

Decision maker: Cabinet 2nd December 2013
City Council 10th December 2013

Subject: Budget & Performance Monitoring 2013/14 (2nd Quarter) to end September 2013

Report by: Head of Finance & 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 second quarter for 2013/14 in accordance with the proposals set out in the "Portsmouth City Council Budget 2012/13 to 2016/17" report approved by the City Council on the 12th February 2013.

To also take the opportunity to report on the key performance measures of the Council and highlight any relationships between financial performance and service performance that may indicate any potential or emerging matters of concern in relation to either.

2. Recommendations

- 2.1 It is recommended that:

- (i) The contents of this report be noted, in particular the overall forecast underspend of £450,350 representing a variance of 0.24% against the City Council Budget (as adjusted) of £191,487,075.
- (ii) Reports are prepared for the Cabinet in January setting out the options for significantly reducing or eliminating the adverse budget position presently being forecast by the Children & Education and Traffic & Transportation Portfolios, including the associated impact of doing so.

3. Background

- 3.1 A Budget for 2013/14 of £186,054,075 was approved by City Council on the 12th February 2013. This level of spending required an overall contribution from General Reserves of £0.313m in order to meet the shortfall between in-year spending and in-year income from all sources.
- 3.2 Since the 14th February City Council meeting, and in accordance with the Council approved budget guidelines the following Portfolios have had their 2013/14 cash limits reduced in order to "clawback" overspendings against their previous year's Cash Limit:

	£
Children & Education	3,000
Leader	3,000
Total Clawback	6,000

3.3 On 15th October 2013 City Council approved a transfer of £5,000,000 to the Revenue Reserve for Capital to supplement the Capital Resources available in order to accelerate the Council's current strategy to drive economic growth and jobs within the City and a transfer of £439,000 to the Medium Term Resource Strategy Reserve in order to replenish the reserve to a level that is sufficient to finance future spend to save schemes, feasibility studies and staff redundancy costs.

3.4 In addition the Council has been allocated a one off non ring fenced Adoption Reform Grant of £373,100 in 2013/14. As there were no specific budget proposals in 2013/14 around the development of the Adoption services and activities and consequently no additional funding pressures were recognised in this area, the grant has been treated as a "windfall" gain and the planned contribution from the General Fund balance to meet the shortfall between in-year spending and in-year income from all sources has been reduced accordingly. However, in order to achieve the government's priorities in this area and to increase the number of adopters in the Portsmouth area £373,100 has been released from the Central Contingency in 2013/14.

3.5 In summary, changes to the budget as approved on 12th February 2013 are as follows:

	£
Budget Approved 12 th February 2013	186,054,075
Clawback of 2012/13 overspendings	(6,000)
Transfer to Revenue Reserve for Capital	5,000,000
Transfer to MTRS Reserve	439,000
Adjusted 2013/14 Estimate	191,487,075

3.6 Once the above budget changes are taken into account the Estimate (as adjusted) for 2013/14 has increased to £191,487,075 requiring an overall contribution to General Reserves of £5.373m in order to meet the shortfall between in-year spending and in-year income from all sources. As previously explained however, the Council will spend £5.43 million more in the current financial year which is funded from the £5.43 million underspend in 2012/13.

3.7 This is the second quarter monitoring report of 2013/14 and reports on the forecast 2013/14 outturn as at the end of September 2013. 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.

3.8 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.

3.9 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 12th February 2013. 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 2013/14 – As at end September 2013

4.1 At the second quarter stage, the revenue outturn for 2013/14 is forecast to be underspent by £450,350 representing an overall budget variance of 0.24%.

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 (Adjusted Budget)		Quarter 2 Adjusted Budget)
£		£
2,923,600	Children and Education	1,170,500
595,700	Health and Social Care	162,100
925,500	Traffic and Transportation	870,900

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

Quarter 1 (Adjusted Budget)		Quarter 2 (Adjusted Budget)
£		£
	Environment and Community Safety	102,900
176,200	PRED	
	Port	536,200
	Resources	294,700
118,300	Governance Audit and Standards Committee	
1,890,100	Asset Management Revenue Account	1,563,700

5 Quarter 2 Significant Budget Variations – Forecast Outturn 2013/14

5.1 Children and Education – Overspend £1,170,500 (or 3.6%)

The cost of Children and Education Services is forecast to be £1,170,500 higher than budgeted.

The key variances are:

- As a result of fewer vacancies than assumed when the budget was prepared coupled with delays in achieving planned efficiency savings staffing costs across the Portfolio are forecast to overspend by £204,400.
- Fieldwork Services is forecast to overspend by £135,000 as a result of reduced income being earned from adoption placements by Other Bodies, due to a lack of placement availability.
- The first three months of the financial year saw an increase in the number of children requiring placement. Whilst these numbers have remained stable over the last quarter the projected spend presumes that these placements will continue for the remainder of the year, although review work will continue. The budget also provides for an increase in the number of Portsmouth Foster Carers as part of the 5 year strategy to reduce the number of looked after children placed with Independent Fostering Agencies. Whilst the number of Portsmouth Foster Carers is growing it is at a pace slightly below expectations. Taking all of these factors into account the Looked After Children budget heading is forecast to overspend by £1,024,200.

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

5.2 Health and Social Care – Overspend £162,100 (or 0.3%)

The cost of Health & Social Care is forecast to be £162,100 higher than budgeted.

The key variances are:

Overspendings

- The average contribution by clients for their nursing care made by older persons and clients with physical disability has reduced resulting in a shortfall in income of £187,400.
- Joint Commissioning (Mental Health and Substance Misuse) is forecast to be overspent by £119,800 due to actual client numbers being 88 compared to the 82 that were budgeted. In addition the Council has lost an out of area placement case, as a result funding of the client's care needs has become the responsibility of the City Council.
- PCC contribution to Continuing Health Care Pooled Budget – PCC's contribution is forecast to be £544,900 higher than budgeted due to:-

- The residential care budget assumed client numbers of 114 however currently there are 130 being supported by Adult Social Care as at the end of September. It is expected to continue at this level for the remainder of the financial year. Domiciliary Care client numbers have also increased from 712 to 793 since April 2013. These factors are causing significant pressure within the budget which is projected to overspend by £544,900 as a result.

Underspendings

- The cost of in-house residential care is forecast to be £98,300 lower than budgeted as a result of increased income at Hilsea Lodge, Edinburgh House and Shearwater offset by increased staffing made in response to an inspection by the Care Quality Commission at Shearwater care home.
- Due to delays in recruitment of staff to the Portsmouth Rehabilitation and Reablement Team an underspend of £209,500 is currently forecast.
- An increase in demand for dementia care has led to a rise in client numbers with a corresponding increase in client contributions. Income from clients on the Deferred Payments Scheme is also higher. Older Persons/Physical Disability Commissioned Residential Care Income is £183,200 higher than budgeted as a result.
- There has been an increase in client numbers for domiciliary care in both Older Persons and Physical Disability resulting in forecast income being £106,000 higher than budgeted.

5.3 Traffic & Transportation – Overspend £870,900 (or 5.5%)

The Portfolio is forecasting an overspend of £870,900

The main causes of the underlying forecast overspend relate to:

- Income within Off Street Parking is forecast to be £594,000 less than budgeted.
- Despite budgeting for increases in street lighting energy costs, expenditure is forecast to be £156,000 higher than budgeted as a result of a change in the methodology used to measure consumption.
- School Crossing Patrols - A budget saving of £200,000 was approved by the City Council in February 2013 with the intention that the remaining budget would be passed to schools who would then become responsible for providing their own school crossing patrols. However, such an arrangement would require lengthy and complex consultation with each school governing body which has meant that this saving is no longer achievable in the medium term. Once savings arising from holding posts vacant are taken into account the forecast overspend is reduced to £132,000.

5.4 Environment and Community Safety – Underspend £102,900 (or 0.6%)

The Portfolio is forecasting an underspend of £102,900.

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

- As a result of higher levels of staff input into major capital projects (including Tipner Park & Ride, Northern Quarter Redevelopment and Northern Road Bridge) fee income is forecast to be £65,000 higher than originally budgeted.
- Staffing costs across the Portfolio are expected to be £130,800 lower than originally budgeted due to staff vacancies and two staff previously wholly chargeable to Environment & Community Safety now being shared with Public Health.
- When the budget was originally set it was expected that the Community Warden and the Environmental Enforcement Service would be merged to form a single service. This is now not expected to happen, as a result the cost pressure of £96,700 which arises will be managed within the Portfolio by the management of underspends elsewhere, primarily within Strategy and Partnership.

5.5 PRED (Port) – Underspend £536,200 (or 9.9%)

Overall net income from the Port is forecast to be £536,200 above target income.

This is primarily due to Operational Expenses being £433,800 lower than budgeted. This reduction has arisen as a result of staff vacancies and secondments (£129,100), the switching of staff resources to capital schemes (£91,500) and a planned deferral of dredging works to 2014/15 (£159,700).

5.6 Resources – Underspend £294,700 (or 1.2%)

The Portfolio is forecasting an underspend of £294,700

The main causes of the underlying forecast underspend are:

- The holding of posts vacant across the Portfolio in anticipation of savings requirements in future years has resulted in a reduction in staffing costs of £194,900.
- Claims for support under the Local Welfare Assistance scheme are currently forecast to be £96,500 lower than originally budgeted.
- Human Resources, Legal & Performance Management are expected to experience a shortfall in fee income of £80,600 as a result of staff being redeployed to corporate enabling based initiatives including City Deal and Super Connected Cities.

5.7 Asset Management Revenue Account – Underspend £1,563,700 (or 6.3%)

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:

- Higher returns on investment balances than anticipated leading to increased interest earned coupled with a forecast lower level of contingency to guard against interest rate fluctuations.
- A lower opening capital financing requirement than anticipated resulting in the statutory sum required to be set aside for the repayment of debt being lower.

6 **Other Minor Budget Variations – Forecast Outturn 2013/14**

6.1 Culture, Leisure & Sport – No Forecast Variance

6.2 Housing – Underspend £70,000 (or 3.0%)

Private Housing enforcement and assistance projects have commenced, however due to department reorganisations they are now projected in some cases to continue past the end of the current financial year. These projects relate to Landlord Accreditation, Winter Warmth, Un-Licensed gas fitters and Rogue Builders. It is anticipated that there will be no adverse impact on residents from a delayed start. It is expected that these projects will prove significant in providing appropriate support and protection for private housing owners and tenants which will enable housing in Portsmouth to be of sufficient long term quality.

6.3 Leader – Minor Overspend £6,500 (or 2.8%)

6.4 PRED – Overspend £44,900 (or 3.5%)

Once City Council assets are declared surplus to requirements the holding and disposal costs become the responsibility of the Property Portfolio. The cost of holding and marketing these assets for subsequent disposal has led to a forecast overspend of £44,900.

6.5 Licensing Committee – Underspend £16,600 (or 14.2%)

Additional net income arising from recent changes in legislation relating to scrap metal & motor salvage dealers which requires them to be licenced by the Local Authority from 2013/14. Previously these dealers were only required to be registered with the Local Authority. This net income is after direct costs associated with enforcement are deducted, but before the full indirect costs of administration and enforcement are taken into account.

6.6 Governance, Audit and Standards Committee – Underspend £98,600 (or 35.0%)

Additional income to the Registrars Service arising primarily from increased demand for priority birth certificate searches and civil marriage ceremonies.

6.7 Levies – Underspend £22,400 (or 2.9%)

Minor variation due to levies being lower than originally estimated.

6.8 Insurance – No Forecast Variance

6.9 Other Miscellaneous – No Forecast Variance

7. Relationships between Financial Performance and Service Performance

7.1 There are a number of areas where the council is demonstrating strong performance. It is performing well on almost all key performance indicators in relation to Revenues and Benefits, although Council Tax collection is slightly below plan. There is good progress on implementing action plans in relation to health and social care, including around dementia and services for carers. Planning applications are being processed (although not major applications) more quickly than previously. Key projects at Tipner and Northern Road Bridge are expected to finish on schedule and on budget.

7.2 However, there are still some areas of concern. There remains uncertainty on key Department of Work and Pension initiatives, such as the Universal Credit and the Single Fraud investigation service, for example. The Council also needs to respond to the Integration and Transformation Fund, funding that the Government is transferring from the NHS to adult social care services in local government to support people to remain out of hospital.

7.3 There are some areas where improvements need to be made, and there are plans to address these. The Council needs to engage with services to ensure they are referring families with need to the appropriate services that can help them, via the Positive Family Steps service, and also the Telecare and Telehealth services for example. Educational attainment in the city across most key stage areas is improving, but GCSE results fell by 5% compared to last year, a sustained focus in this area is therefore required. In the current climate, the Council needs to continue working with partners to encourage inward investment into the city.

8. Conclusion - Overall Finance & Performance Summary

8.1 The overall forecast outturn for the City Council in 2013/14 as at the end of September 2013 is forecast to be £191,036,700. This is an overall underspend of £450,350 against the Amended Budget and represents a variance of 0.24%.

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 is within budget. Furthermore, finance is not having a negative impact on the overall performance status of the Council’s activities.
- 8.4 As outlined in paragraph 4.2, the forecast overspend within the Children and Education and Traffic and Transportation Portfolios represent the greatest areas of concern in terms of the impact that they have on the overall City Council budget for 2013/14. Consequently it is recommended that reports in respect of these Portfolios be prepared for the Cabinet in January setting out the options for significantly reducing or eliminating the adverse budget position presently being forecast by these Portfolios, including the associated impact of doing so.
- 8.5 Where a Portfolio is presently forecasting a net overspend, in accordance with current Council policy, any overspending in 2013/14 will be deducted from cash limits in 2014/15 and therefore the appropriate Heads of Service in consultation with Portfolio Holders should prepare an action plan outlining how their 2013/14 forecast outturn or 2014/15 budget might be reduced to alleviate the adverse variances currently being forecast.
- 8.6 Based on the Budget (as adjusted) of £191,487,075 the Council will remain within its minimum level of General Reserves for 2013/14 of £6.0m as illustrated below:

	<u>£m</u>
General Reserves brought forward @ 1/4/2013	23.614
<u>Add:</u>	
Forecast Underspend 2013/14	0.450
<u>Less:</u>	
Planned Withdrawal from General Reserves 2013/14	(5.373)
Forecast General Reserves carried forward into 2014/15	18.691

Levels of General Reserves over the medium term are assumed to remain within the Council approved sum of £8.4m in 2014/15 and future years since any ongoing budget pressures / savings will be reflected in future years' savings targets.

- 8.7 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 context with 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

Head of Finance & 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
Portsmouth City Council Budget 2012/13 to 2016/17	Office of Deputy Head 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 2nd December, 2013

Signed:

Approved / Approved as amended / Deferred / Rejected by the City Council on 10th December, 2013

Signed:

**FINANCIAL & SERVICE
PERFORMANCE**

**QUARTER 2
2013/14**

INFORMATION PACK