

Decision maker: Cabinet 11th December 2017

Subject: Revenue Budget Monitoring 2017/18 (2nd Quarter) to end September 2017

Report by: Director of Finance & Information Technology

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 second quarter for 2017/18 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 2017/18 be noted:
 - (a) An underspend of £2,459,200 before further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve
 - (b) An underspend of £1,035,500 after further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve.
- (ii) Members note 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 2018/19 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 2018/19 Portfolio cash limit will be managed to avoid further overspending during 2018/19.

3. Background

- 3.1 A Budget for 2017/18 of £161,643,000 was approved by City Council on the 14th February 2017. This level of spending enabled a contribution to General Reserves of £0.58m since in year income exceeds in year spending.

3.2 Since the 14th February City Council meeting, the Council has been allocated additional one off non ring-fenced grants totalling £361,500 in 2017/18, In order to achieve the government's priorities in these areas, service budgets have been adjusted as appropriate. Following the Spring Budget announcement of 8th March 2017 three year ring fenced funding for Adult Social Care of £3,997,300 in 2017/18, £2,537,700 in 2018/19 and £1,258,200 in 2019/20 has been granted. As the grant is ring fenced the grant income is reported within the Health & Social Care Portfolio along with the associated expenditure and therefore does not affect the Councils overall net budget.

3.3 In summary, changes to the budget as approved on 14th February 2017 are as follows:

	£
Budget Approved 14th February 2017	161,643,000
Brownfield Sites - New Burdens	14,600
War Pensions Scheme Disregard	88,000
Individual Electoral Registration	57,200
Education Innovation Fund - Staying Close	201,700
Adjusted 2017/18 Budget	162,004,500

3.4 Once the above budget changes are taken into account, the Budget (as adjusted) for 2017/18 has increased to £162,004,500. After the additional non ring fenced grant funding is taken into account this results in an overall contribution to General Reserves of £0.6m for 2017/18 (i.e. assuming no overall budget variance).

3.5 This is the second quarter monitoring report of 2017/18 and reports on the forecast 2017/18 outturn as at the end of September 2017. 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.

3.6 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.

3.7 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 2017/18 – As at end September 2017

4.1 At the second quarter stage, the revenue outturn for 2017/18 after further forecast transfers from/to Portfolio Specific Reserves (Underspends are retained by right) is forecast to be underspent by £1,035,500 representing an overall budget variance of 0.6%.

4.2 The quarter 2 variance consists of a number of forecast under and overspends.

The most significant overspendings at the quarter 2 stage are:

Quarter 1 Forecast Variance		Quarter 2 Forecast Variance	Quarter 2 Forecast Variance (After Transfers From Portfolio Reserves)
£		£	£
2,828,700	Children's Social Care	2,366,700	2,366,700
133,000	Culture Leisure & Sport		
1,431,000	Health & Social Care	758,100	894,700
125,400	Traffic & Transportation		

These are offset by the following significant forecast underspends at the quarter 2 stage:

Quarter 1 Forecast Variance		Quarter 2 Forecast Variance	Quarter 2 Forecast Variance (After Transfers To Portfolio Reserves)
£		£	£
418,300	Environment & Community Safety	388,400	Nil
231,000	Planning, Regeneration & Economic Development	476,100	481,300
680,600	Port	475,200	Nil
333,500	Resources	525,900	Nil
2,411,100	Treasury Management	2,508,600	2,508,600
2,054,000	Other Miscellaneous Expenditure	1,254,000	1,254,000

5 Quarter 2 Significant Budget Variations – Forecast Outturn 2017/18

5.1 Children's Social Care – Overspend £2,366,700 (or 9.8%) or After Transfer From Portfolio Reserve £2,366,700 (9.8%)

The cost of Children's Social Care is forecast to be £2,366,700 higher than budgeted.

The overspend is primarily related to higher costs and numbers of child placements (£2,762,000) offset by reduced staffing costs due to staff turnover and the holding of posts vacant (£395,400).

Of the £2.4m forecast overspending in 2017/18, £1.8m relates to an underlying budget deficit within the Portfolio. Proposals to minimise the current underlying deficit were considered by Cabinet on 29th June 2017 and an increase in social work capacity was approved. Proposals to eliminate any deficit arising in 2018/19 are currently being developed in conjunction with the budget setting process.

5.2 Health and Social Care – Overspend £758,100 (1.8%) or After Transfer to Public Health Reserve £894,700 (2.1%)

The cost of Health and Social Care is forecast to be £758,100 higher than budgeted.

The key variances are:

- The cost of Public Health is forecast to be £136,600 lower than budgeted as a result of staff vacancies. This underspending will be transferred to the ring fenced Public Health Reserve.
- Increased demand for Learning Disability, Deprivation of Liberty (DoLs) assessments and delays in the moving of clients with mental issues from residential homes to more independent settings (£894,700).

Whilst an overspend of £758,100 is forecast in 2017/18, this is after adjusting for cost reductions that will not arise in future years. As a consequence the underlying deficit within Adult Social Care is forecast to have increased from £1.2m as at quarter 1 to £1.8m as at quarter 2. Proposals to minimise the current underlying deficit and to eliminate any deficit arising in 2018/19 are currently being formulated.

5.3 Environment and Community Safety – Underspend £388,400 (2.7%) or After Transfer To Portfolio Reserve Nil

The cost of Environment and Community Safety is forecast to be £388,400 lower than budgeted.

Following a comprehensive service review within the Refuse Collection Service forecast savings totalling £97,600 have been identified.

A reduction in Waste Disposal costs totalling £296,000 is currently forecast as a result of the part year effect of an amendment to the operator's contract and the final settlement of the 2016/17 profit share in respect of the Materials Recycling Facility (MRF).

5.4 Planning, Regeneration and Economic Development – Underspend £476,100 (6.2%) or After Transfer From Portfolio Reserve and Windfall Items £481,300 underspend (6.3%)

The cost of Planning, Regeneration and Economic Development is forecast to be £476,100 lower than budgeted.

The underspending is primarily as a result of windfall rental income of £481,300 arising from the Commercial Property Portfolio.

5.5 Port – Underspend £475,200 (6.1%) or After Transfer To Portfolio Reserve Nil

Overall net income from the Port is forecast to be £475,200 above target income.

Increased throughput at the port has resulted in higher income from ferry operators and as a result of recent dredging undertaken by Portsmouth Naval Base, income from pilotage acts has also increased.

5.6 Resources – Underspend £525,900 (2.8%) or After windfall items and Transfer To Portfolio Reserve £65,000 (0.4%) underspend

The cost of Resources is forecast to be £525,900 lower than budgeted.

The underspend is primarily as a result of posts being held vacant in preparation for future savings requirements, along with difficulties recruiting to posts, coupled with increased traded services income within HR, Audit and Payroll.

5.7 Treasury Management – Underspend £2,508,600 (or 11.2%)

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:

The cost of borrowing taken in advance of need, to take advantage of exceptionally low interest rates, has now been applied to finance the recently acquired investment properties and has resulted in an overall lower than anticipated cost of financing those acquisitions and therefore an overall increase in net return (£2,091,200). This improvement however, is offset by a lower HRA borrowing requirement resulting in a larger proportion of total borrowing costs falling on the General Fund (693,000).

Investment income is expected to be £1,138,500 higher than originally budgeted as a result of a temporary improvement in investment returns.

5.8 Other Miscellaneous Expenditure - Underspend £1,254,000

Contingency - Planned Release £2,054,000

As outlined above, Adults and Children's Social Care are presently forecast to overspend by £3,261,400 (after transfers to reserves). Some of this forecast overspending may be mitigated by action plans currently under development; however it is unlikely that these Portfolio's will be able to contain this level of overspending within their current cash limits. The contingency had been deliberately prepared to guard against the risk that some of the savings proposals of these Services may not be fully achievable. The amount of contingency that can be estimated to be releasable at this stage for this purpose is £2,054,000.

MMD - Overspend £800,000

After making a profit in 2016/17 the council owned company has experienced the loss of a customer who has moved their operation to a different port. As a result, the company is now not expected to generate a profit in 2017/18 but is expected to return to profit in 2018/19.

5.9 All Other Budget Variations – Overspend £44,200 or After Transfers Form/To Portfolio Reserves Overspend £12,000

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 2018/19 is set out below:

Portfolio/Committee Reserve	Balance Brought Forward £	Approved Transfers 2017/18 £	Forecast Under/ (Over) Spending £	Balance Carried Forward £
Children's Social Care	83,700	(83,700)	0	0
Culture, Leisure & Sport	547,800	(127,600)	(4,100)	416,100
Education	210,700	(136,800)	(73,900)	0
Environment & Community Safety	1,504,100	(171,400)	388,400	1,721,100
Health & Social Care	0	0	0	0
Housing	848,300	0	(9,600)	838,700
Leader	46,900	0	0	46,900
PRED	134,500	(24,700)	(5,200)	104,600
Port	2,561,200	625,000	475,200	3,661,400
Resources	1,240,000	(403,100)	460,900	1,297,800
Traffic & Transportation	306,400	(46,500)	70,300	330,200
Licensing	138,600	0	0	138,600
Governance, Audit & Standards	367,500	0	(14,900)	352,600
Total	7,989,700	(368,800)	1,287,100	8,908,000

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 2017/18 as at the end of September 2017 is forecast to be £160,969,000. This is an overall underspend of £1,035,500 against the Amended Budget and represents a variance of 0.6%.
- 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 is lower than budget.
- 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 2017/18. The £3.3m forecast overspending (after transfers from reserves) relating to these areas in 2017/18 is forecast to rise to £3.6m in future years and therefore represents their combined underlying deficits. This is a significant deterioration in the underlying stability of these budgets compared to 2016/17. 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 2017/18, the Council has set aside funding within the Contingency Provision to guard against potential overspending. So, whilst the forecast of overspending within some portfolios in the current year can be mitigated to a large extent, the underlying deficit will need to be addressed in 2018/19.
- 7.6 Where a Portfolio is presently forecasting a net overspend in accordance with current Council policy, any overspending in 2017/18 which cannot be met by transfer from the Portfolio Specific Reserve will be deducted from cash limits in 2018/19 and therefore the appropriate Directors in consultation with Portfolio Holders should prepare an action plan outlining how their 2017/18 forecast outturn or 2018/19 budget might be reduced to alleviate the adverse variances currently being forecast.
- 7.7 Based on the Budget (as adjusted) of £162,004,500 the Council will remain within its minimum level of General Reserves for 2017/18 of £7.0m as illustrated below:

	<u>£m</u>
General Reserves brought forward @ 1/4/2017	19.256
<u>Add:</u>	
Forecast Underspend 2017/18	1.036
<u>Add:</u>	
Planned Contribution to General Reserves 2017/18	0.597
Forecast General Reserves carried forward into 2018/19	20.889

Levels of General Reserves over the medium term are assumed to remain within the Council approved minimum sum of £7.0m in 2017/18 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 11th December, 2017

Signed: