

Decision maker: Cabinet 28th September 2017

Subject: Revenue Budget Monitoring 2017/18 (1st Quarter) to end June 2017

Report by: Director of Finance & Information Service

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 first quarter for 2017/18 in accordance with the proposals set out in the "Portsmouth City Council - Budget & Council Tax 2017/18 & Medium Term Budget Forecast 2018/19 to 2020/21" report approved by the City Council on the 9th February 2017.

2. Recommendations

2.1 It is recommended that:

- (i) The forecast outturn position for 2017/18 be noted:
 - (a) An underspend of £1,529,600 before further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve
 - (b) An underspend of £684,600 after further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve.
- (ii) Members note that any actual overspend at year end will in the first instance be deducted from any Portfolio Specific Reserve balance and once depleted then be deducted from the 2018/19 Cash Limit.
- (iii) Directors, in consultation with the appropriate Cabinet Member, consider options that seek to minimise any forecast overspend presently being reported and prepare strategies outlining how any consequent reduction to the 2018/19 Portfolio cash limit will be managed to avoid further overspending during 2018/19.

3. Background

3.1 A Budget for 2017/18 of £161,643,000 was approved by City Council on the 9th February 2017. This level of spending enabled a contribution to General Reserves of £0.58m since in year income exceeds in year spending.

3.2 Since the 9th February City Council meeting, the Council has been allocated additional one off non ring-fenced grants totalling £14,600 in 2017/18, In order to achieve the government’s priorities in these areas, service budgets have been adjusted as appropriate. Following the Spring Budget announcement of 8th March 2017 three year ring fenced funding for Adult Social Care of £3,997,300 in 2017/18, £2,537,700 in 2018/19 and £1,258,200 in 2019/20 has been granted. As the grant is ring fenced the grant income is reported within the Health & Social Care Portfolio along with the associated expenditure and therefore does not affect the Councils overall net budget.

3.3 In summary, changes to the budget as approved on 9th February 2017 are as follows:

	£
Budget Approved 9 th February 2017	161,643,000
Brownfield Sites - New Burdens	14,600
Adjusted 2017/18 Budget	161,657,600

3.4 Once the above budget changes are taken into account, the Budget (as adjusted) for 2017/18 has increased to £161,657,600. After the additional non ring fenced grant funding is taken into account this results in an overall contribution to General Reserves of £0.58m for 2017/18 (i.e. assuming no overall budget variance).

3.5 This is the first quarter monitoring report of 2017/18 and reports on the forecast 2017/18 outturn as at the end of June 2017. The forecasts summarised in this report are made on the basis that management action to address any forecast overspends are only brought in when that action has been formulated into a plan and there is a high degree of certainty that it will be achieved.

3.6 Any variances within Portfolios that relate to windfall costs or windfall savings will be met / taken corporately and not generally considered as part of the overall budget performance of a Portfolio. “Windfall costs” are defined as those costs where the manager has little or no influence or control over such costs and where the size of those costs is high in relation to the overall budget controlled by that manager. “Windfall costs” therefore are ordinarily met corporately from the Council's central contingency. A manager / Cabinet Member however, does have an obligation to minimise the impact of any “windfall cost” from within their areas of responsibility in order to protect the overall Council financial position. Similarly, “windfall savings” are those savings that occur fortuitously without any manager action and all such savings accrue to the corporate centre.

3.7 The Financial summary attached at Appendix A has been prepared in Portfolio format and is similar in presentation, but not the same as, the more recognisable “General Fund Summary” presented as part of the Budget report approved by Council on 9th February 2017. The format presented at Appendix A has been amended to aid understandability for monitoring purposes by excluding all non cash items which have a neutral effect on the City Council’s budget such as Capital Charges. In addition to this, Levies and Insurances are shown in total and have therefore been separated from Portfolios to also provide greater clarity for monitoring purposes.

4 Forecast Outturn 2017/18 – As at end June 2017

4.1 At the first quarter stage, the revenue outturn for 2017/18 after further forecast transfers from/to Portfolio Specific Reserves (Underspends are retained by right) is forecast to be underspent by £684,600 representing an overall budget variance of 0.4%.

4.2 The quarter 1 variance consists of a number of forecast under and overspends.

The most significant overspendings at the quarter 1 stage are:

	Quarter 1 Forecast Variance	Quarter 1 Forecast Variance (After Transfers From Portfolio Reserves)
	£	£
Children's Social Care	2,828,700	2,828,700
Culture, Leisure & Sport	133,000	Nil
Health & Social Care	1,431,000	1,256,000
Traffic & Transportation	125,400	Nil

These are offset by the following significant forecast underspends at the quarter 1 stage:

	Quarter 1 Forecast Variance	Quarter 1 Forecast Variance (After Transfers To Portfolio Reserves)
	£	£
Environment & Community Safety	418,300	Nil
Planning, Regeneration & Economic Development	231,000	320,500
Port	680,600	Nil
Resources	333,500	(16,300)
Treasury Management	2,411,100	2,411,100
Contingency	2,054,000	2,054,000

5 Quarter 1 Significant Budget Variations – Forecast Outturn 2017/18

5.1 Children's Social Care – Overspend £2,828,700 (or 11.9%) or After Transfer From Portfolio Reserve £2,828,700 (11.9%)

The cost of Children's Social Care is forecast to be £2,828,700 higher than budgeted.

The overspend is primarily related to higher costs and numbers of child placements (£3,167,800) offset by reduced staffing costs due to staff turnover and the holding of posts vacant (£403,700).

Of the £2.8m forecast overspending in 2017/18, £2.3m relates to an underlying budget deficit within the Portfolio. Proposals to minimise the current underlying deficit were considered by Cabinet on 29th June 2017 and an increase in social work capacity was approved. Proposals to eliminate any deficit arising in 2018/19 are currently being developed in conjunction with the budget setting process.

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

5.2 Culture Leisure & Sport – Overspend £133,000 (or 2.5%) or After Transfer From Portfolio Reserve Nil

The cost of Culture, Leisure & Sport is forecast to be £133,000 higher than budgeted.

The overspend is primarily a result of the net income loss following the temporary closure of the D-Day museum while refurbishment works are undertaken.

5.3 Health and Social Care – Overspend £1,431,000 (3.4%) or After Transfer From Public Health Reserve £1,256,000 (2.9%)

The cost of Health and Social Care is forecast to be £1,431,000 higher than budgeted.

The key variances are:

- The cost of Public Health is forecast to be £175,000 higher than budgeted. The overspend has arisen due to the funding of "change projects" outside of core operations that will improve health outcomes within the City. This overspending will be met from the ring fenced Public Health Reserve.
- Increased demand for Older Persons Physical Disability Support, Learning Disability, Deprivation of Liberty (DoLs) assessments and delays in the moving of clients with mental issues from residential homes to more independent settings (£1,256,000).

Of the £1,431,000 forecast overspending in 2017/18, £1.2m relates to an underlying budget deficit within Adult Social Care. Proposals to minimise the current underlying deficit and to eliminate any deficit arising in 2018/19 are currently being formulated.

5.4 Traffic and Transportation – Overspend £125,400 (0.9%) or After Transfer From Portfolio Reserve Nil

The cost of Traffic and Transportation is forecast to be £125,400 higher than budgeted.

The forecast overspend is as a result of lower net fee income due to posts being vacant where income generated by the post holder would have been greater than the cost of employment, coupled with delays in the implementation of planned budget savings.

5.5 Environment and Community Safety – Underspend £418,300 (3.0%) or After Transfer To Portfolio Reserve Nil

The cost of Environment and Community Safety is forecast to be £418,300 lower than budgeted.

Following a comprehensive service review within the Refuse Collection Service forecast savings totalling £97,100 have been identified.

A reduction in Waste Disposal costs totalling £228,000 is currently forecast as a result of the part year effect of an amendment to the operator's contract and the final settlement of the 2016/17 profit share in respect of the Materials Recycling Facility (MRF).

Staff vacancies within Hidden Harm are expected to give rise to underspending of £70,800 within the service.

5.6 Planning, Regeneration and Economic Development – Underspend £231,000 (3.0%) or After Transfer From Portfolio Reserve and Windfall Items £320,500 underspend (4.2%)

The cost of Planning, Regeneration and Economic Development is forecast to be £320,500 lower than budgeted.

Following the revaluation of all non domestic properties in 2017/18, the National Non Domestic Rate charge relating to the Civic Offices has increased by £137,700 compared 2016/17. This increase is offset by windfall rental income of £416,600 arising from the Commercial Property Portfolio.

5.7 Port – Underspend £680,600 (8.8%) or After Transfer To Portfolio Reserve Nil

Overall net income from the Port is forecast to be £680,600 above target income.

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

5.8 Resources – Underspend £333,500 (1.8%) or After windfall items and Transfer To Portfolio Reserve £16,300 (0.1%) overspend

The cost of Resources is forecast to be £333,500 lower than budgeted.

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

5.9 Treasury Management – Underspend £2,411,100 (or 10.1%)

This budget funds all of the costs of servicing the City Council's long term debt portfolio that has been undertaken to fund capital expenditure. It is also the budget that receives all of the income in respect of the investment of the City Council's surplus cash flows. As a consequence, it is potentially a very volatile budget particularly in the current economic climate and is extremely susceptible to both changes in interest rates as well as changes in the Council's total cash inflows and outflows.

The forecast underspend relates to:

The cost of borrowing taken in advance of need, to take advantage of exceptionally low interest rates, has now been applied to finance the recently acquired investment properties and has resulted in an overall lower than anticipated cost of financing those acquisitions and therefore an overall increase in net return (£2,091,200). The expectation that no further long term borrowing will be necessary in the current financial year has resulted in a further reduction in interest payable of £192,500.

In addition, the estimated Minimum Revenue Provision is forecast to be £269,000 lower following an agreement between the City Council and Hampshire County Council to invoke an MRP "holiday" on debt transferred to the City Council by Hampshire County Council upon the City Council becoming a Unitary Council in 1997. However, these reductions are offset by lower interest earned (£121,200) as a result of cash balances being lower than originally expected.

5.10 Contingency - Planned Release £2,054,000

As outlined above, Adults and Children's Social Care are presently forecast to overspend by £4,084,700 (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 £2,054,000.

5.11 All Other Budget Variations – Overspend £80,800 or After Transfers Form/To Portfolio Reserves Nil Variance

All variations are summarised in Appendix A

6. Transfers From/To Portfolio Specific Reserves

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

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

The forecast balance of each Portfolio Specific Reserve that will be carried forward into 2018/19 is set out below:

Portfolio/Committee Reserve	Balance Brought Forward £	Approved Transfers 2017/18 £	Forecast Under/ (Over) Spending £	Balance Carried Forward £
Children's Social Care	83,700	(83,700)	0	0
Culture, Leisure & Sport	547,800	0	(133,000)	414,800
Education	210,700	(73,000)	(59,200)	78,500
Environment & Community Safety	1,504,100	(82,700)	418,300	1,839,700
Health & Social Care	0	0	0	0
Housing	848,300	0	(40,600)	807,700
Leader	46,900	0	19,000	65,900
PRED	134,500	(45,000)	(89,500)	0
Port	2,561,200	625,000	680,600	3,866,800
Resources	1,240,000	(197,300)	349,800	1,392,500
Traffic & Transportation	306,400	(30,500)	(125,400)	150,500
Licensing	138,600	0	0	138,600
Governance, Audit & Standards	367,500	0	0	367,500
Total	7,989,700	112,800	1,020,000	9,122,500

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

7. Conclusion - Overall Finance & Performance Summary

- 7.1 The overall forecast outturn for the City Council in 2017/18 as at the end of June 2017 is forecast to be £160,973,000. This is an overall underspend of £684,600 against the Amended Budget and represents a variance of 0.4%.
- 7.2 The forecast takes account of all known variations at this stage, but only takes account of any remedial action to the extent that there is reasonable certainty that it will be achieved.
- 7.3 The overall financial position is deemed to be “green” since the forecast outturn is lower than budget.
- 7.4 In financial terms, the forecast overspend within the Children's Social Care and Health & Social Care Portfolios represent the greatest concerns in terms of the impact that they have on the overall City Council budget for 2017/18. Of the £4.1m forecast overspending (after transfers from reserves) relating to these areas, £3.5m is estimated to be ongoing and therefore represents their combined underlying deficits. This is a significant deterioration in the underlying stability of these budgets compared to 2016/17. Consequently, it is recommended that Directors continue to work with the relevant portfolio holder to consider measures to significantly reduce or eliminate the adverse budget position presently being forecast by these Portfolios, and any necessary decisions presented to a future meeting of the relevant Portfolio.
- 7.5 In terms of the overall budget position for 2017/18, the Council has set aside funding within the Contingency Provision to guard against potential overspending. So, whilst the forecast of overspending within some portfolios in the current year can be mitigated to a large extent, the underlying deficit will need to be addressed in 2018/19.
- 7.6 Where a Portfolio is presently forecasting a net overspend in accordance with current Council policy, any overspending in 2017/18 which cannot be met by transfer from the Portfolio Specific Reserve will be deducted from cash limits in 2018/19 and therefore the appropriate Directors in consultation with Portfolio Holders should prepare an action plan outlining how their 2017/18 forecast outturn or 2018/19 budget might be reduced to alleviate the adverse variances currently being forecast.
- 7.7 Based on the Budget (as adjusted) of £161,657,600 the Council will remain within its minimum level of General Reserves for 2017/18 of £7.0m as illustrated below:

	£m
General Reserves brought forward @ 1/4/2017	19.256
<u>Less:</u>	
Forecast Underspend 2017/18	0.685
<u>Add:</u>	
Planned Contribution to General Reserves 2017/18	0.584
Forecast General Reserves carried forward into 2018/19	20.525

Levels of General Reserves over the medium term are assumed to remain within the Council approved minimum sum of £7.0m in 2017/18 and future years since any ongoing budget pressures / savings will be reflected in future years' savings targets.

8. City Solicitor’s Comments

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

9. Equalities Impact Assessment

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

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Chris Ward
Director of Finance & Information Service

Background List of Documents –

Section 100D of the Local Government Act 1972

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

Title of Document	Location
Budget & Council Tax 2017/18 & Medium Term Budget Forecast 2018/19 to 2020/21	Office of Deputy Director of Finance
Electronic Budget Monitoring Files	Financial Services Local Area Network

The recommendations set out above were:

Approved / Approved as amended / Deferred / Rejected by the Cabinet on 28th September, 2017

Signed: