

Title of meeting: Cabinet

Date of meeting: 4th December 2018

Subject: Revenue Budget Monitoring 2018/19 (2nd Quarter) to end September 2018

Report by: Director of Finance & Information Technology

Wards affected: All

Key decision: No

Full Council decision: No

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 2018/19 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 2018/19 be noted:
 - (a) An overspend of £5,721,200 before transfers from/(to) Portfolio Reserves
 - (b) An overspend of £4,465,200 after transfers from/(to) Portfolio Reserves
- (ii) Members note that any actual overspend at year end will in the first instance be deducted from any Portfolio Reserve balance and once depleted then be deducted from the 2019/20 Cash Limit.
- (iii) Members note that the overall financial forecast for Quarter 2 for the whole Council is a serious cause for concern with significant forecast overspends in the highest spending areas of Children's and Adult Social Care which in aggregate amount to £8,610,400.
- (iv) Members note that the underlying structural deficit which is forecast to continue into future years amounts to £5.5m. The extent to which this cannot

be remedied in the medium term will add to the Council's current forecast £4m per annum savings requirements for future years.

- (v) Members note that some additional funding from Government has recently been announced for Adults in 2018/19 and for both Adults and Children's Social Care in 2019/20 to help alleviate financial pressures nationally across the system amounting to £890,400 in 2018/19 and £2,411,500 in 2019/20, but it is not yet clear if this funding will continue beyond 2019/20 and therefore whether it can be used on an ongoing basis to part remedy the combined underlying budget deficits of £5.5m.
- (vi) 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 2019/20 Portfolio cash limit will be managed to avoid further overspending during 2019/20.

3. Background

- 3.1 A Budget for 2018/19 of £164,776,000 was approved by City Council on the 13th February 2018. This level of spending enabled a contribution to General Reserves of £0.30m since in year income exceeds in year spending.
- 3.2 Since the 13th February City Council meeting, the Council has been allocated additional one off non ring-fenced grants totalling £1,505,000 in 2018/19, In order to achieve the government's priorities in these areas, service budgets have been adjusted as appropriate.
- 3.3 Whilst outside of the half year reporting period covered by this report, the Council has recently been notified of an additional allocation of £0.9m to help manage winter pressures on Adult Social Care and wider health system.
- 3.4 In summary, changes to the budget as approved on 13th February 2018 are as follows:

	£
Budget Approved 13 th February 2018	164,776,000
Adult Social Care Support Grant	556,500
Extended Personal Advisor Duty - New Burden	12,700
Individual Electoral Registration	45,800
Adult Social Care Winter Pressures	890,000

Adjusted 2018/19 Budget **166,281,000**

- 3.5 Once the above budget changes are taken into account, the Budget (as adjusted) for 2018/19 has increased to £166,281,000. After the additional non ring fenced grant funding is taken into account this results in an overall contribution to General Reserves of £0.32m for 2018/19 (i.e. assuming no overall budget variance).

- 3.6 This is the second quarter monitoring report of 2018/19 and reports on the forecast 2018/19 outturn as at the end of September 2018. 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.
- 3.7 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.
- 3.8 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 2018/19 – As at end September 2018

- 4.1 At the second quarter stage, the revenue outturn for 2018/19 after transfers from/to Portfolio Reserves (Underspends are retained by right) is forecast to be overspent by £4,465,200 representing an overall budget variance of 2.7%.
- 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)
£		£	£
5,078,000	Children & Families	5,607,400	5,607,400
413,800	Education	247,700	23,600
3,084,500	Health, Wellbeing & Social Care	2,970,000	1,700,000
253,400	Housing		
213,400	Port	306,300	Nil
	Traffic & Transportation	376,800	114,800
	MMD Losses	2,981,700	2,981,700

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 From Portfolio Reserves)
£		£	£
294,800	Environment & Community Safety	392,200	Nil
227,000	Planning, Regeneration & Economic Development	114,500	(32,500)
379,700	Resources	440,300	102,900
123,200	Treasury Management	2,855,400	2,855,400
3,036,500	Contingency	3,036,500	3,036,500

5 Quarter 2 Significant Budget Variations – Forecast Outturn 2018/19

5.1 Children & Families – Overspend £5,607,400 (or 22.6%)

The cost of Children's Social Care is forecast to be £5,607,400 higher than budgeted (£3,382,800 in 2017/018).

The overspend is primarily related to higher costs and numbers of Looked After Children (£4,995,700), of which the largest area of overspending relates to children requiring direct placements (£4.17m). In addition, increasing numbers of families with support and accommodation requirements with no recourse to public funds (£147,900), increasing numbers of children with disabilities requiring care packages along with an increase in the complexity of some of these packages (£172,700) and increased staffing requirements within Support Activities, Early Support & Children Centres and Edge of Care (£291,100) has further contributed to the forecast overspending in 2018/19.

Approximately £1.3m of the £5.6m total Portfolio overspending relates to the difference in the cost of caring for Unaccompanied Asylum Seeking Children and the grant received from the Home Office.

Of the £5.6m forecast overspending in 2018/19, £3.9m relates to an underlying structural budget deficit within the Portfolio which is therefore expected to continue into future years. The Service is currently working with other local authorities across the region, all of which are experiencing cost pressures, to identify joint strategies for cost reductions, particularly in relation to placements. Proposals to eliminate any deficit arising in the medium term are currently being developed in conjunction with the budget setting process.

In context, the number of looked after children has risen by 133 (42%) in Portsmouth over the last 5 years to a level comparable with our statistical neighbours and it is this increase in numbers that is the primary driver of the cost increase.

Should it not prove realistic to close the underlying budget deficit over the medium term, given the scale of the deficit it will be necessary to increase the Council's savings requirements upwards for 2020/21 from £4m per annum by any identified shortfall.

5.2 Education – Overspend £247,700 (or 4.6%) or After Transfer From Portfolio Reserve £23,600 (or 0.4%)

The cost of Education is forecast to be £247,700 higher than budgeted.

The principle reason for the overspend is increased spending within Inclusion Support (£346,800) of which £377,000 relates to home to school transport costs being higher than budgeted offset by slightly lower costs within the Sensory Impairment service. This forecast overspending is offset elsewhere within the Portfolio due to lower staffing costs as a result of staff vacancies.

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

5.3 Health, Wellbeing and Social Care – Overspend £2,970,000 (or 7.5%) or After Transfers To Public Health Reserve and From Adult Social Care Transformation Reserve £1,700,000 (or 4.2%)

The cost of Health, Wellbeing and Social Care is forecast to be £2,970,000 higher than budgeted (£1,562,000 in 2017/18).

The key variances are:

- The cost of Public Health is forecast to be £33,000 lower than budgeted. This underspending will be transferred to the ring fenced Public Health Reserve to meet spending in future years.
- Higher cost of Learning Disability Services as a result of sleep in rate increases, higher numbers of clients transitioning into adult social care services, increasing complexity of need combined with a growth in demand and average cost of day care services has resulted in a forecast overspend of £1,871,500. In addition, costs associated with Older Persons/Physical Disability in House Residential and Day Care is forecasting an overspend of £1,785,200. This overspend is primarily as a consequence of a significant increase in staffing necessary to ensure safe high quality care following a review of the dependency of residents within units. As a result of a reduction in funding, from the Better Care Fund, Management and Contracts is also forecast to overspend by £239,300.

After the transfer of ring fenced Public Health underspending (£33,000) to the Public Health Reserve, the Portfolio is forecasting an overspend of £3,003,000 in 2018/19. £1,303,000 of this overspending will be met by a transfer from the Adult Social Care Transformation Reserve. The underlying deficit expected to continue into 2019/20 is currently forecast to be £1.6m.

The Government has recently announced an award of additional funding to support the costs of winter pressures facing the health system amounting to £890,000. Whilst this award was made after the Quarter 2 reporting period ended, the budget for Adult Social Care as reported has been adjusted to include this additional grant funding. This has provided some short term financial relief to offset the current overspend position in part.

In order to provide a social care service that meets the needs of Portsmouth residents, meets the Council's statutory duties contained within relevant legislation and manages the demands of increasing client needs and costs, Adult Social Care are proposing to implement a number of strategic shifts between 2018/19 and 2020/21, these include:

- Making better use of 'enabling technology' (whether this is via 'Apps' that can be accessed via a phone, devices in the home that can be connected to the internet, or monitoring systems that demonstrate patterns of daily living) in order to help assess and decide the most appropriate care. Better use of technology may also mean offering advice around technology, its uses and where these can be purchased, or the Council purchasing a technology

solution where there is a duty to meet need. This aims to create a 'technology first' culture within care contacts.

- Having a focus on 'reablement' services that aim to help clients get to a level of independence, rather than 'do for' clients. Ensuring that responses to clients, who need help, are at the right time and in the right place.
- Shaping the options for meeting client needs in Portsmouth - Increasing available options for care needs to be met in an environment where clients have their own 'front door' and maintain their independence with care 'on site' (supported living). By supporting clients in their own homes for longer, this will reduce the need for residential care in the city, increase the number of clients who manage their own services via direct payments and gain greater volunteer/community sector services involvement in meeting need.
- Improving service quality in the care sector, by addressing concerns raised by Care Quality Commission (CQC) and arising from inspections by Portsmouth City Council (PCC); improve service quality in owned and managed residential units as well as more widely within the city; and working with the NHS Portsmouth Clinical Commissioning Group, (PCCG) on our joint quality improvement programme.

By using the strategic approach above, Adult Social Care will work towards addressing the financial deficit and achieving a balanced budget by 2021/2022, using reablement to reduce the length of time people use funded services and further reducing dependence on residential/nursing care by maximising opportunities for supported living. The service is aiming to reduce reliance on domiciliary care by encouraging choice and control in care arrangements, through promoting direct payments and use of personal assistants.

5.4 Port – Overspend £306,300 (or 4.1%) or After Transfer From Portfolio Reserve Nil

Overall net income from the Port is forecast to be £306,300 below target primarily as a result of higher staffing costs.

5.5 Traffic and Transportation – Overspend £376,800 (or 2.4%) or After Transfer From Portfolio Reserves £114,800 (or 0.7%)

The cost of Traffic and Transportation is forecast to be £376,800 higher than budgeted.

The overspend is primarily related to:

- A shortfall in Off Street Parking income compared to budget. Whilst Off Street Parking income is higher than in previous years, income is expected to be £183,400 less than originally budgeted. This income shortfall will be met by a transfer from the On Street Parking Reserve.
- Higher net costs within Transport Policy, Administration, Management & Support and Project Management of £176,900 as a result of lower income

growth arising from the sale of advertising space than originally anticipated (£100,000), lower income from staff charges to Transport related capital schemes (£70,700) and higher employee costs (£14,400).

5.6 MMD Losses - Overspend £2,981,700

MMD is progressing through a transition phase since the loss of its largest customer (Geest - who reluctantly left due to MMD being unable to accommodate their revised scheduling requirements alongside all other existing customer requirements) which is causing the business to experience financial losses whilst it seeks to diversify its client and product handling base. Facilitated by independent consultants, the Council is also nearing the conclusion of an overall strategic review for the site which will seek to determine the best use for the site to maximise the Council's return. That includes options such as invest and continue to operate MMD, Rent the site for warehousing / general cargo, use as a cruise and ferry port. This will be reported to the Council in the new year. It is important to note that, MMD provides income to both the Council for the rent of the site and to the Port for the use of the Quays amounting to £1.1m per annum. In the meantime, the business has continued to market itself to new customers and is in advanced negotiations with 3 parties for additional business. It is anticipated that the business will return to profit within the next 2 years.

5.7 Environment and Community Safety – Underspend £392,200 (or 2.7%) or After Transfer To Portfolio Reserve Nil

The cost of Environment and Community Safety is forecast to be £392,200 lower than budgeted.

A reduction in Waste Collection and Disposal costs totalling £361,100 is currently forecast due to collection costs being £50,000 lower than originally budgeted, a reduction in contractual disposal costs of £176,100 and the final settlement of the 2017/18 profit share in respect of the Materials Recycling Facility (£135,000).

In addition vacant posts within the Hidden Harm team has resulted in a part year saving in staffing costs of £23,700.

5.8 Planning, Regeneration and Economic Development – Underspend £114,500 (or 0.9%) or After Transfer To Portfolio Reserve and Windfall Items £32,500 overspend (or 0.3%)

The cost of Planning, Regeneration and Economic Development is forecast to be £114,500 lower than budgeted.

Property rent reviews and charges for property advice to external clients has resulted in net additional income of £111,900. Of this sum £32,500 relates to a reduction in income, compared to budget, from the National Property Investment Portfolio and will therefore be treated as a windfall item.

5.9 Resources – Underspend £440,300 (or 2.2%) or After windfall items and Transfer To Portfolio Reserve £102,900 (or 0.5%) underspend

The cost of Resources is forecast to be £440,300 lower than budgeted.

The underspend is primarily as a result of vacant posts totalling £334,900, some of which is in preparation for future savings requirements. In addition a reduction in the level of external audit fees (£58,500), an increase in the proportion of Coroners Service costs that are chargeable to Hampshire County Council (£63,000) and additional subsidy paid by Government to meet the cost of Housing Benefit paid to claimants (£140,100) have also arisen. These underspendings are offset by overspending of £85,400 relating to Microsoft software licences, a reduction in the profit share relating to the Spinnaker Tower (£74,400) due to a fall in numbers at the attraction and costs incurred in the undertaking of welfare burials (£15,500).

The total value of Housing Benefits is in excess of £110m and minor fluctuations affecting Housing Benefit can result in material variances within the overall budget. As a consequence the forecast underspending of £140,100 within this area is treated as a windfall saving.

5.10 Treasury Management – Underspend £2,855,400 (or 12.3%)

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.

5.11 Contingency - Planned Release £3,036,500

As outlined above, Adults and Children's Social Care are presently forecast to overspend by £8,610,000 (after transfer to Public Health Reserve). Some of this forecast overspending may be mitigated by action plans currently under development and by a one off transfer in 2018/19 from the Adult Social Care Transformation Reserve of £1,303,000; however it is unlikely that these Portfolio's will be able to contain the remaining £7,307,400 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 £3,036,500.

5.12 All Other Budget Variations – Overspend £70,200 or After Transfers From/To Portfolio Reserves Nil Variance

All variations are summarised in Appendix A

6. Transfers From/To Portfolio Specific Reserves

6.1 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 2019/20 is set out below:

Portfolio/Committee Reserve	Balance Brought Forward £	Approved Transfers 2018/19 £	Forecast Under/ (Over) Spending £	Balance Carried Forward £
Children's Social Care	0	0	0	0
Culture, Leisure & Sport	516,800	(5,000)	(58,000)	453,800
Education	468,800	(244,700)	(224,100)	0
Environment & Community Safety	1,786,300	(197,500)	392,200	1,981,000
Health & Social Care	0	0	0	0
Housing	741,700	(26,000)	24,700	740,400
Leader	30,900	0	100	31,000
PRED	642,300	(30,000)	147,000	759,300
Port	3,804,900	340,700	(306,300)	3,839,300
Resources	604,800	(221,300)	337,400	720,900
Traffic & Transportation	32,200	32,000	(64,200)	0
Licensing	107,000	0	0	107,000
Governance, Audit & Standards	338,700	(34,900)	(37,000)	266,800
Total	9,074,400	(386,700)	211,800	8,899,500

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 2018/19 as at the end of September 2018 is forecast to be £170,746,200. This is an overall overspend of £4,465,200 against the Amended Budget and represents a variance of 2.7%.
- 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 “red” since the forecast outturn is higher than budget.
- 7.4 The overall financial forecast for Quarter 2 for the whole Council is a serious cause for concern with significant forecast overspends in the highest spending areas of Children's and Adult Social Care which in aggregate amount to £8,610,400 (£4,944,800 in 2017/18). There is reasonable confidence that the Adult Social Care position is capable of remedy in the medium term but options for Children's Social Care appear more limited. Should the underlying deficits continue it is likely to increase the Council's savings requirements in the future if those services are unable to contain their costs. Consequently, it is recommended that Directors continue to work with the relevant portfolio holder to consider measures to significantly reduce the adverse budget position presently being forecast by these Portfolios with a view to eliminating

deficits in the medium term, and any necessary decisions presented to a future meeting of the relevant Portfolio.

- 7.5 Some additional funding from Government has recently been announced for Adults in 2018/19 and for both Adults and Children's Social Care in 2019/20 to help alleviate financial pressures nationally across the system amounting to £890,400 in 2018/19 and £2,411,500 in 2019/20, but it is not yet clear if this funding will continue beyond 2019/20 and therefore whether it can be used on an ongoing basis to part remedy the combined underlying budget deficits of £5.5m.
- 7.6 As in previous years, the Council has set aside funding within the Contingency Provision to guard against potential overspending. Prior to 2018/19 the amount provided within the Contingency Provision has been sufficient to meet the level of overspending within Adult's and Children's Social Care. However, due to the current unprecedented level of demand led pressures being experienced in these areas, the amount set aside within the Contingency Provision is not sufficient to cover the current level of overspending being forecast. Whilst the forecast of overspending within some portfolios in the current year can be mitigated to some extent, the underlying deficit will need to be addressed during 2019/20 and beyond.
- 7.7 Where a Portfolio is presently forecasting a net overspend in accordance with current Council policy, any overspending in 2018/19 which cannot be met by transfer from the Portfolio Specific Reserve will be deducted from cash limits in 2019/20 and therefore the appropriate Directors in consultation with Portfolio Holders should prepare an action plan outlining how their 2018/19 forecast outturn or 2019/20 budget might be reduced to alleviate the adverse variances currently being forecast.
- 7.8 Based on the Budget (as adjusted) of £166,281,000 the Council will remain within its minimum level of General Reserves for 2018/19 of £8.0m as illustrated below:

	<u>£m</u>
General Reserves brought forward @ 1/4/2018	20.566
<u>Less:</u>	
Forecast Overspend 2018/19	(4.465)
<u>Add:</u>	
Planned Contribution to General Reserves 2018/19	0.324
Forecast General Reserves carried forward into 2019/20	16.425

Levels of General Reserves over the medium term are assumed to remain within the Council approved minimum sum of £8.0m in 2018/19 and future years since any ongoing budget pressures / savings will be reflected in future years' savings targets.

8. City Solicitor's Comments

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

9. Equalities Impact Assessment

- 9.1 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 4th December, 2018

Signed: