

Decision maker: Cabinet 16th March 2018

Subject: Revenue Budget Monitoring 2017/18 (3rd Quarter) to end December 2017

Report by: Director of Finance & Information Technology

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 third quarter for 2017/18 in accordance with the proposals set out in the "Portsmouth City Council - Budget & Council Tax 2018/19 & Medium Term Budget Forecast 2019/20 to 2021/22" report approved by the City Council on the 13th February 2018.

2. Recommendations

- 2.1 It is recommended that:

- (i) The forecast outturn position for 2017/18 be noted:
- (a) An underspend of £1,257,600 before further forecast transfers (from)/to Portfolio Specific Reserves & Ring Fenced Public Health Reserve
 - (b) An underspend of £133,300 after further forecast transfers (from)/to Portfolio Specific Reserves & Ring Fenced Public Health Reserve.
- (ii) Members note:
- (a) 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.
 - (b) That on 13th February 2018 City Council approved that any underspending for 2017/18 arising at year-end outside of those made by Portfolio's (currently forecast at £133,300) be transferred to Capital resources.
- (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 The revised budget for 2017/18 of £161,941,000 was approved by City Council on the 13th February 2018. This level of spending enabled a contribution to General Reserves of £1.39m since in year income exceeds in year spending.
- 3.2 This is the third quarter monitoring report of 2017/18 and reports on the forecast 2017/18 outturn as at the end of December 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.
- 3.3 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.
- 3.4 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 13th February 2018. 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 December 2017

- 4.1 At the third 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 £133,300 representing an overall budget variance of 0.1%.
- 4.2 The quarter 3 variance consists of a number of forecast under and overspends.

The most significant overspendings at the quarter 3 stage are:

Quarter 1 Forecast Variance	Quarter 2 Forecast Variance		Quarter 3 Forecast Variance	Quarter 3 Forecast Variance (After Transfers From Portfolio Reserves)
£	£		£	£
2,828,700	2,366,700	Children's Social Care	2,963,500	2,963,500
133,000		Culture Leisure & Sport		
1,431,000	758,100	Health & Social Care	1,559,400	1,701,100
		Housing	111,300	Nil
125,400		Traffic & Transportation	370,200	252,700

These are offset by the following significant forecast underspends at the quarter 3 stage:

Quarter 1 Forecast Variance	Quarter 2 Forecast Variance		Quarter 3 Forecast Variance	Quarter 3 Forecast Variance (After Transfers To Portfolio Reserves)
£	£		£	£
418,300	388,400	Environment & Community Safety	724,800	Nil
231,000	476,100	Planning, Regeneration & Economic Development	441,800	443,600
680,600	475,000	Port		
333,500	529,500	Resources	624,900	416,500
2,411,100	2,508,600	Treasury Management	200,000	200,000
2,054,000	1,254,000	Other Miscellaneous Expenditure	3,990,500	3,990,500

5 Quarter 3 Significant Budget Variations – Forecast Outturn 2017/18

5.1 Children's Social Care – Overspend £2,963,500 (or 12.3%) or After Transfer From Portfolio Reserve £2,963,500 (12.3%)

The cost of Children's Social Care is forecast to be £2,963,500 higher than budgeted.

The overspend is primarily related to higher costs and numbers of child placements (£3,383,600) offset by reduced staffing costs due to staff turnover and the holding of posts vacant (£420,100).

Expenditure on looked after children in 2017/18 is also significantly affected by the increase in the number of unaccompanied asylum seeking children under the age of 18 (UAMs) who have arrived in Portsmouth. This cost pressure, across the service, is

estimated to be approximately £1m. The council has lobbied the Government to strengthen the National Transfer Scheme through which responsibility for UAMs is shared across local authorities. Currently the scheme is voluntary and is not working effectively to achieve its aim of a fairer distribution of costs between authorities.

Of the £3.0m forecast overspending in 2017/18, £1.8m relates to an underlying budget deficit within the Portfolio and £1.2m relates to costs not expected to re-occur in 2018/19 (These non-recurring costs include: unanticipated secure accommodation requirements (£0.3m) and child placements that have ended during 2017/18 or will end on an age related basis during 2018/19).

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 continue to be developed, including increasing expert specialist mental health advice available to social workers and foster carers to help them meet the needs of young people, and the creation of two new services: the Prevention and Early Years Help service which is intended to reduce demand for statutory services and more recently the Edge of Care service which is designed to avoid admission of children and young people, particularly teenagers, into care.

5.2 Health and Social Care – Overspend £1,559,400 (3.6%) or After Transfer to Public Health Reserve £1,701,100 (4.0%)

The cost of Health and Social Care is forecast to be £1,559,400 higher than budgeted.

The key variances are:

- The cost of Public Health is forecast to be £141,700 lower than budgeted as a result of staff vacancies. This underspending will be transferred to the ring fenced Public Health Reserve.
- Increased demand for Learning Disability, Deprivation of Liberty (DoLs) assessments and delays in the moving of clients with mental issues from residential homes to more independent settings (£871,200).
- Increased staffing/agency costs, reduced client contributions and the non-achievement of planned savings within In House Residential Day Care (£829,900).

Whilst an overspend of £1,701,100 is forecast in 2017/18, this is after adjusting for cost reductions that will not arise in future years. As a consequence the underlying deficit within Adult Social Care is forecast to have increased from £1.8m as at quarter 2 to £2.8m as at quarter 3. As a result of these unfunded cost pressures within Adult Social Care, City Council at its meeting on 13th February 2018 resolved to take advantage of the flexibility offered by Government to implement a "Social Care Precept". In accordance with the conditions of that flexibility, the full amount of the associated sum generated of £1.07m will be passported directly to Adult Social Care. As a consequence, the underlying 2018/19 Adult Social Care deficit is currently forecast to be £1.7m. Proposals to minimise the current and forecast underlying deficits continue to be formulated.

5.3 Housing – Overspend £111,300 (4.4%) or After Transfer From Portfolio Reserve Nil

The cost of Housing is forecast to be £111,300 higher than budgeted.

The cost of providing bed and breakfast accommodation is expected to exceed the budget by £167,000 as a result of increased demand by families for homeless accommodation.

This overspending is mitigated by minor underspending elsewhere within the Portfolio.

5.4 Traffic and Transportation – Overspend £370,200 (2.3%) or After Transfer From Portfolio Reserves £252,700 (1.6%)

The cost of Traffic & Transportation is forecast to be £370,200 higher than budgeted.

This overspending is due to increased National Non Domestic Rate Charges at the Hard Bus Interchange and Off Street Carparks (£111,800) coupled with a delay in the installation of LED street lighting which will lead to significant savings in energy costs once completed (£252,700). The additional spending on energy costs will be met by a release from Contingency in 2017/18.

5.5 Environment and Community Safety – Underspend £724,800 (5.1%) or After Transfer To Portfolio Reserve Nil

The cost of Environment and Community Safety is forecast to be £724,800 lower than budgeted.

Following a comprehensive service review within the Refuse Collection Service forecast savings totalling £156,100 have been identified.

A reduction in Waste Disposal costs totalling £267,800 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).

Sea Defences & Drainage related expenditure is expected to be £209,600 below budget primarily due to lower levels of reactive repairs being required a result of largely favourable winter weather conditions. Any underspending at year end will be transferred to a Specific Flood Measures Reserve.

In addition lower spending within Hidden Harm (£74,900) as a result of staff vacancies offset by higher staffing costs within Emergency Planning (£14,300) has arisen.

5.6 Planning, Regeneration and Economic Development – Underspend £441,800 (4.6%) or After Transfer From Portfolio Reserve and Windfall Items £443,600 underspend (4.6%)

The cost of Planning, Regeneration and Economic Development is forecast to be £441,800 lower than budgeted.

The underspending is primarily as a result of windfall rental income of £445,000 arising from the Commercial Property Portfolio.

5.7 Resources – Underspend £624,900 (3.4%) or After windfall items and Transfer To Portfolio Reserve £416,500 (2.3%) underspend

The cost of Resources is forecast to be £624,900 lower than budgeted.

Underspending of 402,700 is due to the difference between Housing Benefit Rent Allowances/Rebates paid to claimants and the Housing Benefit Subsidy reimbursed by Government. The total value of Housing Benefit paid to claimants is in excess of £110m and minor fluctuations in the factors affecting Housing Benefit can result in material variances. As a result this variance is treated as windfall (see paragraph 3.3).

Further underspending of £222,200 has also arisen, 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.

5.8 Treasury Management – Underspend £200,000 (or 1.0%)

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.

5.9 Other Miscellaneous Expenditure - Underspend £3,990,500

Contingency - Planned Release £3,579,700

As outlined above, Adults and Children's Social Care are presently forecast to overspend by £4,664,600 (after transfers to 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 has 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 £3,327,000. In addition £252,700 is planned to be released from Contingency due to increased street lighting energy costs as a result of a delay in the LED Street Lighting project which commenced during 2017/18.

Other Miscellaneous Expenditure is forecast to be £410,800 less than budgeted primarily as a result of early implementation of 2018/19 savings, costs expected to require funding in 2017/18 not needing funding until 2018/19 and a reduction in the provision for inflation.

5.10 All Other Budget Variations – Underspend £162,500 or After Transfers From/To Portfolio Reserves Nil

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	(39,000)	58,900	567,700
Education	210,700	(126,300)	61,300	145,700
Environment & Community Safety	1,504,100	(232,100)	724,800	1,996,800
Health & Social Care	0	0	0	0
Housing	848,300	0	(111,300)	737,000
Leader	46,900	0	0	46,900
PRED	134,500	(24,700)	(1,800)	108,000
Port	2,561,200	665,400	49,100	3,275,700
Resources	1,240,000	(307,400)	208,400	1,141,000
Traffic & Transportation Licensing	306,400	(59,800)	0	246,600
Governance, Audit & Standards	138,600	0	5,500	144,100
	367,500	0	(12,300)	355,200
Total	7,989,700	(207,600)	982,600	8,764,700

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 December 2017 is forecast to be £161,807,700. This is an overall underspend of £133,300 against the Revised Budget and represents a variance of 0.1%.
- 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 combined forecast overspend within the Children's Social Care and Health & Social Care Portfolios of £4.7m represents the greatest concerns in terms of the impact that they have on the overall City Council budget for 2017/18. Of the £4.7m forecast overspending (after transfers from reserves) relating to these areas in 2017/18, £4.6m is forecast to continue into 2018/19 and future years. As a result of the unfunded cost pressures within Adult Social Care, City Council at its meeting on 13th February 2018 resolved to take advantage of the flexibility offered by Government to implement a "Social Care Precept". In accordance with the conditions of that flexibility, the full amount of the associated sum generated of £1.07m will be passported directly to Adult Social Care. Taking the "Social Care Precept" into account the combined underlying ongoing deficit from 2018/19 within the Children's Social Care and Health & Social Care Portfolios is forecast to be £3.5m.

- 7.5 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.
- 7.6 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.
- 7.7 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.
- 7.8 Based on the Revised Budget of £161,941,000 the Council will remain within its minimum level of General Reserves for 2017/18 of £7.0m as illustrated below:

	<u>£m</u>
General Reserves brought forward @ 1/4/2017	19.256
<u>Add:</u>	
Forecast Underspend 2017/18	0.133
<u>Add:</u>	
Planned Contribution to General Reserves 2017/18	1.389
Forecast General Reserves carried forward into 2018/19	20.778

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 £8.0m in 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 2018/19 & Medium Term Budget Forecast 2019/20 to 2021/22	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 16th March, 2018

Signed: