

Decision maker: Cabinet 8th December 2016
City Council 13th December 2016

Subject: Revenue Budget Monitoring 2016/17 (2nd Quarter) to end September 2016

Report by: Director of Finance & Information Service

Wards affected: All

Key decision (over £250k):

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 2016/17 in accordance with the proposals set out in the "Portsmouth City Council - Budget & Council Tax 2016/17 & Medium Term Budget Forecast 2017/18 to 2019/20" report approved by the City Council on the 9th February 2016.

2. Recommendations

- 2.1 It is recommended that:

- (i) The forecast outturn position for 2016/17 be noted:
- (a) An overspend of £418,600 before further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve
 - (b) An overspend of £33,300 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 2017/18 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 2017/18 Portfolio cash limit will be managed to avoid further overspending during 2017/18.

3. Background

- 3.1 A Budget for 2016/17 of £157,992,700 was approved by City Council on the 9th February 2016. This level of spending enabled a contribution to General Reserves of £1.43m since in year income exceeds in year spending.

3.2 Since the 9th February City Council meeting, the Council has been allocated additional one off non ring-fenced grants totalling £105,000 in 2015/16 and £214,700 in 2016/17. In order to achieve the government's priorities in these areas, service budgets have been adjusted as appropriate. In addition, the adjusted budget includes £42,100 grant income relating to additional Local Taxation Administration Subsidy notified in May 2016.

3.3 In summary, changes to the budget as approved on 9th February 2016 are as follows:

	£
Budget Approved 9 th February 2016	157,992,700
Special Education Needs & Disability (SEND)	154,500
Early Implementer Innovator Grant	105,000
Individual Electoral Registration	60,200
Adjusted 2015/16 Budget	158,312,400

3.4 Once the above budget changes are taken into account, the Budget (as adjusted) for 2016/17 has increased to £158,312,400. After the additional non ring fenced grant funding is taken into account this results in an overall contribution to General Reserves of £1.36m for 2016/17 (i.e. assuming no overall budget variance).

3.5 This is the second quarter monitoring report of 2016/17 and reports on the forecast 2016/17 outturn as at the end of September 2016. The forecasts summarised in this report are made on the basis that management action to address any forecast overspends are only brought in when that action has been formulated into a plan and there is a high degree of certainty that it will be achieved.

3.6 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 9th February 2016. The format presented at Appendix A has been amended to aid understandability for monitoring purposes by excluding all non cash items which have a neutral effect on the City Council's budget such as Capital Charges. In addition to this, Levies and Insurances are shown in total and have therefore been separated from Portfolios to also provide greater clarity for monitoring purposes.

4 Forecast Outturn 2016/17 – As at end September 2016

4.1 At the second quarter stage, the revenue outturn for 2016/17 after further forecast transfers from/to Portfolio Specific Reserves (Underspends are retained by right) is forecast to be overspent by £33,300 representing an overall budget variance of 0.0%.

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)
£		£	£
450,800	Children's Social Care	654,700	619,700
	Environment & Community Safety	213,100	Nil
2,428,200	Health & Social Care	1,714,300	1,274,300

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)
£		£	£
	Housing	124,100	Nil
	Port	656,300	625,000
	Resources	262,800	22,000
537,300	Asset Management Revenue Account	540,000	540,000
750,000	Contingency	750,000	750,000

5 Quarter 2 Significant Budget Variations – Forecast Outturn 2016/17

5.1 Children's Social Care – Overspend £654,700 (or 2.8%) or After Transfer From Portfolio Reserve £619,700 (2.6%)

The cost of Children's Social Care is forecast to be £654,700 higher than budgeted (as compared to £450,800 at the end of Quarter 1).

The overspend is primarily related to higher costs and numbers of child placements (£631,100) and delays in the delivery of savings plans related to commissioned and

shared services arrangements (£171,500) offset by reduced staffing costs due to staff turnover and the holding of posts vacant (£154,500).

Of the £654,700 forecast overspending in 2016/17, £454,000 relates to an underlying budget deficit within the Portfolio. Proposals to minimise the current underlying deficit and to eliminate any deficit arising in 2017/18 are currently being formulated.

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

5.2 Environment and Community Safety – Overspend £213,100 (1.5%) or After Transfer From Portfolio Reserve Nil

The cost of Environment and Community Safety is forecast to be £213,100 higher than budgeted.

The key variances are:

- Due to a reduction in the quality and volume of non-collected recycling waste coupled with a fall in the prices paid; income from recyclable waste is forecast to be £97,000 lower than originally budgeted. In addition, an increase in the volume of non-recyclable and contaminated recycling has exceeded the capacity of the Council's waste incinerator. This has resulted in an increase in waste being sent to landfill, resulting in a further increase in costs of £396,000.
- Due to delays in the implementation of savings proposals and reduced funding receipts from external sources Community Safety, Strategy and Partnership is forecast to overspend by £98,600.
- These overspends are offset by a number of areas of underspending across the Portfolio, most notably; within Hidden Violence and Abuse which is forecast to underspend by £156,300 due to the holding of posts vacant pending the outcome of service reviews; a £78,100 reimbursement of prior year contributions by PCC to the East Solent Coastal Partnership as a result of additional income generated by the Partnership; and following a review of the waste collection contract savings totalling £71,500 have been identified.

5.3 Health and Social Care – Overspend £1,714,300 (4.1%) or After Transfer From Public Health Reserve £1,274,300 (3.0%)

The cost of Health & Social Care is forecast to be £1,714,300 higher than budgeted (compared to £2,428,200 at the end of Quarter 1).

The key variances are:

- The cost of Public Health is forecast to be £440,000 higher than budgeted. This overspending will be met from the ring fenced Public Health Reserve. The overspend has arisen due to reductions in the Public Health Grant paid by central government notified after the budget was set and the funding of

"change projects" outside of core operations that will improve health outcomes within the City.

- Increased volume of demand for Older Persons Physical Support where domiciliary care packages are required or clients are required to be placed in privately run homes (£468,200).
- Delays in achieving planned cost reductions from providing residents with Learning Disabilities with more independent living accommodation due to shortages of suitable accommodation, a delay in the redesign of the Day Service for residents with Learning Disabilities offset by a reduction in demand for domiciliary care packages for clients with Learning disabilities and vacancies within the social worker teams has resulted in forecast overspend of £213,500.
- A delay in moving clients with Mental Health issues from Residential Homes to more independent Supported Living settings and a delay in the retendering of the Supported Living contract has resulted in a forecast overspend of £353,500
- Delay in the implementation of staffing savings has resulted in a forecast overspend of £233,400

Of the £1,714,300 forecast overspending in 2016/17, £71,000 relates to an underlying budget deficit within Public Health and £600,000 within Adult Social Care. Proposals to minimise the current underlying deficit and to eliminate any deficit arising in 2017/18 are currently being formulated.

5.4 Housing – Underspend £124,100 (or 3.5%) or After Transfer To Portfolio Reserve Nil

The Portfolio is currently forecasting an underspend of £124,100.

The underspending is primarily due to the number of homeless cases being lower than expected during the first half year (£83,900), the holding of posts vacant following staffing reviews (£75,000) offset by higher spending relating to vulnerable people and young adults as a result of a contract price reduction being less than originally anticipated (£44,700).

5.5 Port – Underspend £656,300 (or 11.8%) or After Transfer To Portfolio Reserve 625,000 (or 11.1%)

Overall net income from the Port is forecast to be £656,300 above target income.

The improvement over the target net income is as a result of a new agreement with a major operator within the port.

5.6 Resources – Underspend £262,800 (or 1.4%) or After Transfer To Portfolio Reserve 22,000 (or 0.1%)

The Portfolio is forecasting an underspend of £262,800.

A number of underspendings are forecast across the Portfolio mainly as a result of posts that are being held vacant and additional income arising from project related work chargeable to Public Health and the Housing Revenue Account (£414,600). These underspends are offset by reduced fee income within the AMS Design and Maintenance Service following delays to capital schemes as a result of changing client needs and a focus on non fee earning work that will ultimately lead to significant ongoing savings across the Council in the future (£174,800).

5.7 Asset Management Revenue Account – Underspend £540,000 (or 2.3%)

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:

Increased interest earned due to higher cash balances than originally budgeted, primarily as a result of additional borrowing being undertaken to take advantage of exceptionally low interest rates in the lead up to, and immediately after the EU Referendum and capital expenditure planned to be incurred in 2015/16 slipping to 2016/17 (£1,530,200). This additional interest income is offset by higher interest payments as a result of the additional borrowing referred to above (£1,381,600).

The slippage in the capital programme in 2015/16 and appropriations to the Housing Revenue Account has reduced the amount the Council is required to set aside to repay debt in 2016/17 by £407,800.

5.8 Contingency - Planned Release £750,000

As outlined above, Adults and Children's Social Care are presently forecast to overspend by £1,894,000 (after transfers from 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 £750,000.

5.9 All Other Budget Variations – Overspend £169,700 or After Transfers Form/To Portfolio Reserves Overspend – £54,300

All variations are summarised in Appendix A

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

In November 2013 Full Council approved the following changes to the Council's Budget Guidelines and Financial Rules:

- Each Portfolio to retain 100% of any year-end underspending and to be held in an earmarked reserve for the relevant Portfolio
- The Portfolio Holder be responsible for approving any releases from their reserve in consultation with the Section 151 Officer
- That any retained underspend (held in an earmarked reserve) be used in the first instance to cover the following for the relevant portfolio:
 - i. Any overspendings at the year-end
 - ii. Any one-off Budget Pressures experienced by a Portfolio
 - iii. Any on-going Budget Pressures experienced by a Portfolio whilst actions are formulated to permanently mitigate or manage the implications of such on-going budget pressures
 - iv. Any items of a contingent nature that would historically have been funded from the Council's corporate contingency provision
 - v. Spend to Save schemes, unless they are of a scale that is unaffordable by the earmarked reserve (albeit that the earmarked reserve may be used to make a contribution)
- Once there is confidence that the instances i) to v) above can be satisfied, the earmarked reserve may be used for any other development or initiative

The forecast balance of each Portfolio Specific Reserve that will be carried forward into 2017/18 is set out below:

Portfolio/Committee Reserve	Balance Brought Forward £	Approved Transfers 2016/17 £	Forecast Under/ (Over) Spending £	Balance Carried Forward £
Children's Social Care	0	35,000	(35,000)	0
Culture, Leisure & Sport	451,300	130,000	(31,800)	549,500
Education	0	0	0	0
Environment & Community Safety	1,026,700	(252,300)	(213,100)	561,300
Health & Social Care	0	0	0	0
Housing	791,400	(65,000)	124,100	850,500
Leader	41,500	0	0	41,500
PRED	842,500	(530,000)	(21,700)	290,800
Port	897,300	1,072,900	31,300	2,001,500
Resources	933,300	(347,000)	240,800	827,100
Traffic & Transportation	283,100	(100,000)	(46,400)	136,700
Licensing	110,700	0	0	110,700
Governance, Audit & Standards	372,900	200	6,500	379,600
Total	5,750,700	(56,200)	54,700	5,749,200

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

7. Conclusion - Overall Finance & Performance Summary

- 7.1 The overall forecast outturn for the City Council in 2016/17 as at the end of September 2016 is forecast to be £158,345,700. This is an overall overspend of £33,300 against the Amended Budget and represents a variance of 0.0%.
- 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 close to 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 2016/17. Of the £2.4m forecast overspending (before transfers from reserves) relating to these areas, £1.1m is estimated to be ongoing and therefore represents their combined underlying deficits. This is a significant improvement in the underlying stability of these budgets compared to previous years and is expected to be manageable over time if the savings plans currently being prepared are successfully implemented. Consequently, it is recommended that Directors continue to work with the relevant portfolio holder to consider measures to significantly reduce or eliminate the adverse budget position presently being forecast by these Portfolios, and any necessary decisions presented to a future meeting of the relevant portfolio.

- 7.5 In terms of the overall budget position for 2016/17, the Council has set aside funding within the Contingency Provision to guard against potential overspending. So, whilst the forecast overspend of £33,300 in the current year can be mitigated to a large extent, the underlying deficit will need to be addressed in 2017/18.
- 7.6 Where a Portfolio is presently forecasting a net overspend in accordance with current Council policy, any overspending in 2016/17 which cannot be met by transfer from the Portfolio Specific Reserve will be deducted from cash limits in 2017/18 and therefore the appropriate Directors in consultation with Portfolio Holders should prepare an action plan outlining how their 2016/17 forecast outturn or 2017/18 budget might be reduced to alleviate the adverse variances currently being forecast.
- 7.7 Based on the Budget (as adjusted) of £158,312,400 the Council will remain within its minimum level of General Reserves for 2016/17 of £7.0m as illustrated below:

	<u>£m</u>
General Reserves brought forward @ 1/4/2016	16.411
<u>Less:</u> Forecast Overspend 2016/17	(0.033)
<u>Add:</u> Planned Contribution to General Reserves 2016/17	1.363
Forecast General Reserves carried forward into 2017/18	17.741

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

8. City Solicitor's Comments

- 9.1 The City Solicitor is satisfied that it is within the Council's powers to approve the recommendations as set out.

9. Equalities Impact Assessment

- 10.1 This report does not require an Equalities Impact Assessment as there are no proposed changes to PCC's services, policies, or procedures included within the recommendations.

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Chris Ward
Director of Finance & Information Service

Background List of Documents –

Section 100D of the Local Government Act 1972

The following documents disclose facts or matters which have been relied upon to a material extent by the author in preparing this report –

Title of Document	Location
Budget & Council Tax 2016/17 & Medium Term Budget Forecast 2017/18 to 2019/20	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 8th December, 2016

Signed:

Approved / Approved as amended / Deferred / Rejected by the City Council on 13th December, 2016

Signed: