

Decision maker: Cabinet 9th March 2017
City Council 21st March 2017

Subject: Revenue Budget Monitoring 2016/17 (3rd Quarter) to end December 2016

Report by: Director of Finance & Information Service

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 2016/17 in accordance with the proposals set out in the "Portsmouth City Council - Budget & Council Tax 2017/18 & Medium Term Budget Forecast 2018/19 to 2020/21" report approved by the City Council on the 14th February 2017.

2. Recommendations

- 2.1 It is recommended that:

- (i) The forecast outturn position for 2016/17 be noted:

(a) An underspend of £1,287,400 before further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve

(b) An underspend of £1,118,200 after further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve.

- (ii) Members note:

(a) That any actual overspend at year end will in the first instance be deducted from any Portfolio Specific Reserve balance and once depleted then be deducted from the 2017/18 Cash Limit.

(b) That on 14th February 2017 City Council approved that any underspending for 2016/17 arising at year-end outside of those made by Portfolio's (currently forecast at £1,118,200) be transferred to Capital resources.

- (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 2017/18 Portfolio cash limit will be managed to avoid further overspending during 2017/18.

3. Background

- 3.1 The revised budget for 2016/17 of £156,997,300 was approved by City Council on the 14th February 2017. This level of spending enabled a contribution to General Reserves of £2.82m since in year income exceeds in year spending.
- 3.2 This is the third quarter monitoring report of 2016/17 and reports on the forecast 2016/17 outturn as at the end of December 2016. The forecasts summarised in this report 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 financial position of the Council. 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 summary 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 14th February 2017. 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 2016/17 – As at end December 2016

- 4.1 At the third quarter stage, the revenue outturn for 2016/17 after further forecast transfers from/to Portfolio Specific Reserves (Underspends are retained by right) is forecast to be underspent by £1,118,200 representing an overall budget variance of 0.7%.

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

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)
£	£		£	£
450,800	654,700	Children's Social Care	1,002,800	1,002,800
		Culture, Leisure & Sport	291,300	Nil
2,428,200	1,714,300	Health & Social Care	1,180,000	1,125,000

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)
£	£		£	£
		Planning Regeneration & Economic Development	107,500	Nil
	625,000	Port	96,700	Nil
537,300	540,000	Treasury Management	540,000	540,900
750,000	750,000	Contingency	2,687,900	2,687,900

5 Quarter 3 Significant Budget Variations – Forecast Outturn 2016/17

5.1 Children's Social Care – Overspend £1,002,800 (or 4.2%)

The cost of Children's Social Care is forecast to be £1,002,800 higher than budgeted (as compared to £654,700 at the end of Quarter 2).

The overspend is primarily related to higher costs and numbers of Looked After Children (£1,337,000) offset by reduced staffing costs due to staff turnover and the holding of posts vacant.

Of the £1,337,000 forecast Looked After Children overspending in 2016/17, £1.04m relates to an underlying budget deficit. Proposals to eliminate any deficit arising in 2017/18 are currently being formulated.

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

5.2 Culture, Leisure & Sport – Overspend £291,300 (4.4%) or After Transfer From Portfolio Reserve Nil

The overspend relates to the exceptional costs arising from the termination of the contract with the operator of the Mountbatten Centre. These costs will be met from the Portfolio reserve. A new operator was appointed with effect from 1st February 2017 at a significantly lower cost and which is intended to save the Council in excess of £0.5m per annum in the "steady state".

5.3 Health and Social Care – Overspend £1,180,000 (2.8%) or After Transfer From Public Health Reserve £1,125,000 (2.7%)

The cost of Health & Social Care is forecast to be £1,180,000 higher than budgeted (compared to £1,714,300 at the end of Quarter 2).

The key variances are:

- The cost of Public Health is forecast to be £55,000 higher than budgeted. This overspending will be met from the ring fenced Public Health Reserve. The overspend has arisen due to the funding of "change projects" outside of core operations that will improve health outcomes within the City.
- Increased volume of demand for Older Persons Physical Support where domiciliary care packages are required or clients are required to be placed in privately run homes (£276,000).
- Increased volume of demand from clients with a learning disability requiring a supported living placement, lower savings than expected arising from redesigned Day Care Service offset by a reduction in the volume of clients requiring a Direct payment and vacancies within the social worker teams has resulted in forecast overspend of £591,000.
- A delay in moving clients with Mental Health issues from Residential Homes to more independent Supported Living settings and a delay in the retendering of the Supported Living contract has resulted in a forecast overspend of £342,000

As at 30th September 2016 (Quarter 2), Adult Social Care was forecast to have an underlying budget deficit of £0.6m. As a result of the non-realisation of savings within the Learning Disability Service and the planned movement of service users from Residential Care to Supported Living not being realised the underlying budget deficit, before utilisation of 2017/18 Adult Social Care Precept, at Quarter 3 is forecast to have increased to £1.3m. A 2017/18 Adult Social Care Precept of £2.022m was approved by City Council on 14th February 2017. Of this, £1.4m is required to meet additional costs associated with the National Living Wage increasing from £7.20 to £7.50 per hour in April 2017. As a consequence, only £0.6m of the 2017/18 Adult Social Care Precept remains available to fund the ongoing underlying budget deficit identified above. The underlying budget deficit within Adult Social Care at 1st April

2017 is therefore forecast to be £0.7m. Proposals to minimise the current and underlying deficit and to eliminate any deficit arising in 2017/18 are currently being formulated.

5.4 Planning Regeneration and Economic Development Resources – Underspend £107,500 (or 2.8%) (no variance after transfers to Portfolio Reserves)

The Portfolio is forecasting an underspend of £107,500.

A number of underspendings are forecast across the Portfolio mainly as a result of posts that are being held vacant and additional income (£187,000). These underspends are offset by reduced fee income within the AMS Design and Maintenance Service following delays to capital schemes as a result of changing client needs and a focus on non fee earning work that will ultimately lead to significant ongoing savings across the Council in the future (£62,400).

5.5 Port – Underspend £96,700 (or 4.5%) (no variance after transfers to Portfolio Reserves)

The cost of maintenance dredging necessary to maintain deep water access to births has been lower than originally estimated (£85,500).

5.6 Treasury Management – Underspend £540,900 (or 2.9%)

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.

The forecast underspend relates to:

Increased interest earned due to higher cash balances than originally budgeted, primarily as a result of additional borrowing being undertaken to take advantage of exceptionally low interest rates in the lead up to, and immediately after the EU Referendum and capital expenditure planned to be incurred in 2015/16 slipping to 2016/17. This additional interest income is offset by higher interest payments as a result of the additional borrowing referred to above.

5.7 Contingency - Planned Release £2,687,200

As described in the Budget & Council Tax 2017/18 & Medium Term Budget Forecast 2018/19 to 2020/21 Report to Council on 14th February 2017, the Children's and Health & Social Care Portfolios are experiencing difficulty containing expenditure within budgeted limits. The Revised Budget approved by the City Council on 14th February 2017 was prepared to include a Contingency provision of £2.41m 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 £2.13m will be required to cover these overspendings. The Contingency set aside for these overspendings

(£2.41m) plus a further £277,200 currently provided for other items within 2016/17 Contingency is now forecast to be available.

5.8 All Other Budget Variations – Underspend £157,600 or After Transfers Form/To Portfolio Reserves Underspend – £17,900

All variations are summarised in Appendix A

6. **Transfers From/To Portfolio 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 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 2017/18 is set out below:

Portfolio/Committee Reserve	Balance Brought Forward £	Approved Transfers 2016/17 £	Forecast Under/ (Over) Spending £	Balance Carried Forward £
Children's Social Care	0	35,000	0	35,000
Culture, Leisure & Sport	451,300	130,000	(291,300)	290,000
Education	0	0	171,600	171,600
Environment & Community Safety	1,026,700	(207,300)	52,900	872,300
Health & Social Care	0	0	0	0
Housing	791,400	(153,500)	(6,900)	631,000
Leader	41,500	0	0	41,500
PRED	842,500	(635,500)	107,500	314,500
Port	897,300	1,265,700	96,700	2,259,700
Resources	933,300	(116,600)	56,300	873,000
Traffic & Transportation	283,100	(221,400)	29,300	91,000
Licensing	110,700	0	0	110,700
Governance, Audit & Standards	372,900	(25,000)	8,100	356,000
Total	5,750,700	71,400	224,200	6,046,300

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

7. Conclusion - Overall Finance & Performance Summary

- 7.1 The overall forecast outturn for the City Council in 2016/17 as at the end of December 2016 is forecast to be £155,879,100. This is an overall underspend of £1,118,200 against the Revised Budget and represents a variance of 0.7%.
- 7.2 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.
- 7.3 The overall financial position is deemed to be “green” since the forecast outturn after transfers from/to Portfolio Specific Reserves is lower than budgeted.
- 7.4 In financial terms, the forecast overspend within the Children's Social Care and Health & Social Care Portfolios represent the greatest concerns in terms of the impact that they have on the overall City Council budget for 2016/17. Overspending relating to these areas of £1.74m (net of available 2017/18 Adult Social Care Precept of £0.6m) is estimated to be ongoing and therefore represents their combined underlying deficits. This is a significant improvement in the underlying stability of these budgets compared to previous years and is expected to be manageable over time if the savings plans currently being prepared are successfully implemented. Consequently, it is recommended that Directors continue to work with the relevant portfolio holder to consider measures to significantly reduce or eliminate the adverse budget position presently being forecast by these Portfolios, and any necessary decisions presented to a future meeting of the relevant portfolio.

- 7.5 In terms of the overall budget position for 2016/17, the Council has set aside funding within the Contingency Provision to guard against potential overspending. So, whilst in overall terms there is a forecast underspend of £1,118,200 in the current year, the underlying deficit will need to be addressed in 2017/18.
- 7.6 Where a Portfolio is presently forecasting a net overspend in accordance with current Council policy, any overspending in 2016/17 which cannot be met by transfer from the Portfolio Specific Reserve will be deducted from cash limits in 2017/18 and therefore the appropriate Directors in consultation with Portfolio Holders should prepare an action plan outlining how their 2016/17 forecast outturn or 2017/18 budget might be reduced to alleviate the adverse variances currently being forecast.
- 7.7 Based on the Revised Budget of £156,997,300 the Council will remain within its minimum level of General Reserves for 2016/17 of £7.0m as illustrated below:

	<u>£m</u>
General Reserves brought forward @ 1/4/2016	16.411
<u>Add:</u>	
Planned Contribution to General Reserves 2016/17	2.816
Forecast Underspend 2016/17	1.118
<u>Less:</u>	
Forecast Contribution to Capital Reserve	(1.118)
Forecast General Reserves carried forward into 2017/18	19.227

Levels of General Reserves over the medium term are assumed to remain within the Council approved minimum sum of £7.0m in 2016/17 and future years since any ongoing budget pressures / savings will be reflected in future years' savings targets.

8. 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.

9. 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
Director of Finance & Information Service

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 2017/18 & Medium Term Budget Forecast 2018/19 to 2020/21	Office of Deputy Director of Finance
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 9th March, 2017

Signed:

Approved / Approved as amended / Deferred / Rejected by the City Council on 21st March, 2017

Signed:

APPENDIX A

FINANCIAL AND SERVICE PERFORMANCE MONTH ENDING DEC 2016

MONTHLY BUDGET MONITORING STATEMENT - CASH LIMIT 2016/17

PORTFOLIO City Council General Fund

BUDGET Total General Fund Expenditure

TOTAL CASH LIMIT 156,997,300

CHIEF OFFICER All Budget Holders

MONTH ENDED Dec 2016

ITEM No.	BUDGET HEADING	BUDGET FORECAST 2016/17			
		Total Budget	Forecast Year End Outturn	Variance vs. Total Budget	
		£	£	£	%
1	Children's Social Care	23,948,500	24,951,300	1,002,800	4.2%
2	Culture, Leisure & Sport	6,553,300	7,044,600	491,300	7.5%
3	Education	6,118,200	5,946,600	(171,600)	(2.8%)
4	Environment & Community Safety	13,978,200	13,925,300	(52,900)	(0.4%)
5	Health & Social Care	42,042,000	43,222,000	1,180,000	2.8%
6	Housing	3,545,700	3,552,600	6,900	0.2%
7	Leader	122,000	122,000	0	0.0%
8	PRED	(3,860,800)	(3,968,300)	(107,500)	(2.8%)
9	Port	(6,358,100)	(6,454,800)	(96,700)	(1.5%)
10	Resources	18,208,900	18,134,700	(74,200)	(0.4%)
11	Traffic & Transportation	15,338,300	15,309,000	(29,300)	(0.2%)
12	Licensing Committee	(234,700)	(234,700)	0	0.0%
13	Governance, Audit & Standards Com	277,500	269,400	(8,100)	(2.9%)
14	Levies	75,600	75,600	0	0.0%
15	Insurance	1,312,400	1,312,400	0	0.0%
16	Treasury Management	18,822,300	18,281,400	(540,900)	(2.9%)
17	Other Miscellaneous	17,108,000	14,420,800	(2,687,200)	(15.7%)
TOTAL		156,997,300	155,909,900	(1,087,400)	(0.7%)
Total Value of Remedial Action (from Analysis Below)			(200,000)		
Forecast Outturn After Remedial Action		156,997,300	155,709,900	(1,287,400)	(0.8%)
Forecast Transfers To Portfolio Specific Reserves			224,200		
Forecast Transfer From Ring Fenced Public Health Reserve			(55,000)		
Forecast Outturn After Transfers (From)/To Portfolio Specific Reserves		156,997,300	155,879,100	(1,118,200)	(0.7%)

Note All figures included above exclude Capital Charges
Income/underspends is shown in brackets and expenditure/overspends without brackets

VALUE OF REMEDIAL ACTIONS & TRANSFERS (FROM)/TO PORTFOLIO SPECIFIC RESERVES

Item No.	Reason for Variation	Value of Remedial Action	Forecast Portfolio Transfers
1	Children's Social Care	0	0
2	Culture, Leisure & Sport	(200,000)	(291,300)
3	Education	0	171,600
4	Environment & Community Safety	0	52,900
5	Health & Social Care	0	0
6	Housing	0	(6,900)
7	Leader	0	0
8	PRED	0	107,500
9	Port	0	96,700
10	Resources	0	56,300
11	Traffic & Transportation	0	29,300
12	Licensing Committee	0	0
13	Governance, Audit & Standards Com	0	8,100
14	Levies	0	
15	Insurance	0	
16	Asset Management Revenue Account	0	
17	Other Miscellaneous	0	
Total Value of Remedial Action		(200,000)	224,200

Note Remedial Action resulting in savings should be shown in brackets