

Decision maker: Cabinet 10th March 2020

Subject: Revenue Budget Monitoring 2019/20 (3rd Quarter) to end December 2019

Report by: Director of Finance & Resources

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 third quarter for 2019/20 in accordance with the proposals set out in the "Portsmouth City Council - Budget & Council Tax 2020/21 & Medium Term Budget Forecast 2021/22 to 2023/24" report approved by the City Council on the 11th February 2020.

2. Recommendations

- 2.1 It is recommended that:

- (i) Members note:
 - (a) An overspend of £667,900 before further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve
 - (b) An underspend of £625,200 after further forecast transfers from/(to) Portfolio Specific Reserves & Ring Fenced Public Health Reserve.
 - (c) 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.
 - (d) That on 11th February 2020 City Council approved that any underspending for 2019/20 arising at year-end outside of those made by Portfolio's be transferred to Capital resources.
- (ii) 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 The Revised Budget for 2019/20 of £165,912,000 was approved by City Council on the 11th February 2020. This level of spending required a contribution from General Reserves of £0.02m demonstrating in year income and in year spending is broadly in balance.
- 3.2 This is the third quarter monitoring report of 2019/20 and reports on the forecast 2019/20 outturn as at the end of December 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.
- 3.3 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 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.
- 3.4 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 11th February 2020. 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 December 2019

- 4.1 At the third 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 underspent by £625,200 representing an overall budget variance of 0.4%.
- 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)
£	£		£	£
1,494,300	2,383,400	Children & Families	3,789,500	3,789,500
231,600	395,100	Culture & City Development		
337,300	366,700	Education	309,900	208,300
2,529,700	3,434,400	Health, Wellbeing & Social Care	3,920,300	2,711,100
291,400		Housing	257,000	Nil
240,300	129,400	Port	155,900	Nil
277,800	317,900	Resources	303,400	Nil

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)
£	£		£	£
(616,700)	(185,200)	Leader	(462,900)	(406,100)
(180,800)	(111,900)	Environment & Climate Change		
(100,200)	(114,900)	Traffic & Transportation	(369,900)	Nil
	(980,500)	Treasury Management	(330,700)	(330,700)
(1,794,300)	(2,774,600)	Contingency	(6,866,400)	(6,866,400)

5 Quarter 3 Significant Budget Variations – Forecast Outturn 2019/20

5.1 Children & Families – Overspend £3,789,500 (or 12.8%)

The cost of Children's Social Care is forecast to be £3,789,500 higher than budgeted (£7,512,600 in 2018/19).

The overspend is primarily related to higher costs and numbers of child placements (£3,242,000), of which the largest area of overspending relates to children requiring external residential placements (£2,812,400). In addition packages required to support children with disabilities are £339,000 higher than originally budgeted due to increasing complexity of need and higher staffing costs within the Portfolio totalling £208,200.

5.2 Education – Overspend £309,900 (or 5.5%) or After Transfer From Portfolio Reserve £208,300 (or 3.7%)

The cost of Education is forecast to be £309,900 higher than budgeted.

The principle reason for the overspend is increased spending within Inclusion Support (£420,800) of which £338,000 relates to home to school transport costs being higher than budgeted, however an increase in pupils with special educational needs and disabilities has added further to the amount of overspending currently being forecast within this area.

This overspending is offset by lower staffing costs (£110,000) within Early Help & Prevention and Education Management 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 £3,920,300 (or 8.8%) or After Transfers From Public Health Reserve & Adult Social Care Specific Reserves £2,711,100 (or 5.9%)

The cost of Health, Wellbeing and Social Care is forecast to be £3,920,300 higher than budgeted (£1,767,000 in 2018/19).

The key variances are:

- Increased cost of Older Persons Physical Disability as a result of higher than anticipated demand for externally commissioned residential and nursing placements (£2.3m) coupled with an unexpected increase in the average cost of Domiciliary Care Packages and respite care (£1.2m) has resulted in a forecast overspend of £3,511,000. In addition, costs associated with clients with a learning disability are forecast to overspend by £960,600 due to increased client numbers in Supported Living, Day Care, Residential and Nursing Care (0.8m) and additional staffing cost pressures at Russets Care Home (£0.1m). These overspendings are offset by underspending within in-house residential day care following the earlier than planned closure of Edinburgh House and Hilsea Lodge as consequence of residents seeking to move to alternative accommodation more quickly than originally anticipated (£0.9m) offset by transitional staffing costs pressures at Shearwater House (£0.2m).
- The cost of Public Health is forecast to be broadly within budget. However any underspending or overspending will be transferred to/from the ring fenced Public Health Reserve to meet spending in future/current years.

5.4 Housing - Overspend £257,000 (or 4.8%) or After Transfer From Portfolio Reserve Nil

The cost of Housing Services is forecast to be £257,000 higher than budgeted

Demand for bed and breakfast accommodation has increased by over 70% compared to previous years and after the utilisation of Flexible Homelessness Support Grant

(FHSG) is currently forecast to overspend by £394,200. FHSG allocations relating to 2020/21 have been announced at the same level as the 2019/20 allocation. Any further increase in demand for bed and breakfast accommodation will add to the cost pressure currently being experienced in this area. This overspending is offset by lower expenditure related to Supporting People Contracts (£162,600) as a result of the effective management of these contracts.

5.5 Port – Overspend £155,900 (or 2.1%) or After Transfer From Portfolio Reserve Nil

Overall net income from the Port is forecast to be £155,900 below target due to lower income following a reduction in ferry passengers and freight units travelling through the port, driven in part by the effect of recent strikes in France.

5.6 Resources – Overspend £303,400 (or 1.7%) or After windfall items and Transfer To Portfolio Reserve £269,100 (or 1.5%) overspend

The cost of Resources is forecast to be £303,400 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 £269,100. 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.

As a result of increasing Microsoft software licence costs, the cost of Information Technology is forecast to overspend by £521,000. However, this overspending is offset by underspending elsewhere within the portfolio primarily as a result of vacant posts, some in preparation for future savings requirements, and an increase in the proportion of Coroners Service costs that are chargeable to Hampshire County Council.

5.7 Leader – Underspend £462,900 (or 2.6%) or After Transfer To Portfolio Reserve and Windfall Items £406,100 underspend (or 2.3%)

The cost of Leader is forecast to be £462,900 lower than budgeted.

The principle cause of the underspending is additional income totalling £334,000 arising from the letting of two new units at Dunsbury Hill Business Park and delays in the planned maintenance of commercial properties totalling £111,800. Additional income within the Property Portfolio relating to Dunsbury Hill Business Park and National Investment Properties totalling £406,100 are windfall items and therefore treated as corporate income.

5.8 Traffic and Transportation – Underspend £369,900 (or 2.1%) or After Transfers To Off Street Parking Reserve and PFI Reserve Nil

As a result of lower staffing costs (£245,900), reducing energy costs as the street lighting LED project nears completion (£124,000) the Portfolio outturn is forecast to be £369,900 lower than budgeted. Savings arising from the LED Street lighting project will

be transferred to the PFI reserve with all other portfolio underspending being transferred to the Parking Reserve.

5.9 Treasury Management – Underspend £330,700 (or 1.4%)

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.

5.10 Contingency - Planned Release £6,866,400

As outlined above, Adults and Children's Social Care are presently forecast to overspend by £6,500,600 (after the transfer from the ASC Reserve and transfer to the 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 available at this stage for this purpose is £6,389,000. In addition £477,400 is available from Contingency to meet the costs associated with Home to School Transport that cannot be met from within the Portfolio Cash Limit and the loss of subsidy relating to Housing Benefit Overpayments.

5.11 All Other Budget Variations – Underspend £38,200 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 is currently available is set out below:

Portfolio/Committee Reserve	Balance Brought Forward £	Approved Transfers £	Forecast Over Spending £	Available Balance £
Children's Social Care	0			0
Community Safety	38,900		(38,900)	0
Culture, Leisure & Sport	271,300	(225,000)		46,300
Education	218,100	(116,500)	(101,600)	0
Environment & Climate Change	2,116,400	(2,116,400)		0
Health & Social Care	0			0
Housing	296,500	(8,000)	(257,000)	31,500
Leader	941,600	(386,100)		555,500
Resources	869,400	(326,700)	(34,300)	508,400
Traffic & Transportation	64,100	(64,100)		0
Licensing	66,200			66,200
Total	4,882,500	(3,242,800)	(431,800)	1,207,900
Port	2,755,500	(1,153,200)	(155,900)	1,446,400

Note:

The Port Reserve is used exclusively to fund Capital Investment and to guard against the risk of in year overspending as a consequence of net Port income being lower than target

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 December 2019 is forecast to be £165,286,800. This is an overall underspend of £625,200 against the Revised 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 Whilst the overall financial forecast for Quarter 3 for the whole Council is "green", significant overspends in the highest spending areas of Children's and Adult Social Care are forecast which in aggregate amount to £6,500,600 (£9,279,600 in 2018/19). Of critical importance is the extent to which these overspending positions in both Adults

and Children's Social Care are expected to continue into future years. This is known as the underlying deficit (or "structural deficit"). These deficits represent the level of savings that will either need to be met from the Services themselves through their own strategies and action plans or which, if proved to be unachievable to remedy, require a corporate response through an increase in the Portfolio Budget which will add to the overall Budget deficit of the Council and increase Savings Requirements to be made across Council services in future years. Current estimates assess this underlying deficit to amount to £8.1m in aggregate, and comprise:

- Adult Social Care - £4.9m
- Children's Social Care - £3.2m driven almost entirely by the increasing number of Looked After Children required to be taken into care

7.5 Both services are expected to experience further costs pressures in the future. Both services have well developed financial sustainability strategies and plans to mitigate their current underlying budget deficits and their future cost pressures over the next three years which involve substantial savings but are consistent with their overall strategies as follows:

- Adult Social Care - Savings over 3 years amounting to £5.6m consistent with enabling clients to lead healthier and more independent lives
- Children's Social Care - Savings over 3 years amounting to £2.6m consistent with early help and intervention, supporting families, improving placement stability and re-unification and therefore an overall reduction in the number and cost of Looked After Children

7.6 Neither plan however is capable of fully eradicating the extraordinary scale of the demand and cost pressures placed on these services. As a consequence City Council on 11th February 2020 added the following amounts to Budgets in 2020/21 to bring financial stability to these services:

- Health, Wellbeing & Social Care Portfolio - £2.6m (which included an additional £1.6m passported from the Adult Social Care Precept)
- Children & Families Portfolio £3.0m

7.7 In addition, there is also national growth in the number of children identified to have Special Educational Needs, this is being felt within schools budgets and causing a significant strain on the Dedicated Schools Grant as well as the Local Authority which has responsibility for their Home to School Transport. In the current year Home to School Transport is forecast to overspend by £338,000 and expected to rise to £430,000 by next financial year. Given the scale of this pressure in relation to the size of the Education Portfolio Budget, City Council on 11th February 2020 also added £430,000 to Budgets in 2020/21 to avoid severe compensating cuts to Education Services.

7.8 As in previous years, the Council has set aside funding within the Contingency Provision to guard against potential overspending in 2019/20. This Contingency Provision is being extensively applied to remedy the overspending currently being forecast within the Children & Families and Health, Wellbeing & Social Care Portfolios.

- 7.9 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.
- 7.10 Based on the Revised Budget of £165,912,000 the Council will remain within its minimum level of General Reserves for 2019/20 of £8.0m as illustrated below:

	<u>£m</u>
General Reserves brought forward @ 1/4/2019	23.022
<u>Add:</u>	
Forecast Underspend 2019/20	0.625
<u>Less:</u>	
Planned Contribution from General Reserves 2019/20	(0.020)
Forecast General Reserves carried forward into 2020/21	23.627

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. Integrated Impact Assessment

- 9.1 This report does not require an Integrated 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 & Resources

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 2020/21 & Medium Term Budget Forecast 2021/22 to 2023/24	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 10th March, 2020

Signed: