

**Decision maker:** Cabinet 8<sup>th</sup> October 2019

**Subject:** Revenue Budget Monitoring 2019/20 (1<sup>st</sup> Quarter) to end June 2019

**Report by:** Director of Finance & Revenues

**Wards affected:** All

**Key decision (over £250k):** 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 first quarter for 2019/20 in accordance with the proposals set out in the "Portsmouth City Council - Budget & Council Tax 2019/20 & Medium Term Budget Forecast 2020/21 to 2022/23" report approved by the City Council on the 12<sup>th</sup> February 2019.

## 2. Recommendations

- 2.1 It is recommended that:

- (i) The forecast outturn position for 2019/20 be noted:
  - (a) An overspend of £2,725,000 before further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve
  - (b) An overspend of £2,474,800 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 2020/21 Cash Limit.
- (iii) Members note that the overall financial forecast for Quarter 1 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 £4,034,100 and the extent to which this cannot be remedied in the medium term will add to the Council's £2.5m per annum savings requirements for future years.
- (iv) 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 2020/21 Portfolio cash limit will be managed to avoid further overspending during 2020/21.

### 3. Background

3.1 A Budget for 2019/20 of £165,002,000 was approved by City Council on the 12<sup>th</sup> February 2019. This level of spending required a contribution to General Reserves of £0.04m demonstrating in year income and in year spending is broadly in balance.

3.2 Since the 12<sup>th</sup> February City Council meeting, the Council has been allocated additional one off non ring-fenced grants totalling £188,100 in 2019/20, In order to achieve the government's priorities in these areas, service budgets have been adjusted as appropriate.

3.3 In summary, changes to the budget as approved on 12<sup>th</sup> February 2019 are as follows:

	£
Budget Approved 12 <sup>th</sup> February 2019	165,002,000
EU Exit Funding Grant	105,000
Extended Personal Advisor Duty - New Burden	12,700
Care Leavers Rough Sleeping Strategy Grant	47,500
SEND Regional Lead Grant	22,900
<b>Adjusted 2019/20 Budget</b>	<b>165,190,100</b>

3.4 Once the above budget changes are taken into account, the Budget (as adjusted) for 2019/20 has increased to £165,190,100. After the additional non ring fenced grant funding is taken into account this results in an overall contribution to General Reserves of £0.04m for 2019/20 (i.e. assuming no overall budget variance).

3.5 This is the first quarter monitoring report of 2019/20 and reports on the forecast 2019/20 outturn as at the end of June 2019. 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 financial position of the Council. 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 12<sup>th</sup> February 2019. 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 2019/20 – As at end June 2019

- 4.1 At the first quarter stage, the revenue outturn for 2019/20 after further forecast transfers from/to Portfolio Specific Reserves (Underspends are retained by right) is forecast to be overspent by £2,474,800 representing an overall budget variance of 1.5%.
- 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 & Families	1,494,300	1,494,300
Culture & City Development	231,600	Nil
Education	337,300	235,700
Health, Wellbeing & Social Care	2,529,700	2,539,800
Housing	291,400	Nil
Port	240,300	Nil
Resources	277,800	323,700

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)
	£	£
Leader	616,700	324,400
Environment & Climate Change	180,800	Nil
Traffic & Transportation	100,200	Nil
Contingency	1,794,300	1,794,300

## **5 Quarter 1 Significant Budget Variations – Forecast Outturn 2019/20**

### **5.1 Children & Families – Overspend £1,494,300 (or 5.0%)**

The cost of Children's Social Care is forecast to be £1,494,300 higher than budgeted (£7,512,600 in 2018/19).

The overspend is primarily related to higher costs and numbers of child placements, of which the largest area of overspending relates to children requiring external residential placements (£1,487,600).

Should it not prove realistic to close the underlying budget deficit over the medium term, and depending on any specific funding support from central government, given the scale of the deficit it may be necessary to increase the Council's savings requirements upwards from £2.5m per annum by any identified shortfall.

### **5.2 Culture and City Development – Overspend £231,600 (or 4.0%) or After Transfer From Portfolio Reserve Nil**

The cost of Culture and City Development is forecast to be £231,600 higher than budgeted.

At the quarter 1 stage advice relating to nitrates in waste water from Natural England to all Solent Local Authorities was preventing the processing of a significant proportion of planning applications. As a result, planning fee income was forecast to be £234,000 lower than originally budgeted. Cabinet at its meeting on 23<sup>rd</sup> August approved a number of measures that would mitigate the discharge of nitrates in wastewater into the Solent. As a consequence the Council is able to recommence the determination of residential planning applications. The corollary of which, is that the forecast shortfall in planning income is expected to reduce in future quarters.

There are a number of other service under and overspendings forecast across the portfolio however, in aggregate these are expected to net to a non-material variance.

### **5.3 Education – Overspend £337,300 (or 6.3%) or After Transfer From Portfolio Reserve £235,700 (or 4.3%)**

The cost of Education is forecast to be £235,700 higher than budgeted.

The principle reason for the overspend is increased spending within Inclusion Support (£404,000) of which £372,000 relates to home to school transport costs being higher than budgeted.

This overspending is offset by lower staffing costs (£89,000) within Early Help and Prevention 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.

5.4 Health, Wellbeing and Social Care – Overspend £2,529,700 (or 5.7%) or After Transfers To Public Health Reserve £2,539,800 (or 5.7%)

The cost of Health, Wellbeing and Social Care is forecast to be £2,529,700 higher than budgeted (£1,767,000 in 2018/19).

The key variances are:

- The cost of Public Health is forecast to be £10,100 lower than budgeted. This underspending will be transferred to the ring fenced Public Health Reserve to meet spending in future years.
- Increased cost of Older Persons Physical Disability as a result of higher than anticipated demand for externally commissioned residential and nursing placements (£1.1m) coupled with an unexpected increase in the average cost of Domiciliary Care Packages (£0.9m) has resulted in a forecast overspend of £2,020,000. In addition, costs associated with clients with a learning disability are forecast to overspend by £503,000 due to increased client numbers in Supported Living, Day Care, Residential and Nursing Care (0.4m) and additional staffing cost pressures at Russets Care Home (£0.1m).

5.5 Housing – Overspend £291,400 (or 5.4%) or After Transfer From Portfolio Reserve Nil

The cost of Housing is forecast to be £291,400 higher than budgeted.

The Homelessness Service is experiencing increased demand arising from the additional duties contained within the Homeless Reduction Act. The use of temporary accommodation is continuing to rise with a greater use of Bed and Breakfast accommodation and as a result is currently forecasting expenditure to be £167,400 in excess of the current budget.

Housing Standards is forecast to overspend by £148,000 due to a service review of Private Sector Housing not generating the efficiency savings originally expected (£75,000) and a reduction in licensing income following the end of "Additional Licensing" in 2018 (£73,000).

5.6 Port – Overspend £240,300 (or 3.1%) or After Transfer From Portfolio Reserve Nil

Overall net income from the Port is forecast to be £240,300 below target due to lower income following a reduction in ferry passengers and freight units travelling through the port (£371,500), higher staffing costs (£139,100) offset by lower operational costs (£270,300) primarily as a result of deferring routine dredging until 2020/21.

5.7 Resources – Overspend £277,800 (or 1.6%) or After windfall items and Transfer To Portfolio Reserve £323,700 (or 1.9%) overspend

The cost of Resources is forecast to be £323,700 higher than budgeted.

The introduction of Universal credit for new clients from September 2018 has resulted in a fall in the level of rent allowances and rent rebates of approximately 15% upon which the Council receives subsidy. As a consequence the level of net subsidy received by the Council relating to Housing Benefit overpayments has reduced by £323,700. The total value of Housing Benefits is in excess of £86m (2018/19 £100m) and

fluctuations affecting Housing Benefit can result in material variances within the overall budget. As a consequence any forecast under or overspending within this area is treated as a windfall and therefore met corporately.

Underspending elsewhere within the portfolio is primarily as a result of vacant posts, some in preparation for future savings requirements, an increase in the proportion of Coroners Service costs that are chargeable to Hampshire County Council offset by increased Microsoft software licensing costs.

5.8 Leader – Underspend £616,700 (or 4.0%) or After Transfer To Portfolio Reserve and Windfall Items £324,400 underspend (or 2.0%)

The cost of Leader is forecast to be £616,700 lower than budgeted.

Purchase of investment properties, the full occupation of Portsmouth Retail Park and the letting of two new units at Dunsbury Park has resulted in additional income of £676,600. Of this sum, £324,400 relates to the National Property Investment Portfolio and will therefore be treated as a windfall item. This additional income is offset by a shortfall in income of £60,000 received from Heritage Projects for their operation of the Spinnaker Tower as a result of a fall in the number of visitors to the attraction.

5.9 Environment and Climate Change – Underspend £180,800 (or 1.4%) or After Transfer To Portfolio Reserve Nil

As a result of lower Waste Collection volumes (£92,800) and Waste Disposal volumes (£88,100) the cost of Environment and Climate Change is forecast to be £180,800 lower than budgeted.

5.10 Traffic and Transportation – Underspend £100,200 (or 0.64%) or After Transfer To Off Street Parking Reserve Nil

As a result of staffing vacancies the cost of Traffic and Transportation is forecast to be £100,200 lower than budgeted

5.11 Contingency - Planned Release £1,794,300

As outlined above, Adults and Children's Social Care are presently forecast to overspend by £4,034,100 (after the transfer to Public Health Reserve). 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 the 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 £1,794,300.

5.12 All Other Budget Variations – Overspend £14,600 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 is set out below:

Portfolio/Committee Reserve	Forecast			
	Balance Brought Forward £	Approved Transfers £	Under/ (Over) Spending £	Balance Carried Forward £
Children's Social Care	0			0
Community Safety	14,600		(14,600)	0
Culture, Leisure & Sport	502,900		(231,600)	271,300
Education	218,100	(116,500)	(101,600)	0
Environment & Climate Change	657,000		180,800	837,800
Health & Social Care	0			0
Housing	296,500	162,400	(291,400)	167,500
Leader	710,000		292,300	1,002,300
Port	2,755,500	(2,515,200)	(240,300)	0
Resources	869,400	(114,600)	45,900	800,700
Traffic & Transportation	64,100			64,100
Licensing	66,200			66,200
Env. & Community Safety (Closed)	1,483,700	(1,483,700)		0
<b>Total</b>	<b>7,638,000</b>	<b>(4,067,600)</b>	<b>(360,500)</b>	<b>3,209,900</b>

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 2019/20 as at the end of June 2019 is forecast to be £167,664,900. This is an overall overspend of £2,474,800 against the Amended Budget and represents a variance of 1.5%.
- 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 1 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 £4,034,100 (£9,279,600 in 2018/19). There is reasonable confidence that the Adult Social Care position is capable of remedy in the medium term should the Council decide to take advantage of the flexibility to implement a 2% Adult Social Care Precept for 2020/21 but options for Children's Social Care appear more limited. Following the Spending Review announcement it appears likely that further funding will be made available for Children's Social Care however this has only been announced on a "one off" basis. Given the increasing demand and longer term uncertainty the Council's savings requirements in the future could rise. 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 As in previous years, the Council has set aside funding within the Contingency Provision to guard against potential overspending. Prior to 2019/20 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 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 2020/21 and beyond.
- 7.6 Where a Portfolio is presently forecasting a net overspend in accordance with current Council policy, any overspending in 2019/20 which cannot be met by transfer from the Portfolio Specific Reserve will be deducted from cash limits in 2020/21 and therefore the appropriate Directors in consultation with Portfolio Holders should prepare an action plan outlining how their 2019/20 forecast outturn or 2020/21 budget might be reduced to alleviate the adverse variances currently being forecast.
- 7.7 Based on the Budget (as adjusted) of £165,190,100 the Council will remain within its minimum level of General Reserves for 2019/20 of £8.0m as illustrated below:

General Reserves brought forward @ 1/4/2019	<u>£m</u> 22.996
<u>Less:</u>	
Forecast Overspend 2019/20	(2.475)
<u>Add:</u>	
Planned Contribution to General Reserves 2019/20	0.041
<b>Forecast General Reserves carried forward into 2020/21</b>	<b>20.562</b>

Levels of General Reserves over the medium term are assumed to remain within the Council approved minimum sum of £8.0m in 2019/20 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 & Revenues**

**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 –

<b>Title of Document</b>	<b>Location</b>
Budget & Council Tax 2019/20 & Medium Term Budget Forecast 2020/21 to 2022/23	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 8<sup>th</sup> October, 2019

Signed: .....