funds from the Portfolio Reserve in accordance with the provisions set out in paragraph 10.14
- (j) The MTRS Reserve held to fund the upfront costs associated with Spend to Save Schemes, Invest to Save Schemes and redundancies currently holds a very modest uncommitted balance of £3.0m and will only be replenished from an approval to the transfer of any non-Portfolio underspends at year end into this reserve

4 Economic & Financial Context

- 4.1 Following the global economic downturn, the combination of reduced tax revenues and increases in the overall welfare bill has caused the national debt to rise from £0.5 trillion in 2008 to £1.5 trillion or 80.5% of Gross Domestic Product (GDP) currently.
- 4.2 Part of the response from Central Government has been to reduce spending (and funding) across the public sector. Over the past 5 years (since 2011/12), Central Government funding to Portsmouth City Council has reduced by over £59m (amounting to 38%). This has primarily been through reductions in Revenue Support Grant and has made no allowance for the differing council tax levels and tax bases of councils. Taken together with other financial pressures that have been experienced by the City Council (mainly relating to inflation, the effects of an ageing population on care services and the increased requirements for the safeguarding of vulnerable children), the City Council has had to make overall savings over the same period of over £75m. In context, this represents circa 40% of the Council's controllable spending.
- 4.3 Despite the improving economic conditions, public sector debt remains high and Government are committed to turning the current annual budget deficit,

currently standing at approximately £69.5bn² per annum into surplus by 2020 at which time they can start to pay down the national debt. The Prime Minister has previously stated that growth alone will not fix the budget deficit and recent announcements from Government indicate that Local Government is likely to face funding reductions in the order of a further 30% over the next 4 years.

- 4.4 Looking forward, the Council's current forecasts which run to 2018/19 indicate an overall savings requirement of £31m over the forthcoming 3 year period. This will mean that over the period of the austerity programme, funding from Government will have reduced by some 53%.

5 Local Government Funding Outlook - 2016/17 and Beyond

Local Government Finance Settlement 2016/17 & Beyond

- 5.1 The Local Government Finance Settlement is the term used to describe the main non-ring fenced Revenue and Capital grant funding allocations from Government.
- 5.2 The Local Government Finance Settlement for 2016/17 which accounts for approximately 48% of controllable spending is expected to be announced in either the second or third week of December following the announcement of the Comprehensive Spending Review on 25th November.
- 5.3 Until the Local Government Finance Settlement is received in mid to late December, overall Council funding for 2016/17 and indicative funding levels for future years will be unclear. Early indications are that funding reductions from Central Government, at a national level, will run at approximately 8% per annum for the next 4 years but reductions at a local level will differ between authorities. Currently the Council's forecasts reflect an overall 8.5% reduction in 2016/17 and 7.6% reductions thereafter. Should Government funding reductions of 8% per annum be implemented, this would be in broad alignment with the current assumption of a £26.6m reduction in Government funding over the period.
- 5.4 Whilst the Local Government Finance Settlement is a significant factor in determining the Council's overall financial position and therefore any necessary savings, other significant factors that will affect the Council's future savings requirements include Business Rates income, Council Tax income, inflation, interest rates and any new unfunded burdens passed down from Government.

² Office For Budget Responsibility - July 2015 Budget

Council Tax 2016/17 & Beyond

- 5.5 Portsmouth City Council is a low taxing Authority. The Council currently receives approximately £6.0m per annum less in Council Tax than the average Unitary Authority within its statistical neighbour group, a gap which the Council would otherwise not need to fund through reductions in services or additional income.
- 5.6 The original assumptions for 2016/17, 2017/18 and 2018/19 are for a 2.0% increase in Council Tax each year, this generates a total of £3.8m in income over the 3 year period (or £1.25m per annum). The increase in the amount of Council Tax payable by the average council taxpayer³ in Portsmouth with a 2% increase is £18.22 per year (or 35 pence per week).
- 5.7 Each 1% change (increase or decrease) in the Council Tax results in a change to the savings requirement of £625,000⁴. Should the Council wish to reduce the assumed level of Council Tax increase from 2.0%, equivalent savings will need to be made in order to remedy the associated increase in the overall deficit. Conversely, any increase in Council Tax beyond 2.0% will make a contribution towards the overall deficit, meaning that the extent of savings to be made will reduce. Council tax increases however, are subject to a "referendum threshold" which is a limit (i.e. council tax increase) that to exceed requires a "yes" vote in a referendum. The Council Tax referendum limits are not expected to be announced until the second or third week in December as part of the Local Government Finance Settlement.
- 5.8 At the time of writing, to address national cost pressures some political commentators are anticipating that the Chancellor may allow a 2% increase in Council Tax where this is earmarked for Adult Social Care. It is not clear that this would be in addition to any increase allowed within 'referendum limits' but it is understood that most councils, like us, will have assumed a 2% rise regardless.
- 5.9 As set out in Section 6, there are a number of actual and potential cost pressures that will fall on Adult Social Care in 2016/17 arising from both the Care Act and the introduction of the National Living Wage. The National Living Wage alone could confer an additional cost of circa £1.5m on the Council. These new burdens have not been factored into the Council's overall £31m financial deficit as it has been assumed that any new burden will be funded in full by Government. On that basis, it is recommended that in the event that the Council has the ability to increase the level of Council Tax beyond 2% in order to fund Adult Social Care pressures and if the Council elects to do so, that any additional funding that arises is passported direct to Adult Social Care in order to provide for those unfunded pressures.

³ The median Council Taxpayer lives in a Band B property

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

Business Rates 2016/17 & Beyond

5.10 The previous grant funding system from Government changed in 2013/14. Funding from Government was reduced and replaced with the ability to retain 49% of all Business Rates collected. Business Rates income is increased by inflation each year and is also influenced by the extent to which Business Rates income grows or contracts and the level of successful appeals against rates valuations. Whilst this presents an opportunity for Local Authorities with strong business growth potential, it also presents risks for Authorities whose business rates base is in decline or subject to “shocks” such as closure (or relocation) of major businesses in an area.

5.11 The system is complex but some of the key features are highlighted below:

- For business the National Non Domestic Rates (NNDR) system will remain the same. Local Authorities will not have control over how the level of tax is determined for ratepayers
- If the business rate taxbase grows the City Council will be rewarded with increased funding, but if it declines Council funding will reduce
- It is estimated that a 1% change in Business Rates will result in circa £400,000 change in funding
- Local Authorities that have very significant business rate growth will pay a levy
- A safety net payment will come into effect if an Authority’s income falls by more than 7.5% of the original baseline funding level.

5.12 Current estimates of the City Council's share (i.e. 49%) of total Business Rates collected for 2015/16 is £39.6m. For the period 2016/17 to 2018/19, the Council's forecasts assume no real growth but with inflationary uplifts of 2.1%, 2.9% and 3.4%, respectively. These inflationary uplifts are now considered to be optimistic and changes to the estimated Business Rate income for the current and future years will be reflected in the comprehensive revision to the Council’s overall financial forecasts in February 2016. Any consequent implications will be reflected in the Savings Requirements for future years.

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

- 5.14 Supporting growth and job creation will be a particular challenge to the City Council in the coming Budget. Savings proposals will need to consider how best to assist the economic recovery at a time when the Council's own funding is being cut and demand for essential services is likely to increase (see demographic changes at Section 6 below). For the reasons outlined, supporting growth and job creation remains a central theme of the Council's Medium Term Financial Strategy.
- 5.15 In summary, the funding for Local Government will remain particularly uncertain until the outcome of the Local Government Finance Settlement in December 2015. Whilst uncertain, the Council's current forecasts for 2016/17 anticipate a total reduction in revenue funding from Government of £9.8m whilst a Council Tax increase of 2.0% and an inflationary uplift in Business Rates will generate £3.5m of income, a net shortfall of £6.3m before taking account inflationary and other cost pressures.
- 5.16 Over the full 3 year period of the Council's forecasts, the shortfall between Council Tax increases and inflationary uplifts on Business Rates at £7.6m compared with funding reductions of £26.6m leaves a net shortfall of £19m before taking into account inflationary and other cost pressures described in the next section.

6 City Council Expenditure Outlook - 2016/17 & beyond

Demographic Changes

- 6.1 Demographic changes are likely to generate the largest cost pressures facing the City Council going forward. Nationally, it has been said that the ageing population will cause at least as much pressure on budgets as the austerity programme currently in place. As well as pressure caused by an ageing population there is also pressure caused by a "living longer" population. More people are coming through the transition into adult care from children's care with profound physical or learning disabilities and tend to be at the higher end of the care spectrum, costing significant amounts of money. The outlook therefore for the Council's essential care services is one of significantly increasing costs.

Government Policy Changes / Expectations 2016/17 and Beyond

- 6.2 Reforms to the welfare system are likely to result in additional demands on the Council's housing and essential care services.
- 6.3 Such changes could also reduce the income which the Council can charge for providing those services. The cumulative impact of the reforms where separate benefits convert to the Universal Credit coupled with the change from Disability Living Allowance to Personal Independence Payments is likely to reduce social

care clients' disposable income and therefore the amount they can afford to pay for their care.

- 6.4 New care duties and responsibilities for local authorities commenced under the Care Act in April 2015. The Government has stated that it will fund these new Care Act requirements in full (either to Local Authorities directly, and potentially by the ability to raise Council Tax, or through the Better Care Fund of the NHS).
- 6.5 The introduction of the National Living Wage from April 2016 is expected to create significant cost pressures for the Council particularly in Adult Social Care contracts. Initial estimates suggest that the impact could be in the order of £1.5m per annum. Again, it is possible that Government may seek to mitigate this by allowing Council's the ability to raise Council Tax.

Inflation

- 6.6 In overall terms, the cost of inflation has been relatively modest in recent years. This has been held down largely due to the pay restraint over the last 5 years characterised by pay freezes and modest increases of circa 1% per annum over the past 2 years. For the next 3 year period, the Council's current forecasts assume that inflationary costs will amount to £13.1m as pay increases return and the Consumer Price Index (CPI) starts to move to more normal levels. Of particular significance for 2016/17 is the increase in Employers National Insurance contributions which comes into effect from 1st April 2016. This removes the "contracted out rebate" that is currently in place for employers with occupational pension schemes. It is estimated, on average, this will be an effective increase of 37% in those contributions. Taking account of all of these factors, overall inflation for the Council over the next 3 years is forecast to range between 2.5% and 3.4%.
- 6.7 These assumptions will be comprehensively reviewed in February 2016 with all of the other assumptions within the Council's medium term financial forecasts when they will be known with greater certainty.

Interest Rates

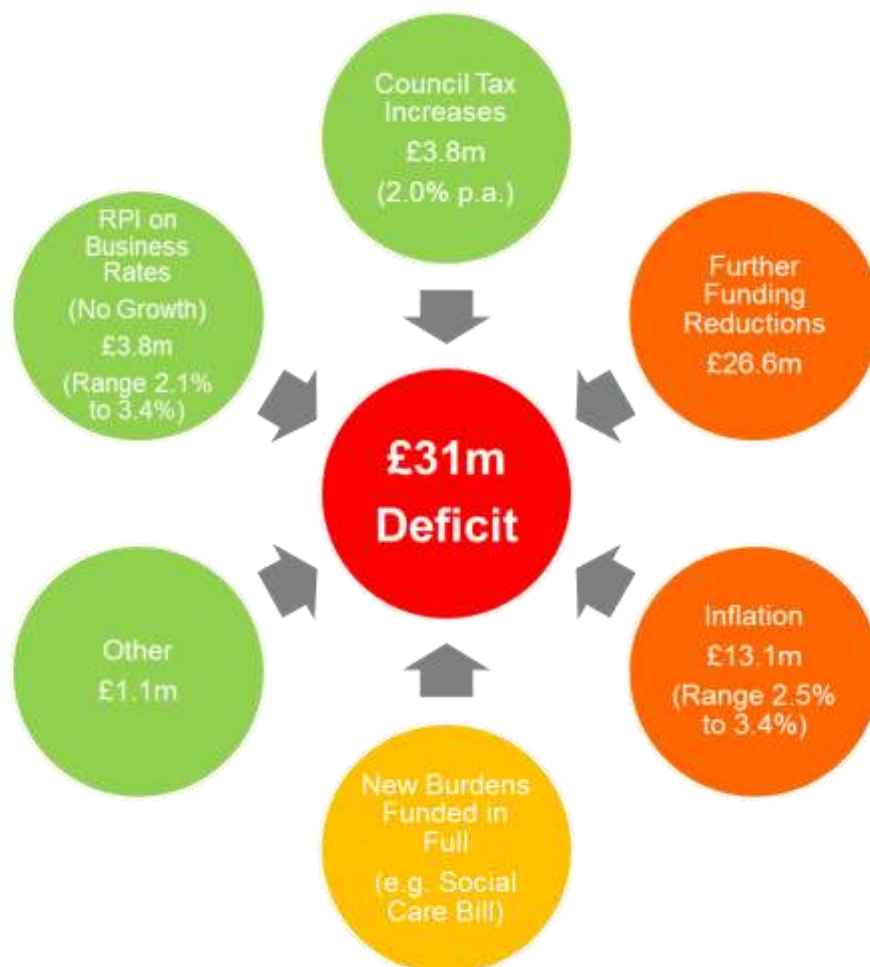
- 6.8 Interest rates for investments were initially forecast to range between 1.25% in 2016/17 and rise steadily to 2.25% in 2018/19. Expectations now are that interest rates will not rise at quite the pace originally forecast and therefore the positive influence that rising interest rates have on the Council's overall financial position will be lower. It had originally been assumed that an improvement amounting to £0.4m would arise, this will be reviewed as part of the Council's comprehensive revision of its forecast in February 2016.
- 6.9 Borrowing rates are quite volatile due to geo-political and sovereign debt crisis developments but the general expectation is for an eventual trend of gently

rising gilt yields and therefore borrowing rates. The Council is not generally in a borrowing position in the short term but may take modest amounts of borrowing (for future requirements) within the next 3 years if low rate opportunities arise.

7 Overall Financial Forecast - 2016/17 to 2018/19

Overall 3 Year Financial Forecast

- 7.1 In overall terms, taking account of both spending pressures and funding reductions over the next three financial years, it is forecast that the Council faces an overall deficit of £31m. This means that by 2018/19, the Council's net expenditure will need to be £31m less that it is at present and that savings of that sum will need to be made either through increased income or reduced costs.
- 7.2 An illustration of the factors causing the forecast £31m deficit as described in Sections 5 & 6 is shown below:



Savings Requirement for 2016/17 & Forecast Savings Requirements for 2017/18 and 2018/19

- 7.3 The last comprehensive review of the City Council's 3 Year Financial Forecast was reported in the Annual Budget Report in February 2015. This set out the City Council's underlying budget deficit and consequent forecast Budget Savings Requirement for the next 3 years as follows:

	Underlying Budget Deficit	Annual Budget Savings Requirement	Total Savings Requirement
	£m	£m	£m
2016/17	13.2	11.0	11.0
2017/18	21.1	10.0	21.0
2018/19	31.0	10.0	31.0

- 7.4 On the basis of the overall £31m deficit and the preference to be able to manage those savings smoothly over that period, the City Council resolved in February 2015 that a minimum savings requirement of £11.0m would be implemented for 2016/17. That minimum savings requirement was predicated on a Council Tax increase of 2.0% (which generates £1.2m of additional Council Tax income).
- 7.5 Whilst the Council is aware of a number of potential changes to the assumptions underpinning these forecasts, there will remain significant uncertainty until the announcement of the Local Government Finance Settlement in mid to late December. Coupled also with necessary revisions to the estimates of Council Tax and Business Rates income which will not take place until early January 2016, this means that a comprehensive revision at this stage would be premature and subject to potentially significant change.
- 7.6 The Director of Finance & IS (S151 Officer) advises that whilst it is likely that the overall financial forecasts will change, the savings requirement for 2016/17 at £11.0m (with a Council Tax increase of 2.0%) remains robust and prudent. Given what is known, or reasonably expected, regarding future funding reductions and given future uncertainties also, a savings requirement of less than these sums would not be prudent.

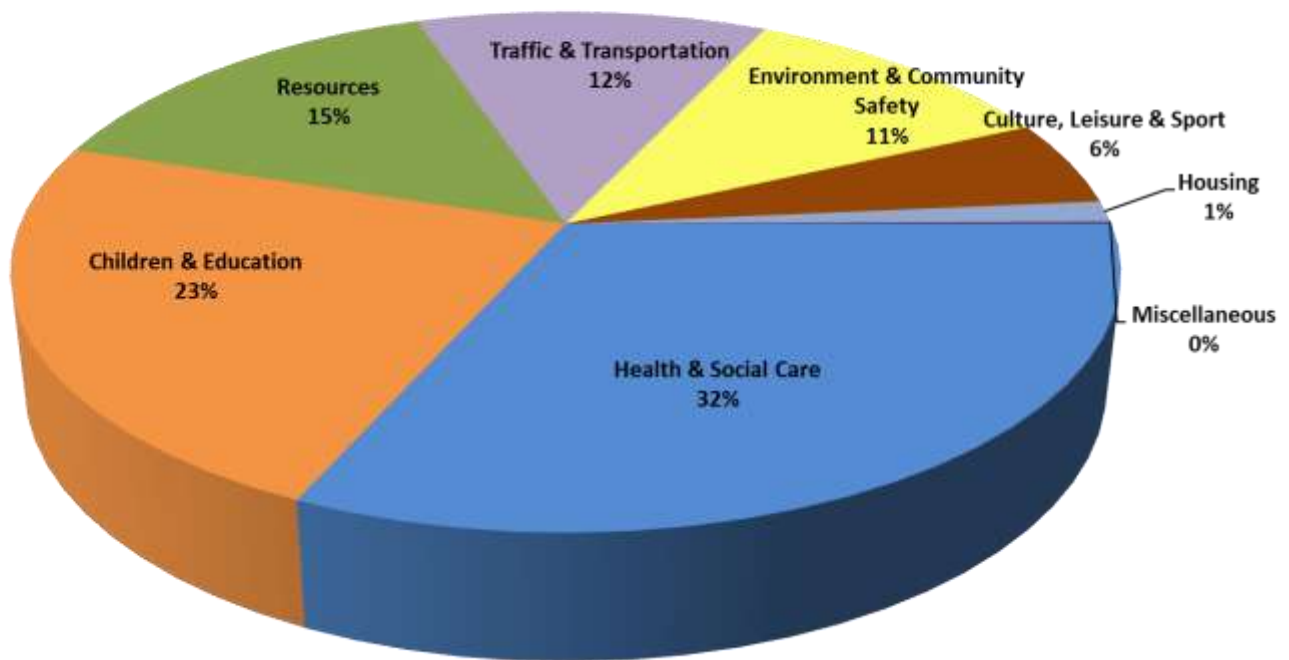
8. Medium Term Financial Strategy - 2016/17 & beyond

Financial Strategy 2016/17 & Beyond

- 8.1 In overall terms, the financial picture over the next 3 years and beyond is one of increasing costs and demand for services, particularly in essential care services, at the same time as continued and unprecedented reductions in funding. Taking all of the cost and funding implications into account, it is estimated that the Council will need to make £31m of savings over the next 3 years.

8.2 Considering also that those essential care services consume 55% of the Council's net controllable budget, the Council is faced with a position where it not only has to meet those costs, or at the very least manage the demand for those services, but simultaneously find £31m savings across all areas. This is illustrated below:

2015/16 Net Controllable Expenditure of £125m



8.3 It is also of significance that a further 23% of the Council's controllable spend is consumed by the Traffic & Transportation and Environment & Community Safety Portfolios where a large proportion of their activities is tied into long-term contracts where the savings potential is therefore more limited.

8.4 The Council's Medium Term Financial Strategy has been developed to respond to these very challenging circumstances. The Strategy has a strong regeneration focus with a presumption that Capital investment will be targeted towards economic growth. This is to improve the prosperity of the City through employment as an objective in itself but also because this will reduce the demand for Council services generally. Furthermore, re-generation creates the opportunity for additional business rates to be generated and retained by the Council. The Capital Programme can also be a vehicle for Invest to Save schemes enabling the Council to reduce its own costs in the future. Accordingly, the strategy is consistent with 'Shaping the future of Portsmouth' (adopted by the City Council in 2010) which articulates the vision for the City to become a globally competitive economy supporting local economic growth, innovation and enterprise. This strategy has been adopted by business

leaders across the City and is in the process of being delivered in partnership with the Shaping Portsmouth Partnership.

OVERALL AIM

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

STRAND 1

Reduce the City's dependency on Central Government Grant:

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

STRAND 2

Reduce the extent to which the population needs Council Services

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

STRAND 3

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

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

STRAND 4

Withdraw or offer minimal provision of low impact Services:

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

- 8.5 The Strategy is underpinned by a financial framework which provides financial autonomy to Portfolios and Committees. Any underspending arising against their budgets are retained by them. This was deliberately designed to create the financial conditions that support responsible spending and forward financial planning. The implication of this is that the opportunity for future underspending to accrue and be available corporately is much reduced. It is vitally important therefore, that the use of any corporate underspends is used wisely and in accordance with the Council's Medium Term Financial Strategy aimed at meeting the future financial challenges of the Council.
- 8.6 The MTRS Reserve is a fundamental component of the Council's financial framework and is designed to provide funding for future redundancies, Spend to Save and Invest to Save initiatives. The current uncommitted balance on the MTRS Reserve amounts to £3.0m and is considered to be very modest in the context of the £31m of savings that the Council is required to make over the next 3 years.

9 Budget Process & Consultation 2016/17

9.1 The Administration have taken a fundamentally different approach to the budget process this year. In previous years, the starting point for the process has been to seek savings across Services on a pro rata basis for more than was required and then make judgements over whether or not such savings proposed were acceptable or not in terms of their impact. For 2016/17, the starting point for savings has been based on an evaluation of the following:

- Overall scope for making savings - determined by the overall size of the Service budget
- Relative Service priority
- Relative ability to make efficiency savings
- Relative exposure to unavoidable cost pressures
- Relative ability to generate income

This has resulted in the proportion of savings required (relative to budget) being different for each Portfolio.

9.2 In parallel, during September and October of this year, the Council undertook a Budget consultation to understand residents spending priorities and where they felt savings should be made. The consultation was city wide and took the form of a questionnaire which was also supplemented by a series of public meetings with residents, staff and the business community.

9.3 The final response rate from the consultation was as follows:

Residents	1,357
Staff	964
Citizen's Panel	167
Total	2,488

9.4 The response rates are distributed throughout the city and provide a varied set of responses; more economically challenged areas are marginally less represented in the Citizen's Panel responses.

9.5 Given the response volume, the results can be considered to be statistically robust.

9.6 Resident responses only are summarised below:

- 45% think a reduction in the bus subsidy is necessary compared with 31% who would like it to remain the same.
- 41% of residents want to maintain grants to cultural organisations with an equal number wishing to see it reduced. 59% however, would like to reduce the funding to the Guildhall.
- 47% of residents think school crossing patrol responsibility should be transferred to schools.
- Opinion on library service provision is split fairly closely with 29% of residents indicating they would prefer to close smaller libraries while retaining larger ones, while 32% believe library services should be delivered via volunteers
- 71% of residents indicated that smoking cessation should be cut.
- 74% of residents wanted to see a reduction in the cap for council tax support.
- Only 22% of residents are opposed to an increase in council tax

9.7 The following are the results for **staff responses**:

- Staff feel more strongly than residents that bus subsidies should be reduced with 50% choosing this option.
- Staff strongly believe that there should also be a reduction in the grants to cultural organisations with 46% choosing this option. 66% also felt that there should be a reduction in the funding to the Guildhall
- 65% of staff think children's centres should make use of alternative venues
- Staff opinion closely mirrors residents in the area of library provision. Thirty-six percent think that smaller libraries should be closed while 37% think that services should be run by volunteers
- Only 16% of staff are opposed to an increase in council tax - 6% fewer than residents.

- 9.7 The full results of the Budget Consultation can be found at: <https://www.portsmouth.gov.uk/ext/the-council/transparency/budget-proposals-and-survey-results.aspx>
- 9.8 These results have been fully considered by the Administration in formulating their budget savings proposals described in Section 10 below.

10 Budget Proposals for 2016/17 to 2018/19

Budget Savings Proposals 2016/17

- 10.1 The Administration's budget savings proposals are centred around the Medium Term Financial Strategy previously described in Section 8 and have been prepared paying due regard to the responses from the Budget Consultation set out in Section 9 as well as the Administration's strategic priorities. The proposed savings amounts to be made by each Portfolio and which are recommended for approval are attached at Appendix A.
- 10.2 Noting the response from the Budget Consultation which generally suggests that services to the vulnerable should receive some measure of protection and considering that the Children & Education Portfolio and the Health and Social Care Portfolio need to remedy their current budget deficits of £2.7m and £2.4m respectively, the Administration's savings proposals provide significant protection from savings for both of these Portfolios. As a necessary consequence, savings from other Portfolios are proportionally higher and significantly higher in some cases such as Planning Regeneration & Economic Development, Traffic & Transportation and Resources. A summary of the overall savings proposals for 2016/17, by Portfolio, is set out below.

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

* Excludes the Housing Revenue Account Budget

- 10.3 The analysis above highlights the conundrum that the Council faces regarding the desire to protect Education and the essential care services whilst still wishing to retain good quality sustainable public services in its other portfolios. By way of example, the average saving required across the Council was 8.3% of spending but to protect Children & Education (at 2.5% spending reductions) and Health & Social Care (at 5.2% spending reductions), it has been necessary to make spending reductions in other valued Portfolios of up to 25%.
- 10.4 In part, the reason for such high levels of funding protection for the Children & Education and Health & Social Care portfolios has been the need to first address the existing underlying budget deficits contained within these portfolios of £2.7m and £2.4m, respectively. These underlying deficits have largely arisen from both unavoidable demand led cost pressures combined with the slippage or non-achievement of previously approved savings.
- 10.5 Inevitably, there are a number of financial risks contained within the proposals for making savings of the scale of £11m (or 8.3%) on the back of making £75m in savings and efficiencies over the past 5 years. The risks are unavoidable, however for those with the highest likely impact, mitigation strategies are being developed. In previous years, the highest risks have been to the delivery of the savings within the essential care services and whilst these still remain, they have generally been managed by making some contingency provision on a "one-off" basis in order to provide additional time to re-design service provision.
- 10.6 Looking forward to 2016/17, there still remain risks to the essential care services. Although the savings in those services are comparatively modest compared with previous years, and many of those risks have now been mitigated, the cumulative impact of past savings has reduced the Council's levels of resilience in these areas overall. Aside from the essential care services, other emerging risks include the savings proposed to the Domestic Abuse service which amount to £180,000 and will be a sizeable reduction in capacity. The Council is currently working through its mitigation plans and re-design of this service to fulfil its commitment to continue to support this important service. Funding for the service will remain intact throughout the whole of 2016/17 whilst this review is taking place. This review will not only include current specialist staff but will also explore how other professionals in the Council could be better equipped to support victims of domestic abuse. Equally, there will be a greater focus through the existing Healthy Child Programme, Health Visiting and Early Years services to identify and support those with relationship problems. Sexual Health promotion work will also include a focus on healthy relationships and Drug and Alcohol services will seek to identify and support people experiencing domestic violence especially those with young children.
- 10.7 It is important to note that the Council's responsibility is to set the overall Budget of the Council and determine the cash limits for each Portfolio. It is not the responsibility of the Council to approve the detailed savings that need to be made in order for the Portfolio to meet its cash limit. The Council do

need to have the confidence that the recommended savings for each Portfolio are deliverable and what the likely impact of delivering those savings might be. Indicative savings that are likely to be necessary in delivering the overall Portfolio savings are attached at Appendix B and whilst the detailed savings are not a matter for the Council to decide, they are presented to inform the decision of Council relating to the savings to be made by each Portfolio / Committee.

- 10.8 To mitigate against the uncertainty presented by the Local Government Finance Settlement and potential changes to both Council Tax income and Business Rates income as well as the general need to find £31m for the period 2016/17 to 2018/19, it would be prudent and financially responsible for the Council to seek to implement its 2016/17 savings as early as possible. From the perspective of service delivery, giving partners and residents significant advance notice of the changes to come into effect from next April will assist them to plan for change accordingly.
- 10.9 A crucial part of a prudent financial strategy is to maintain strong financial resilience. That means maintaining adequate levels of reserves to be able to respond to "financial shocks" or having reserves available to help implement savings in a planned and managed way. The early (or timely) implementation of savings proposals ensures that those reserves remain intact and are available for such purposes.
- 10.10 In order for the City Council to be able to implement the Savings Requirement in good time, a number of savings proposals will require that consultation take place and notice periods be given. Should the Portfolio savings set out in Appendix A be approved, Managers will commence any consultation process or notice process necessary.
- 10.11 For savings proposals that require consultation, the actual method of implementation or their distributional effect will not be determined until the results of consultation have been fully considered. Following consultation, the relevant Portfolio Holder may alter, amend or substitute any of the indicative savings proposal(s) set out in Appendix B with alternative proposal(s) amounting to the same value.

Budget Pressures Proposals 2016/17

- 10.12 The Council no longer makes any general provision for Budget Pressures. This was agreed as part of the Medium Term Financial Strategy approved by the City Council in November 2013.
- 10.13 One of the aims of the Medium Term Financial Strategy is to create the conditions that incentivise responsible spending and strong forward financial planning. As a consequence, a financial framework was implemented which provides Services with much greater financial autonomy.

10.14 The features of the new financial framework include:

- i) Each Portfolio to retain 100% of any year-end underspending and it to be held in an earmarked reserve for the relevant Portfolio
- ii) The Portfolio Holder be responsible for approving any releases from their earmarked reserve in consultation with the Director of Finance & Information Services (S151 Officer)
- iii) That any retained underspend (held in an earmarked reserve) be used in the first instance to cover the following for the relevant Portfolio:
 - a) Any overspendings at the year-end
 - b) Any one-off Budget Pressures experienced by a Portfolio
 - c) Any on-going Budget Pressures experienced by a Portfolio whilst actions are formulated to permanently mitigate or manage the implications of such on-going budget pressures
 - d) Any items of a contingent nature that would historically have been funded from the Council's corporate contingency provision
 - e) Spend to Save schemes, unless they are of a scale that is unaffordable by the earmarked reserve (albeit that the earmarked reserve may be used to make a contribution)

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

10.15 Correspondingly, any Budget Pressures must be funded within the overall resources available to the Portfolio Holder (which includes their Portfolio Reserve). As previously mentioned, it is the decision of the Portfolio Holder in consultation with the Director of Finance & Information Services (S151 Officer) to make releases from the Portfolio reserve.

Proposals for Funding from the Medium Term Resource Strategy Reserve

10.16 The Medium Term Resource Strategy Reserve (MTRS Reserve) is a reserve maintained by the Council for Spend to Save, Spend to Avoid Cost and Invest to Save Schemes. It is also the reserve that funds all redundancy costs arising from Budget Savings proposals. At present the reserve has an uncommitted balance of £3.0m.

10.17 In accordance with the Council's Financial Strategy to reduce costs through increased efficiency, last year the Council created a Business Intervention Fund of £0.5m funded from the MTRS Reserve. This was to be used to support a programme of interventions across the Council. Three interventions are currently in train across activities in Adult Social Care, Finance and Revenue & Benefits. Whilst funding still remains in place to support these activities, it is proposed to increase the funding by a further £0.5m from the MTRS Reserve so that the Council can continue its programme of service

interventions at scale and at pace in readiness for the continued savings challenge for future years.

- 10.18 Should the recommendations contained within this report for the transfer of £0.5m from MTRS Reserve to the Business Intervention Fund be approved, the remaining uncommitted balance on the MTRS Reserve will amount to £2.5m.
- 10.19 An uncommitted balance on the MTRS Reserve of £2.5m is considered to be very modest in the context of the £31m of savings that the Council is required to make over the next 3 years. As the Council's primary vehicle for providing funding for Spend to Save initiatives, it is crucial that this fund is both spent wisely and replenished at every opportunity.

Approval of the Budget 2016/17

- 10.20 At the 9th February 2016 Council meeting, a comprehensive revision of the Council's future forecasts will be presented. This will revise all of the key assumptions set out below as well as extending the forecast to cover an additional year (2019/20) in order to maintain a rolling 3 year plus current year financial forecast.
- 10.21 The Budget 2016/17 presented to the City Council for approval will be prepared on the basis of the proposals for savings, Council Tax and releases from the MTRS Reserve as set out in this report. It will also include the outcome of the following:
- The Local Government Finance Settlement for 2016/17
 - The final estimate of the Council Tax yield (based on the determination of the Council Taxbase)
 - The final estimate of the Business Rate yield
 - Any necessary inflationary uplifts
 - Final estimates of all items outside of cash limits including capital charges, support service charges, insurance, pension costs, contingency, borrowing costs, investment income, levies and precepts
 - Any necessary virements across Portfolios to reflect changes in responsibilities.

11 Conclusion

- 11.1 The financial challenge faced by the City Council continues and is characterised by simultaneous reductions in funding and increasing cost pressures, driven largely by demographic pressures in the essential care services. This requires the Council to make savings and/or increase income by £31m over the next 3 years (assuming a Council Tax increase of 2% in each and every year).

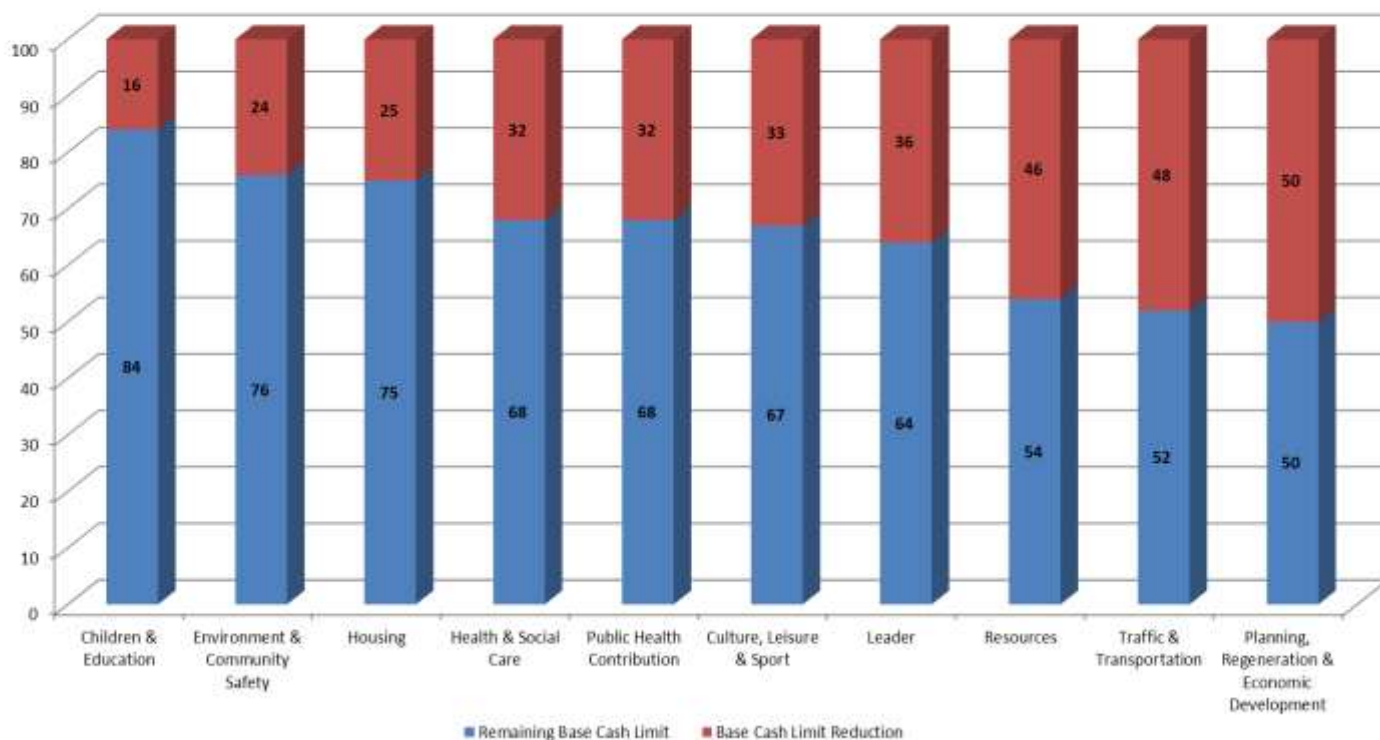
11.2 The first tranche of these savings amounting to £11m for 2016/17 have been developed in accordance with the Council's Medium Term Financial Strategy which focusses on the avoidance of cuts with an emphasis on:

- Reducing the dependency of government funding (through income generation)
- Reducing the extent to which the population needs Council services (through prevention activities and regeneration activities)
- Increasing the efficiency and effectiveness of the Council's services

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

11.3 Including the £11m of savings proposals set out within this report, the cumulative savings of the Council over the austerity period from 2011/12 amounts to £86m. The impact that this has had on spending levels of Portfolios over that same period is illustrated below (Blue segment illustrates level of spending that remains, red segment is the level of spending which has been removed). The chart illustrates those services that have received relative protection from spending reductions (left hand side) and those services that have provided the compensation by making relatively higher spending reductions (right hand side).

Budget 2016/17 Compared to Budget 2011/12 (2016/17 prices)



- 11.4 Looking forward beyond 2016/17, the scale of the future savings requirements will be such that the Council will no longer be able to afford the same levels of protection that have been provided in the past for its Children & Education, Health & Social Care and Environment and Community Safety services without severe cuts to all other Services.
- 11.5 The proposal to supplement the Business Intervention Fund with a further £0.5m to continue the programme of service interventions is aimed at looking forward and providing sufficient resources to help achieve future savings requirements relating to improving the Council's efficiency and effectiveness as stated in the Council's Medium Term Financial Strategy.
- 11.6 Approval for the savings proposals is recommended at this early stage in order to achieve full year savings and avoid greater and deeper cuts associated with any delay. In terms of service delivery and planning, it is equally important to provide partners and residents significant advance notice of the changes to come into effect in order to assist them to plan for change accordingly.
- 11.7 This report is the pre-cursor to the Annual Budget and Council Tax Setting meeting to be held on the 9th February 2016 where the Council will be requested to formally approve the Budget for 2016/17 and the associated Council Tax for the year. Should the savings proposals contained within this report be approved, they will form the basis of the Budget 2016/17 presented to Council in February 2016. That report will also include a comprehensive revision of the Council's future forecasts and set the consequent future savings requirements for the period 2017/18 to 2019/20.
- 11.8 Finally, the proposals within this report will maintain the Council's financial health and resilience and therefore its ability to respond in a measured and proportionate way to any "financial shocks" by having adequate reserves and contingencies available for a Council of this size and risk profile.

12 Equality Impact Assessment (EIA)

- 12.1 The Portfolio / Committee savings amounts proposed within this report will inevitably impact on service provision. Appendix B describes the indicative savings that might (or are likely) to be made in order to achieve the proposed savings amounts. Whilst some are likely to be implemented, there will be others that require consultation and appropriate Equality Impact Assessments to be considered before any implementation can take place. For this reason, any savings proposal set out in Appendix B can be altered, amended or substituted with an alternative proposal following appropriate consultation.
- 12.2 A city-wide budget consultation took place during September and October to help inform how to make £31m of savings over the next 3 years. The consultation took the form of a questionnaire which was also supplemented by a series of public meetings with residents and one public meeting with the

business community. The Scrutiny Management Panel also met to consider the proposals contained within this report and have the opportunity to make their representations to the Cabinet prior to their recommendation to the City Council.

13 City Solicitor's Comments

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

14 Director of Finance's Comments

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

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

Appendices:

A	Recommended Portfolio / Committee Savings 2016/17
B	Indicative Savings Proposals 2016/17

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

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

Title of document	Location
Budget Working Papers	Director of Finance & Information Services (S151 Officer)
Local Government Finance Settlement 2015/16	Director of Finance & Information Services (S151 Officer)

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the City Council on 8th December 2015.

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Signed by: Leader of Portsmouth City Council

Appendix A

PROPOSED BUDGET SAVINGS AMOUNTS 2016/17 BY PORTFOLIO/COMMITTEE

Portfolio/Committee	Saving 2016/17		Saving 2017/18		Saving 2018/19	
	£	%	£	%	£	%
Children and Education	760,600	2.5%	760,600	2.5%	760,600	2.5%
Culture, Leisure and Sport	734,800	10.1%	734,800	10.1%	734,800	10.1%
Environment and Community Safety	777,700	5.5%	758,700	5.4%	758,700	5.4%
Governance, Audit and Standards	68,000	9.2%	68,000	9.2%	68,000	9.2%
Health and Social Care	2,605,100	5.2%	2,605,100	5.2%	2,605,100	5.2%
Housing	391,000	9.7%	391,000	9.7%	391,000	9.7%
Leader	7,700	3.6%	7,700	3.6%	7,700	3.6%
Planning Regeneration and Economic Development	814,700	25.1%	814,700	25.1%	814,700	25.1%
Resources	3,540,400	18.8%	3,559,400	18.9%	3,559,400	18.9%
Traffic and Transportation	800,000	24.2%	800,000	24.2%	800,000	24.2%
Transfers to Housing Revenue Account	500,000	0.7%	500,000	0.7%	500,000	0.7%
Grand Total	11,000,000	8.28%	11,000,000	8.28%	11,000,000	8.28%