

Decision maker: Cabinet 3rd March 2016
City Council 22nd March 2016

Subject: Budget & Performance Monitoring 2015/16 (3rd Quarter) to end
December 2015

Report by: Section 151 Officer

Wards affected: All

Key decision (over £250k): Yes

1. Purpose of Report

- 1.1 The purpose of this report is to update members on the current Revenue Budget position of the Council as at the end of the third quarter for 2015/16 in accordance with the proposals set out in the "Portsmouth City Council - Budget & Council Tax 2016/17 & Medium Term Budget Forecast 2017/18 to 2019/20" report approved by the City Council on the 9th February 2016.
- 1.2 This report has been prepared on the basis of the Revised Estimate 2015/16 approved by Full Council on 9th February 2016. It therefore reports on the City Council Financial position after the decisions were taken to use the £5.7m improvement reported to Council. The forecast underspend in this report therefore is in addition to the £5.7m improvement reported to Council on 9th February 2016.

2. Recommendations

- 2.1 It is recommended that:
- (i) The forecast outturn position for 2015/16 be noted:
 - (a) An underspend of £1,727,700 before further forecast transfers from/to Specific Reserves
 - (b) An underspend of £1,481,000 after further forecast transfers from/to Specific Reserves.
 - (ii) Members note:
 - (a) that on 9th February 2016 City Council approved that the "clawback" requirement for overspendings be waived for 2015/16 for both the Children & Education Portfolio and the Health & Social Care Portfolio given the scale of those overspendings and also that the financial risks contained therein were fully provided for within the Council's contingency provision
 - (b) that on 9th February 2016 City Council approved that any underspending for 2015/16 arising at year-end outside of those made by Portfolio's (currently forecast at £1,481,000) be transferred to Capital Resources.

- (c) that all other actual portfolio overspends at year end will in the first instance be deducted from any Portfolio Specific Reserve balance and once depleted then be deducted from the 2016/17 Cash Limit.
- (iii) Directors, in consultation with the appropriate Cabinet Member, consider options that seek to minimise any forecast overspend presently being reported and prepare strategies outlining how any consequent reduction to the 2016/17 Portfolio cash limit will be managed to avoid further overspending during 2016/17.

3. Background

- 3.1 The Revised Budget for 2015/16 of £167,224,700 was approved by City Council on the 9th February 2016. This level of spending enabled an overall contribution to General Reserves of £1.532m after in-year spending and in-year income from all sources is taken into account.
- 3.2 This is the third quarter monitoring report of 2015/16 and reports on the forecast 2015/16 outturn as at the end of December 2015. The forecasts summarised in this report and detailed in the attached papers are made on the basis that management action to address any forecast overspends are only brought in when that action has been formulated into a plan and there is a high degree of certainty that it will be achieved.
- 3.3 Any variances within Portfolios that relate to windfall costs or windfall savings will be met / taken corporately and not generally considered as part of the overall budget performance of a Portfolio. "Windfall costs" are defined as those costs where the manager has little or no influence or control over such costs and where the size of those costs is high in relation to the overall budget controlled by that manager. "Windfall costs" therefore are ordinarily met corporately from the Council's central contingency. A manager / Cabinet Member however, does have an obligation to minimise the impact of any "windfall cost" from within their areas of responsibility in order to protect the overall Council financial position. Similarly, "windfall savings" are those savings that occur fortuitously without any manager action and all such savings accrue to the corporate centre.
- 3.4 The Financial Pack attached at Appendix A has been prepared in Portfolio format and is similar in presentation, but not the same as, the more recognisable "General Fund Summary" presented as part of the Budget report approved by Council on 9th February 2016. The format presented at Appendix A has been amended to aid understandability for monitoring purposes by excluding all non cash items which have a neutral effect on the City Council's budget such as Capital Charges. In addition to this, Levies and Insurances are shown in total and have therefore been separated from Portfolios to also provide greater clarity for monitoring purposes.

4 Forecast Outturn 2015/16 – As at end December 2015

- 4.1 At the third quarter stage, the revenue outturn for 2015/16 after further forecast transfers to Portfolio Specific Reserves (which are retained by right) and transfers

from the ring fenced Public Health Reserve is forecast to be underspent by £1,481,000 representing an overall budget variance of 0.9%.

4.2 The quarter 3 variance consists of a number of forecast under and overspends.

Before forecast transfers from Specific Reserves the most significant overspendings at the quarter 3 stage are:

Quarter 1 Forecast Variance	Quarter 2 Forecast Variance		Quarter 3 Forecast Variance	Quarter 3 Forecast Variance (After Transfers From Portfolio Reserves)
£	£		£	£
2,312,200	2,292,300	Children and Education	1,789,200	1,789,200
	291,500	Environment & Community Safety		
2,926,500	2,152,500	Health and Social Care	2,553,900	1,887,100
292,100		PRED		
650,000	650,000	Other Expenditure		

These are offset by the following significant forecast underspends at the quarter 3 stage:

Quarter 1 Forecast Variance	Quarter 2 Forecast Variance		Quarter 3 Forecast Variance	Quarter 3 Forecast Variance (After Transfers To Portfolio Reserves)
£	£			£
		Culture, Leisure & Sport	101,000	Nil
		PRED	418,900	Nil
208,600	870,400	Commercial Port	183,000	Nil
		Resources	241,400	Nil
	141,500	Traffic & Transportation		
450,300	1,433,500	Asset Management Revenue Account	427,300	427,300
		Other Miscellaneous	4,730,000	4,730,000

5 Quarter 3 Significant Budget Variations – Forecast Outturn 2015/16

5.1 Children and Education – Overspend £1,789,200 (or 5.8%)

The cost of Children and Education Services is forecast to be £1,789,200 higher than budgeted.

The key variances are:

- Inclusion Services is forecast to overspend by £144,700. Within this, home to school and college transport is forecasting an overspend of £208,000 due to the number of children being supported. New transport policies were implemented from September 2014 and the cost of travel compared to 2013/14 has already reduced. This overspend is partially offset by the application of Pupil Premium funding towards the costs of the Virtual School Team.
- Looked After Children is forecasting an overspend of £1,565,300.
 - Whilst the continuing review of placements and placement plans has produced a reduction in external residential numbers, this has not yet matched budgeted numbers. Similarly numbers in Independent Fostering placements are also reducing but at a slower rate than planned and in house placements continue to rise (£1,109,300).
 - In addition, staffing costs are currently projected to exceed the budget provision by £113,000, largely as a result of the loss of one-off funding allocations which have not been able to be matched with similar spending reductions or savings arising from reduced placement numbers as anticipated.
 - The added focus on Adoption Support, in line with the government's adoption agenda, to move children into permanent arrangements has led to an anticipated pressure of £210,000 associated with the purchase of placements. It is likely that this may be reduced following the recent announcement by the Government that they will pay the inter-agency fee for a targeted group of children.
 - A further £133,000 projected overspend relates to savings proposals on income generation that are proving difficult to implement, £40,000 of which relates to the decision not to pursue parental contributions (means tested contributions in respect of placements under s.20 of the Children's Act 1989)
- Safeguarding & Monitoring is forecasting an overspend of £195,800. Of this, £97,000 relates to a reduction in budget arising from an anticipated improvement in service absence management. A further £59,000 relates to the delayed implementation of savings plans together with increased recharges and a further £40,000 is as a result of the enhancement of

contracted Family Group conferencing and Information governance arrangements.

- Staff vacancies and additional income from training courses has resulted in underspends elsewhere within the Portfolio of £150,200.

Whilst there are individual variances within budget areas covered by the Dedicated Schools Grant, in aggregate these are neutral.

It was reported to the Cabinet on 3rd December 2015 that Children's Social Care and Safeguarding was forecast to exceed the budget provision by £2.7m in 2015/16. At the same meeting, proposals totalling £2.7m (in a full year) were approved in order to reduce the operating expenditure requirements of the Portfolio.

Whilst these savings proposals will reduce the underlying budget deficit being experienced by the Portfolio in 2015/16, and are designed to eliminate it from 2016/17, as reported to the City Council within the Budget Report on 9th February 2016, given the proximity to the end of the financial year, the scale of this overspend cannot be rectified within the current financial year. To ensure that the Council's budget overall remained robust, some funding was retained within the Council's corporate contingency provision to cover the 2015/16 overspend position of the Portfolio. This is described further in paragraph 5.8.

5.2 Health and Social Care – Overspend £2,553,900 (or 6.3%) or After Transfers From Portfolio Reserves & Ring Fenced Public Health Reserve £1,887,100 (4.6%)

The cost of Health & Social Care is forecast to be £2,553,900 higher than budgeted.

The key variances are:

- A greater volume of older persons domiciliary care being required due to demographic pressures and unforeseen delays in the implementation of savings in 2015/16 has resulted in a forecast overspend of £1,339,500
- Learning Disability Support is forecasting an overspend of £666,600 due to an increased volume of clients transitioning from Children's Services, a delayed initiation of the review of day care services and claims for funding from other Local Authorities under the ordinary residence ruling
- Due to an increased volume of clients requiring residential care placements Mental Health Support is forecasting an overspend of £298,300
- A delay in the implementation of client charging within the Supporting People service has resulted in a forecast overspend of £95,200
- In the autumn of 2015 the Department of Health announced an in year reduction to the Public Health Grant of £1.126m. Public Health has been unable to identify equivalent savings in year and is currently forecasting an overspend of £643,000. This overspending will be met from the ring fenced Public Health Reserve that contains the balance of unspent Public Health Grant received in previous years whilst further reductions in spending plans are formulated.

- These overspends are offset by underspending elsewhere totalling £488,700 primarily as a result of increased funding from the Better Care Fund.

It was reported to the Cabinet on 3rd December 2015 that the Health & Social Care Portfolio was forecast to exceed the budget provision by £2.4m in 2015/16. At the same meeting, proposals totalling £2.4m (in a full year) were approved in order to reduce the operating expenditure requirements of the Portfolio.

Whilst these savings proposals will reduce the underlying budget deficit being experienced by the Portfolio in 2015/16, and are designed to eliminate it from 2016/17, as reported to the City Council within the Budget Report on 9th February 2016, given the proximity to the end of the financial year, the scale of this overspend cannot be rectified within the current financial year. To ensure that the Council's budget overall remained robust, some funding was retained within the Council's corporate contingency provision to cover the 2015/16 overspend position of the Portfolio. This is described further in paragraph 5.8.

5.3 Culture, Leisure & Sport – Underspend £101,100 (or 1.4%) (No variance after transfers to Portfolio Reserves)

As a result of staff being redeployed to capital schemes the Portfolio revenue budget is forecasting an underspend of £101,100.

5.4 PRED – Underspend £418,900 (or 16.8%) (No variance after transfers to Portfolio and Investment Fund Reserves)

The Portfolio is currently forecasting an underspend of £418,900.

The underspending is primarily as a result of additional income from increased occupancy of Enterprise Centres (£107,000), net additional income arising from the Property Portfolio (£540,900) offset by reduced manufacturing income at PCMI (£143,000) and reduced contract income from Community Learning and Pride in Pompey (£28,000).

5.5 PRED (Port) – Underspend £183,000 (or 3.3%) (No variance after transfers to Portfolio Reserves)

Overall net income from the Port is forecast to be £183,000 above target income.

The improvement over the target net income is as a result of increased income from pilotage and throughput coupled with a reduction in Operational Employee, security and berthing costs.

5.6 Resources – Underspend £241,400 (or 1.2%) (No variance after transfers to Portfolio Reserves)

The Portfolio is forecasting an underspend of £241,400.

A number of underspendings are forecast across the Portfolio mainly as a result of posts that are being held vacant (£168,100). In addition Landlords Maintenance is expected to be £198,900 lower than budget due to the final cost of works completed in previous years being lower than expected. These underspends have been offset

by an overspend compared to budget within the AMS design and Maintenance Team (£188,200) as a result lower fee earning work relating to capital schemes and delays in implementing savings proposals.

5.7 Asset Management Revenue Account – Underspend £427,300 (or 2.0%)

This budget funds all of the costs of servicing the City Council's long term debt portfolio that has been undertaken to fund capital expenditure. It is also the budget that receives all of the income in respect of the investment of the City Council's surplus cash flows. As a consequence, it is potentially a very volatile budget particularly in the current economic climate and is extremely susceptible to both changes in interest rates as well as changes in the Council's total cash inflows and outflows.

5.8 Other Miscellaneous – £4,730,000

As described in the Budget & Council Tax 2016/17 & Medium Term Budget Forecast 2017/18 to 2019/20 Report to Council on 9th February 2016, the Children and Education and Health and Social Care Portfolios are experiencing difficulty containing expenditure within budgeted limits. The Revised Budget approved by the City Council on the 9th February 2016 was prepared to include a Contingency provision of £4.5m which was set aside to guard against an overall overspend on the Children's Safeguarding and Adult Social Care budgets. It is now anticipated that £3.7m will be required to cover these overspendings. The Contingency set aside for these overspendings (£4.5m) plus a further £230,000 currently provided for other items within the 2015/16 contingency is now available.

6 Other Minor Budget Variations – Forecast Outturn 2015/16

6.1 Environment and Community Safety – Minor Overspend £75,000 (0.5%) (No variance after transfers from Portfolio Reserves)

The Portfolio is currently forecasting an overspend of £75,000.

A number of areas of under and over spending are currently being forecast across the Portfolio. The more significant areas of under and over spending are:

- The Waste Disposal service is forecast to overspend by £279,400 due to an underlying budget pressure of £181,000, which will be met from Portfolio Specific Reserves in 2015/16 while a plan to resolve the deficit is formulated. A shortfall in income received from the sale of recyclable material is also now expected due to reduced market prices arising from a fall in world demand which combined with an increase in the volume of non-recyclable waste has resulted in an overspend of £98,400.
- Clean City is forecasting an overspend of £113,500. A service review is currently underway to address this overspending, however the full year effect of the review will now not be achieved until 2016/17.
- These overspending areas are offset by underspends within Hidden Violence & Abuse (£133,500) as a result of posts being held vacant in anticipation of future savings requirements, salary charges to major sea defence capital

schemes (£51,000) and Refuse Collection following a contract review (£86,200).

- 6.2 Housing – Minor Underspend £73,400 (or 1.9%) (No variance after transfers to Portfolio Reserves)
- 6.3 Leader – Minor Overspend £3,500 (or 1.5%) (No variance after transfers from Portfolio Reserves)
- 6.4 Traffic & Transportation – Overspend £32,700 (0.2%) (No variance after transfers from Portfolio Reserves)
- 6.5 Licensing Committee – No variance
- 6.6 Governance, Audit and Standards Committee – Underspend £6,900 (or 2.5%) (No variance after transfers to Committee Reserves)
- 6.7 Levies – No Forecast Variance
- 6.8 Insurance – No Forecast Variance

7. Transfers From/To Specific Reserves

In November 2013 Full Council approved the following changes to the Council's Budget Guidelines and Financial Rules:

- Each Portfolio to retain 100% of any year-end underspending and to be held in an earmarked reserve for the relevant Portfolio
- The Portfolio Holder be responsible for approving any releases from their reserve in consultation with the Head of Finance and Section 151 Officer
- That any retained underspend (held in an earmarked reserve) be used in the first instance to cover the following for the relevant portfolio:
 - i. Any overspendings at the year-end
 - ii. Any one-off Budget Pressures experienced by a Portfolio
 - iii. 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
 - iv. Any items of a contingent nature that would historically have been funded from the Council's corporate contingency provision
 - v. 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 i) to v) above can be satisfied, the earmarked reserve may be used for any other development or initiative

The forecast balance of each Portfolio Specific Reserve that will be carried forward into 2016/17 is set out below:

Portfolio/Committee Reserve	Balance	Approved	Forecast	Balance
	Brought Forward	Transfers 2015/16	Under/ (Over) Spending	Carried Forward
	£	£	£	£
Children & Education	42,000	(42,000)	0	0
Culture, Leisure & Sport	409,800	40,000	101,100	550,900
Environment & Community Safety	1,241,300	(222,500)	(75,000)	943,800
Health & Social Care	730,700	(706,900)	(23,800)	0
Housing	541,700	(95,000)	73,400	520,100
Leader	6,900	(700)	(3,500)	2,700
PRED	919,400	50,000	418,900	1,388,300
Port	879,900	513,900	183,000	1,576,800
Resources	1,397,600	(595,600)	241,400	1,043,400
Traffic & Transportation	32,700		(32,700)	0
Licensing	0		0	0
Governance, Audit & Standards	255,300	92,000	6,900	354,200
Total	6,457,300	(966,800)	889,700	6,380,200

Note: Releases from Portfolio Reserves to fund overspending cannot exceed the balance on the reserve

In addition a transfer of £643,000 from the Ring Fenced Public Health Reserve to meet an in year reduction to the Public Health grant paid by the Department of Health will be required to balance Public Health income and expenditure.

8. Conclusion - Overall Finance & Performance Summary

- 8.1 The overall forecast outturn for the City Council in 2015/16, before further transfers from/to Specific Reserves as at the end of December 2015, is forecast to be £165,497,000. This is an overall underspend of £1,727,700 against the Revised Budget and represents a variance of 1.0%. Once all transfers from/to Specific Reserves are taken into account (Transfers to Portfolio Reserves £889,700 less Transfers from Public Health Reserve £643,000) the forecast outturn for the City Council increases by £246,700 to £165,743,700. This is an overall underspend against the revised budget of £1,481,000 representing a variance of 0.9%.
- 8.2 The forecast takes account of all known variations at this stage, but only takes account of any remedial action to the extent that there is reasonable certainty that it will be achieved.
- 8.3 The overall financial position is deemed to be “green” since the forecast outturn after transfers from/to Portfolio Specific Reserves is lower than budgeted and finance is not having a negative impact on the overall performance status of the Council’s activities.
- 8.4 In financial terms, the forecast overspend within the Children and Education and Health and Social Care Portfolios represent the greatest concerns in terms of the impact that they have on the overall City Council budget for 2015/16. Furthermore, a significant proportion of the overspending is of an ongoing nature representing an underlying deficit. For both Children & Education and Health & Social Care Portfolios,

on 3rd December 2015 Cabinet approved a package of savings proposals to remedy these underlying budget deficits from 2016/17.

- 8.5 The prospects for the Children & Education and Health & Social Care Portfolio Budgets in 2016/17 remain challenging but achievable if the proposals described in the reports to Cabinet in December 2015 to save £5.1m are successfully delivered.
- 8.6 On 9th February 2016 City Council approved that the "clawback" requirement for overspendings be waived for 2015/16 for both the Education & Children's Portfolio and the Health & Social Care Portfolio given the scale of those overspendings and also in the knowledge of the financial risks contained therein which were fully provided for within the Council's contingency provision.
- 8.7 Where a Portfolio is presently forecasting a net overspend and does not have a waiver approved by City Council, in accordance with current Council policy, any overspending in 2015/16 will be deducted from cash limits in 2016/17 and therefore the appropriate Directors in consultation with Portfolio Holders should prepare an action plan outlining how their 2015/16 forecast outturn or 2016/17 budget might be reduced to alleviate the adverse variances currently being forecast.
- 8.8 Based on the Revised Budget of £167,224,700 the Council will remain within its minimum level of General Reserves for 2015/16 of £6.5m as illustrated below:

	<u>£m</u>
General Reserves brought forward @ 1/4/2015	14.864
<u>Add:</u>	
Forecast Underspend 2015/16	1.481
Planned Contribution to General Reserves 2015/16	1.532
<u>Less:</u>	
Forecast Contribution to Capital Reserve	(1.481)
Forecast General Reserves carried forward into 2016/17	16.396

Levels of General Reserves over the medium term are assumed to remain within the Council approved sum of £6.5m in 2015/16 and future years since any ongoing budget pressures / savings will be reflected in future years' savings targets.

- 8.9 Financial resources are not seen as a primary barrier during the current year to either performance achievement or performance improvement. Although there are no specific requests for additional resourcing to ensure targets are achieved, or objectives met through this report, in some cases resources may be a possible risk to future delivery which ought to be considered in the context of all other current and emerging budget pressures and evaluated in relation to each other.

9. City Solicitor’s Comments

9.1 The City Solicitor is satisfied that it is within the Council’s powers to approve the recommendations as set out.

10. Equalities Impact Assessment

10.1 This report does not require an Equalities Impact Assessment as there are no proposed changes to PCC’s services, policies, or procedures included within the recommendations.

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Chris Ward

S151 Officer

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 & Council Tax 2016/17 & Medium Term Budget Forecast 2017/18 to 2019/20	Office of Deputy Director of Finance & Section 151 Officer
Electronic Budget Monitoring Files	Financial Services Local Area Network

The recommendations set out above were:

Approved / Approved as amended / Deferred / Rejected by the Cabinet on 3rd March, 2016

Signed:

Approved / Approved as amended / Deferred / Rejected by the City Council on 22nd March, 2016

Signed:

**FINANCIAL & SERVICE
PERFORMANCE**

**QUARTER 3
2015/16**

INFORMATION PACK