

Decision maker: Cabinet 4th December 2014
City Council 20th January 2015

Subject: Budget & Performance Monitoring 2014/15 (2nd Quarter) to end September 2014

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 2014/15 in accordance with the proposals set out in the "Portsmouth City Council - Council Tax Setting 2014/15 to 2017/18 & Medium Term Budget Forecast 2014/15 to 2017/18" report approved by the City Council on the 11th February 2014.

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 overspend of £1,501,500 representing a variance of 0.9% against the City Council Budget (as adjusted) of £175,030,000.
- (ii) To enable the Children's & Education Portfolio to address the deficit against the Council approved cash limit, the Children's Social Care & Safeguarding savings proposals for 2015/16 totalling £1,917,000 outlined in Table 1 be noted.
- (iii) To remedy the historic underlying budget deficit relating to Parking within the Traffic & Transportation Portfolio, it be noted that an annual appropriation from the Parking Reserve in the amount of £400,000 per annum has been made.
- (iv) That the Council Leader works with the relevant portfolio holder to consider measures necessary to significantly reduce or eliminate the adverse budget position presently being forecast within Children & Education and Health & Social Care Portfolios and any necessary decisions presented to a future meeting of the relevant portfolio.

3. Background

- 3.1 A Budget for 2014/15 of £174,363,800 was approved by City Council on the 11th February 2014. This level of spending enabled a contribution to General Reserves of £3.383m after in-year spending was met from in-year income from all sources. Since the 11th February City Council meeting the Council has been allocated additional one off non ring-fenced grants totalling £566,200 in 2014/15. In order to achieve the government's priorities in these areas, service budgets have been amended accordingly. In addition, the adjusted budget includes a transfer to the PFI Reserve in respect of maintenance undertaken within the PFI for on-street parking.
- 3.2 In summary, changes to the budget as approved on 11th February 2014 are as follows:

	£
Budget Approved 11 th February 2014	174,363,800
Individual Voter Registration	131,200
Special Education Needs Reform	253,600
Adoption Reform	181,400
Transfer to PFI Reserve	100,000
Adjusted 2014/15 Budget	175,030,000

- 3.3 Once the above budget changes are taken into account, the Budget (as adjusted) for 2014/15 has increased to £175,030,000. After the additional non ring fenced grant funding is taken into account this results in an overall contribution to General Reserves of £3.283m for 2014/15 (i.e. assuming no overall budget variance).
- 3.4 This is the second quarter monitoring report of 2014/15 and reports on the forecast 2014/15 outturn as at the end of September 2014. 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.
- 3.5 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.
- 3.6 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 11th February 2014. 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 2014/15 – As at end September 2014

4.1 At the second quarter stage, the revenue outturn for 2014/15 is forecast to be overspent by £1,501,500 representing an overall budget variance of 0.9%.

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

Before forecast transfers from Portfolio Reserves 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)
£		£	£
2,950,600	Children and Education	2,914,500	2,914,500
	Culture Leisure & Sport	227,800	112,200
751,200	Health and Social Care	497,000	497,000
340,100	Traffic and 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)
£		£	£
	PRED	221,000	Nil
	Commercial Port	1,007,700	792,000
973,800	Asset Management Revenue Account	985,500	985,500
	Other Miscellaneous	279,600	279,600

5 Quarter 2 Significant Budget Variations – Forecast Outturn 2014/15

5.1 Children and Education – Overspend £2,914,500 (or 9.2%)

The cost of Children and Education Services is forecast to be £2,914,500 higher than budgeted.

The key variances are:

- Home to school and college transport is forecasting an overspend of £80,000 due to the number of children being supported. Following the introduction of revised transport policies from September the overspend has begun to reduce.
- Fieldwork Services are experiencing significant budget pressures as a result of a combination of the inability to deliver vacancy savings, the need to employ agency workers to cover practice leader posts and additional supernumerary front line posts. The supernumerary posts have been employed by the service as part of the strategy to reduce Looked After Children numbers, whilst also focusing on the government's adoption agenda to move children into permanent arrangements; as a result this service is forecast to overspend by £1,028,900.
- Family Support Services is forecast to overspend by £156,100 due to the need to employ agency staff in senior positions and the non-achievement of vacancy allowances assumed within the budget.
- Whilst placements with independent foster carers continue to reduce, this has been at a slower rate than that anticipated and due to the complexity of needs this budget area is forecast to overspend by £1,350,900.
- Management and Support (£312,300 overspend): The Independent Reviewing Officer (IRO) service is experiencing budget pressures as a result of not achieving vacancy savings targets, combined with the additional cost of 2 supernumerary specialist posts, which were recruited to lower the number of cases held by the IRO officers. The service is also experiencing additional pressures due to the increased contribution to the Integrated Commissioning Unit (this investment is intended to deliver future cost reductions through commissioning arrangements) as well as increased requirements associated with medical and legal costs.

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

It was reported to the Children and Education Portfolio on 26th September 2014 that Social Care and Safeguarding had exceeded the budget provision by £2.3m in 2013/14 and as at 30th June 2014 was forecasting an overspend of £2.5m in 2014/15 (The forecast overspend has risen to £2.8m as at the end of Quarter 2). As a result the Director of Adults and Children's Services was instructed to develop proposals for reducing the operating expenditure requirements of the Portfolio in:

- i. the current financial year
- ii. the 2015/16 financial year to ensure that it can operate within its allocated Cash Limit in 2015/16 to deliver a balanced budget.

The development of proposals to balance the in year and future years budget position remains ongoing, however it is recommended that the savings proposals for 2015/16 outlined in Table 1 below be noted.

Table 1

Savings Proposal	Impact on Level of Service & Service Outcomes	Saving 2015/16 £	Saving 2016/17 £	Saving 2017/18 £
1 Rationalisation and reduction in the use of transport and parking arrangements	Alternative transport and parking arrangements will require a review of service processes and flexibilities	40,000	40,000	40,000
2 Continued focus on building the capacity of suitable and appropriate in-house foster care placements, in order to continue to reduce the number of children placed in Independent Fostering Agency and external residential placements	This proposal seeks to continue the existing strategy of expanding the number of in-house foster care placements, with a focus on permanence planning for children in care. Therefore there is a minimal adverse impact on service delivery or customers	754,000	754,000	754,000
3 Implement a policy of parental contributions towards S20 placement costs to deliver the previously approved income target	In certain circumstances, parents will be expected to contribute towards the placement costs of their children. Means testing will be applied to these charges to mitigate the impact on low income parents	40,000	40,000	40,000
4 Reduce operation of non-statutory Integrated Youth Support Services	Re-designed service aimed at reducing the flow of vulnerable children and young people into Children's Social Care and numbers of young people Not in Education Employment or Training (NEET) A redesigned service on a reduced scale but focussed on youth support options to address the challenges young people face The scale of the future service will depend on the success or otherwise of attracting funding externally and from schools	893,000	893,000	893,000
5 Other proposals currently being investigated to reduce spending	To be reported to a future meeting of the Children & Education Portfolio	190,000	190,000	190,000
Total		1,917,000	1,917,000	1,917,000

5.2 Culture, Leisure & Sport - Overspend £227,800 (2.7%) or £112,200 After Transfer From Portfolio Reserve

Before a forecast transfer of £115,600 from the Culture, Leisure and Sport Portfolio Reserve, the Portfolio is forecasting an overspend of £227,800.

The key variances causing this overspend are:

- Lower expenditure (£59,400) relating to the general maintenance and upkeep of parks offset by increases in expenditure for repairs to parks buildings
- Department Establishment costs are forecast to be £190,000 lower than originally budgeted due to the reallocation of staffing costs to PRED following a reorganisation of staffing and the transfer of staffing costs to the City Deal Capital project
- Essential repair works at the Pyramids following extensive storm damage and the bringing forward of repair works planned for future years in order to take advantage of the lower cost of completing the maintenance while the building was closed has resulted in an overspend of £481,000. Following the completion of this accelerated maintenance programme it is anticipated that the cost of maintenance in future years will be significantly lower as a result of these additional works being completed.

5.3 Health and Social Care – Overspend £497,000 (or 1.0%)

The cost of Health & Social Care is forecast to be £497,000 higher than budgeted.

The key variances are:

- Social Care Activities is forecast to overspend by £248,200 due to recent changes in legislation that has placed a requirement on local authorities to carry out Deprivation of Liberties assessments which presently are being completed at a rate of 25 per week.
- Assistive Equipment & Technology is forecast to overspend by £144,800 due to lower than expected re-use of equipment from the Community Equipment Store.
- An increased requirement for domiciliary care packages and residential care packages for both older people with a physical support need and clients with a physical disability (partially offset by a decrease in the volume of nursing care packages) has resulted in a forecast overspend of £73,700

5.4 PRED - Underspend £221,000 (or 35.3%) (No variance after transfers to Portfolio Reserves)

The Portfolio is currently forecasting an underspend of £221,000. As portfolio underspendings are transferred to portfolio specific reserves at the end of the year no variance is currently forecast.

The cost of Planning Regeneration & Economic Development is forecast to be £221,000 lower than budgeted primarily as a result of the Planning Development Control service forecasting an underspend of £206,000. This underspend relates to planning income being £113,000 higher than originally budgeted arising from Revenue Section 106 & Community Infrastructure Levy administration contributions coupled with the reduced use of agency staff (£93,000).

5.5 PRED (Commercial Port) - Underspend £1,007,700 (£792,000 after transfers to Portfolio Reserves)

Overall net income from the Port is forecast to be £1,007,700 above target income.

Of this, £792,000 relates to an anticipated budget pressure that the Port was given additional funding for in the 2014/15 cash limit which has not materialised. In accordance with the approved Budget Guidelines the underspend accrues corporately. The balance of the improvement (£215,700) will be transferred to the PRED Portfolio specific reserve at year-end.

The improvement over the target net income is as a result of:

- Increased operational dues following the introduction of the new Transfennica and Brittany Ferries Etretat services coupled with a reduction in Management and General expenses offset by;
- Higher Operational Expenses as a result of higher dredging and Business Rate costs mitigated by quay assistant vacancies and lower energy costs.

5.6 Asset Management Revenue Account – Underspend £985,500 (or 4.4%)

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 Housing Revenue Account share of council borrowing being higher than originally anticipated, improving interest rates and a reduced level of contingency to guard against interest rate fluctuations.

5.7 Other Miscellaneous – Underspend £279,600 (or 3.1%)

Other Miscellaneous Expenditure is forecast to underspend by £279,600 as a result of:

- MMD trading results not improving as quickly as originally expected (£578,300), although the overall financial position relating to MMD activities continues to exceed the breakeven position.
- Savings arising from the re-negotiation of strategic contracts not being as high as was originally expected or not occurring as early in 2014/15 as originally planned (£1,200,000)

These additional costs have been offset by a reduction in the amount required to be held as a contingency (£2,000,000) which is specifically held to guard against these and other risks. In addition, the risk of other costs for which a contingency was provided has either receded or is expected to slip to 2015/16.

6 Other Minor Budget Variations – Forecast Outturn 2014/15

6.1 Environment and Community Safety – Underspend £49,900 (or 0.3%) (No variance after transfers to Portfolio Reserves)

The Portfolio is currently forecasting an underspend of £49,900, the reasons for which are set out below. In accordance with Council Policy, portfolio underspends are transferred to portfolio specific reserves and as a consequence no Portfolio variance is currently forecast.

A number of small underspends across the Portfolio offset by an overspend of £81,800 within Community Safety Strategy and Partnership as a result of increased staffing costs relating to the "Delivering Differently and "Shared Uniformed Services" projects has resulted in a net forecast underspend of £49,900 before transfers to Portfolio Reserves.

6.2 Housing – No Variance

6.3 Leader – Minor Overspend £12,100 (or 5.1%)

Minor overspend primarily as a result of lower than expected income from the letting out, for private functions, of the mayors banqueting suite.

6.4 Resources – Underspend £75,600 or (0.3%) (No variance after transfers to Portfolio Reserves)

Prior to the transfer of net underspending to the Resources Portfolio specific reserve the portfolio is forecasting an underspend of £75,600

The main reasons for the net underspend are that:

- Vacancies being held across the Portfolio amount to an underspend of £182,000, the Local Welfare Assistance scheme, which supports those in greatest need, is expected to underspend by £49,900 and Trading income of the Spinnaker Tower is also expected to be £50,000 greater than originally budgeted.
- Offsetting these underspends are Housing Benefit Rent Allowances and rebate payments (£117,000) the total value of which exceeds £100m, it should be noted that relatively small fluctuations in the factors affecting Housing Benefit entitlement can give rise to material variations.

6.5 Traffic & Transportation – Overspend £22,700 (or 0.1%)

The main causes of the forecast overspend are:

- As a result of the Highways PFI Contract renegotiations currently taking place, Highways Street Lighting (Electricity) is forecasting an overspend of £336,700 due to the delay in the installation of LED Street lighting enhancements approved by Council in November 2013, which are anticipated to result in significantly lower energy costs. This overspend will be funded through a release from the Councils Contingency.
- Other variances include increased cost of Travel Concessions (£49,300) as a result of increased passenger usage, higher staffing costs within Passenger Transport (£33,000) primarily due to the requirement for maternity cover and reduced cost of School Crossing Patrols (£55,000) as a result of the difficulties currently being experienced to recruit crossing patrol staff.

6.6 Licensing Committee – Minor Underspend £10,900 (or 7.6%) (No variance after transfers to Committee Reserves)

The Licensing Committee is forecasting a minor underspend of £10,900. Any underspend at year-end will be transferred to specific reserves.

6.7 Governance and Audit Committee – Underspend £58,800 (No variance after transfers to Committee Reserves)

An underspend of £58,800 is currently being forecast by the Committee. As net underspends are transferred to portfolio reserves at year-end no variance is currently forecast.

The principle reason for the forecast underspend is higher income than budgeted of £89,400 within the Registrars Service due to increased income generated from new initiatives, higher demand for existing services and the introduction of a competitive pricing structure offset by higher May 2014 election costs (£30,600).

6.8 Levies – No Forecast Variance

6.9 Insurance – No Forecast Variance

7. Transfers From/To Portfolio Specific Reserves

In November 2013 Full Council approved the following changes to the Councils 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 2015/16 is set out below:

Portfolio/Committee Reserve	Balance Brought Forward £	Approved Releases 2014/15 £	Forecast Under/ (Over) Spending £	Balance Carried Forward £
Children & Education	228,600	(228,600)		0
Culture, Leisure & Sport	115,600		(115,600)	0
Environment & Community Safety	1,177,400		(49,900)	1,127,500
Health & Social Care	2,194,600	(2,194,600)		0
Housing	136,800			136,800
Leader	0			0
PRED	375,500		221,000	596,500
Port	418,100		215,700	633,800
Resources	666,600	(52,100)	75,600	690,100
Licensing	33,700		10,900	44,600
Governance, Audit & Standards	145,000		58,800	203,800
Total	5,491,900	(2,475,300)	416,500	3,433,100

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

8. Relationships between Financial Performance and Service Performance

The Quarter 2 performance report will be considered by the Governance, Audit and Standards committee in January 2015. The report will set out the highlights, concerns and areas for improvement for all services.

It is worth noting that whilst many projects are proceeding well, and performance is being sustained or improved in a number of areas, services are also expressing concern around capacity and sustainability of services with reduced resources. In particular, there are areas where demand is increasing despite an accepted need to reduce demand (a particular area is around children's social care and safeguarding); and there are challenges in delivering on change projects already in the pipeline to reduce costs and particularly to deliver on income. Workforce capacity in some areas critical to longer term objectives is also strained.

9. Conclusion - Overall Finance & Performance Summary

- 9.1 The overall forecast outturn for the City Council in 2014/15 as at the end of September 2014 is forecast to be £176,531,500. This is an overall overspend of £1,501,500 against the Amended Budget and represents a variance of 0.9%.
- 9.2 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.
- 9.3 The overall financial position is deemed to be “RED” since the forecast outturn is higher than budget. Whilst, finance is not having a negative impact on the overall performance status of the Council’s activities, at this stage, the scale of some Portfolio overspends being reported at the Quarter 2 stage indicates that some services are experiencing some degree of financial stress.
- 9.4 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 2014/15. Consequently, it is recommended that the Council Leader works 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.
- 9.5 Where a Portfolio is presently forecasting a net overspend in accordance with current Council policy, any overspending in 2014/15 which cannot be met by transfer from the Portfolio Specific Reserve will be deducted from cash limits in 2015/16 and therefore the appropriate Heads of Service in consultation with Portfolio Holders should prepare an action plan outlining how their 2014/15 forecast outturn or 2015/16 budget might be reduced to alleviate the adverse variances currently being forecast.
- 9.6 Based on the Budget (as adjusted) of £175,030,000 the Council will remain within its minimum level of General Reserves for 2014/15 of £6.0m as illustrated below:

	<u>£m</u>
General Reserves brought forward @ 1/4/2014	23.426
<u>Less:</u>	
Forecast Overspend 2014/15	(1.501)
<u>Add:</u>	
Planned Contribution to General Reserves 2014/15	3.283
Forecast General Reserves carried forward into 2015/16	25.208

Levels of General Reserves over the medium term are assumed to remain within the Council approved minimum sum of £6.0m in 2014/15 and future years since any ongoing budget pressures / savings will be reflected in future years' savings targets.

- 9.7 Financial resources are not seen as a primary barrier during the current year to either performance achievement or performance improvement. Although there are currently

no specific requests for additional resourcing within this report to ensure that targets are achieved or objectives met, in the future, resources are more likely to pose a risk to future delivery and this ought to be considered in the context of all other current and emerging budget pressures and evaluated in context with each other.

10. 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.

11. 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
Council Tax Setting 2014/15 to 2017/18 & Medium Term Budget Forecast 2014/15 to 2017/18	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 4th December, 2014

Signed:

Approved / Approved as amended / Deferred / Rejected by the City Council on 20th
January, 2015

Signed:

**FINANCIAL & SERVICE
PERFORMANCE**

**QUARTER 2
2014/15**

INFORMATION PACK