

Decision maker: Cabinet 3rd December 2015
City Council 8th December 2015

Subject: Budget & Performance Monitoring 2015/16 (2nd Quarter) to end September 2015

Report by: Director of Finance & Information Service (s151 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 2015/16 in accordance with the proposals set out in the "Portsmouth City Council - Budget & Council Tax 2015/16 & Medium Term Budget Forecast 2016/17 to 2018/19" report approved by the City Council on the 10th February 2015.

2. Recommendations

2.1 It is recommended that:

- (i) The forecast outturn position for 2015/16 be noted:
 - (a) An overspend of £2,695,900 before further forecast transfers from/(to) Portfolio Specific Reserves
 - (b) An overspend of £3,123,300 after further forecast transfers from/(to) Portfolio Specific Reserves.
- (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 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 A Budget for 2015/16 of £168,340,900 was approved by City Council on the 10th February 2015. This level of spending required a contribution from General Reserves of £1.15m since in year spending exceeds in year income.

3.2 Since the 10th February City Council meeting, the Council has been allocated additional one off non ring-fenced grants totalling £887,200 in 2015/16. In order to

achieve the government's priorities in these areas, service budgets have been adjusted as appropriate. In addition, the adjusted budget includes £332,000 grant income relating to an improvement in the Final 2015/16 Local Government Settlement and a transfer from the Parking Reserve in respect of overheads and insurances chargeable to the On-Street Parking Service.

3.3 In summary, changes to the budget as approved on 10th February 2015 are as follows:

	£
Budget Approved 10th February 2015	168,340,900
Budget Increases (funded by additional grants received)	
Transformation Challenge Award (Up to You)	305,000
Independent Living Fund	388,400
Deprivation of Liberties	95,000
Individual Electoral Registration 2015/16	98,800
Transfer From Parking Reserve	(100,000)
 Adjusted 2015/16 Budget	 169,128,100

3.4 Once the above budget changes are taken into account, the Budget (as adjusted) for 2015/16 has increased to £169,128,100. After the additional non ring fenced grant funding is taken into account this results in an overall contribution from General Reserves of £0.718m for 2015/16 (i.e. assuming no overall budget variance).

3.5 This is the second quarter monitoring report of 2015/16 and reports on the forecast 2015/16 outturn as at the end of September 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.

3.6 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 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 centrally to the Council.

3.7 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 10th February 2015. The format presented at Appendix A has been amended to aid understanding 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 September 2015

4.1 At the second quarter stage, the revenue outturn for 2015/16 after further forecast transfers from/to Portfolio Specific Reserves (Underspends are retained by right) is forecast to be overspent by £3,123,300 representing an overall budget variance of 1.8%.

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)
£		£	£
2,312,200	Children and Education	2,292,300	2,292,300
	Environment and Community Safety	291,500	Nil
2,926,500	Health and Social Care	2,152,500	2,128,700
292,100	PRED		
650,000	Other Expenditure	650,000	650,000

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)
£		£	£
208,600	Commercial Port	870,400	500,000
	Traffic & Transportation	141,500	Nil
450,300	Asset Management Revenue Account	1,433,500	1,433,500

5 Quarter 2 Significant Budget Variations – Forecast Outturn 2015/16

5.1 Children and Education – Overspend £2,292,300 (or 7.4%)

The cost of Children and Education Services is forecast to be £2,292,300 higher than budgeted.

The key variances are:

- Education Improvement is forecasting an underspend of £203,200 as a result of posts being held vacant pending a service review.
- Inclusion Services is forecast to overspend by £413,800. Of this, home to school and college transport is forecasting an overspend of £206,000 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. In addition the Psychology service is experiencing difficulty in recovering sufficient income to meet staffing costs.
- Children's Social Care is forecasting an overspend of £2,046,700.
 - Assessment and Intervention is forecast to overspend by £186,000 due to:
 - changes in the Council's parking charging policy, implemented in 2014/15. This has resulted in additional staff parking costs being charged to the service; whilst some opportunities to reduce this have been taken, a pressure of £130,000 remains. Opportunities for further changes in working practices and provision of parking support are currently being explored for further reduction opportunities.
 - Expenditure incurred under Section 17 of the Children's Act in support of needs that also avoid care arrangements is also in excess of budget provision but in line with previous years, is expected to overspend by around £76,000.
 - Current vacancy levels indicate that staffing costs will be £20,000 lower than budgeted.
 - Looked After Children is forecasting an overspend of £1,682,000. The reason for the overspend is largely related to higher than budgeted numbers of Looked After Children.
 - Whilst the continuing review of placements and placement plans has produced a reduction in external residential numbers in the first part of this year, 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 (£965,000).
 - In addition staffing costs are currently projected to exceed the budget provision by around £318,000, 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. The impact of this announcement is currently being assessed.

- A further £166,000 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 £198,000. Of this, £97,000 relates to a reduction in budget arising from an anticipated improvement in service absence management. A further £61,000 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.
- Youth Support Activities are forecast to underspend by £20,000: This projected underspend is predominantly related to staffing and other savings in the Youth Offending Service (£166,000) which have been offset by the spending requirements on care leavers accommodation and allowance payments related to the current numbers of care leavers. At this stage there is also a possibility of an underspend on remand and secure placements, but given the volatility and high cost of such placements the forecast does not incorporate this at the present time.

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

As explained elsewhere on the Cabinet agenda, the Children and Education Portfolio is reporting an underlying annual budget deficit of £2.7m. As a result of this forecast overspending an ongoing process of budget review has been implemented.

Recommended proposals to mitigate the in year forecast overspend and to balance future year's budget positions are contained elsewhere on the Cabinet agenda.

5.2 Environment and Community Safety – Overspend £291,500 (or 1.9%) (No variance after transfer from Portfolio Reserve)

The Portfolio is currently forecasting an overspend of £291,500.

The Waste Disposal service is forecast to overspend by £391,300 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 (£210,300) is also now expected due to reduced market prices arising from a fall in world demand.

Clean City is forecasting an overspend of £106,700. 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 and Community Safety Strategy & Partnership (£85,600) as a result of posts being held vacant in anticipation of future savings requirements, salary charges to major sea defence capital schemes (£40,500) and reduced spending on Coastal Partnership (£63,000) primarily as a result of surplus funds being returned to the partner authorities in 2015/16.

5.3 Health and Social Care – Overspend £2,152,500 (or 5.3%) (£2,128,700 Overspend after transfer from Portfolio Reserve)

The cost of Health & Social Care is forecast to be £2,152,500 higher than budgeted.

Overspending has arisen in the following areas:

- 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 £1,671,300.
- Learning Disability Support is forecasting an overspend of £901,500 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 £286,600

These overspends are offset by underspending elsewhere totalling £706,900 primarily as a result of increased funding from the Better Care Fund.

As explained elsewhere on the Cabinet agenda, the Health and Social Care Portfolio is reporting an underlying annual budget deficit of £2.4m. As a result of this forecast overspending an ongoing process of budget review has been implemented.

Recommended proposals to mitigate the in year forecast overspend and to balance future year's budget positions are contained elsewhere on the Cabinet agenda.

5.4 Other Expenditure – Overspend £650,000 (or 4.2%)

MMD trading results are not improving as quickly as originally expected, although the overall financial position relating to MMD activities continues to exceed the breakeven position.

5.5 PRED (Commercial Port) - Underspend £870,400 (or 19.2%) (No variance after transfer to Portfolio Reserve)

Overall net income from the Port is forecast to be £870,400 above target income.

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 Operational Employee, security and berthing costs.

This is offset by higher Management and General Expenses as a result of higher pilotage costs, the provision of consultant advice to mitigate risk attached to an IT project and lower staff charges to capital projects as a result of slippage.

5.6 Traffic & Transportation – Underspend £141,500 (or 0.9%) (No variance after transfer to Portfolio Reserve)

The cost of Traffic and Transportation is forecast to be £141,500 lower than budgeted primarily as a result of delays in the recruitment into vacant posts and posts being held vacant in anticipation of future savings requirements.

5.7 Governance and Audit Committee – Underspend £169,300 (or 43.7%) (No variance after transfer to Portfolio Reserve)

The principle reason for the forecast underspend is higher income than budgeted of £134,000 within the Registrars Service due to increased income generated from new initiatives and higher demand for existing services.

5.8 Asset Management Revenue Account – Underspend £1,433,500 (or 6.0%)

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.

The forecast underspend relates to:

Increased interest earned due to higher cash balances than originally expected, higher investment returns arising from an active shift in the portfolio towards both higher yielding and longer term investments and a reduced level of contingency to guard against interest rate fluctuations.

The amount the Council is required to set aside to repay debt is lower than originally budgeted due to a lower level of capital expenditure being financed from borrowing in 2014/15 than originally anticipated and a revised Minimum Revenue Provision policy which was approved by City Council on 10th November 2015.

6 Other Minor Budget Variations – Forecast Outturn 2015/16

6.1 Culture, Leisure & Sport – Minor Overspend £26,100 (0.4%) (no variance after transfer from Portfolio Reserve)

6.2 Housing – No variance

6.3 Leader – Minor Overspend £25,500 (or 11.8%) (£19,300 overspend after transfer from Portfolio Reserve)

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 PRED - Underspend £77,600 (or 3.7%) (No variance after transfer to Portfolio Reserve)

Small forecast underspend primarily as a result of fluctuations in income across the portfolio.

6.5 Resources – Underspend £16,500 (or 0.1%) (No variance after transfer to Portfolio Reserves)

6.6 Licensing Committee – No variance

6.7 Levies – Minor underspend £33,500 (3.7%)

6.8 Insurance – No Forecast Variance

7. **Transfers From/To Portfolio Specific Reserves**

7.1 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

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

Portfolio/Committee Reserve	Balance Brought Forward £	Approved Releases 2015/16 £	Forecast Under/ (Over) Spending £	Balance Carried Forward £
Children & Education	42,000	(42,000)		0
Culture, Leisure & Sport	409,800		(26,100)	383,700
Environment & Community Safety	1,241,300	(98,500)	(291,500)	851,300
Health & Social Care	730,700	(706,900)	(23,800)	0
Housing	541,700		(300)	541,400
Leader	6,900	(700)	(6,200)	0
PRED	919,400		77,600	997,000
Port	879,900		370,400	1,250,300
Resources	1,397,600	(573,700)	16,500	840,400
Traffic & Transportation Licensing	32,700		141,500	174,200
	0			0
Governance, Audit & Standards	255,300	(30,000)	169,300	394,600
Total	6,457,300	(1,451,800)	427,400	5,432,900

8. Conclusion - Overall Finance & Performance Summary

- 8.1 The overall forecast outturn for the City Council in 2015/16 as at the end of September 2015 is forecast to be £172,251,400. This is an overall overspend of £3,123,300 against the Adjusted Budget and represents a variance of 1.8%.
- 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 “RED” since the forecast outturn is higher than budget. The scale of some Portfolio overspends being reported at the Quarter 2 stage indicates that some services are experiencing some degree of financial stress.
- 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 overspend is of an ongoing nature representing an underlying deficit. For both Children & Education and Health & Social Care Portfolios, proposals to remedy these underlying deficits have been formulated and are contained elsewhere on this agenda.
- 8.5 In terms of the overall budget position for 2015/16, the Council has set aside funding within the Contingency Provision to guard against potential overspending. So, whilst the forecast overspend of £3.1m in the current year can be mitigated to a large extent, this underlying deficit will need to be addressed in 2016/17.

- 8.6 Where a Portfolio is presently forecasting a net overspend in accordance with current Council policy, any overspending in 2015/16 which cannot be met by transfer from the Portfolio Specific Reserve 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.
- 8.7 Based on the Budget (as adjusted) of £169,128,100 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>Less:</u>	
Forecast Overspend 2015/16	(3.123)
Planned Contribution from General Reserves 2015/16	(0.718)
<u>Add:</u>	
Contingency Provision to guard against overspending	4.134
Forecast General Reserves carried forward into 2016/17	15.157

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

- 8.8 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.

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

Director of Finance & Information Service (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 2015/16 & Medium Term Budget Forecast 2016/17 to 2018/19	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 3rd December, 2015

Signed:

Approved / Approved as amended / Deferred / Rejected by the City Council on 8th December, 2015

Signed:

**FINANCIAL & SERVICE
PERFORMANCE**

**QUARTER 2
2015/16**

INFORMATION PACK