

Decision maker: Cabinet 3rd March 2014
City Council 18th March 2014

Subject: Budget & Performance Monitoring 2013/14 (3rd Quarter) to end December 2013

Report by: Head of Finance & Section 151 Officer

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 2013/14.

To also take the opportunity to report on the key performance measures of the Council and highlight any relationships between financial performance and service performance that may indicate any potential or emerging matters of concern in relation to either.

2. Recommendations

- 2.1 It is recommended that:

- (i) The contents of this report be noted, in particular (after further forecast transfers to Portfolio Specific Reserves of £449,600) the overall forecast overspend of £316,600 representing a variance of 0.16% against the City Council Revised Budget of £192,781,200. Before further forecast transfers to Portfolio Specific Reserves, there is a forecast underspend of £133,000 representing a variance of 0.07%.
- (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 2014/15 Cash Limit.
- (iii) A report in respect of the Children and Education Portfolio be prepared for the Cabinet in April 2014 setting out the options for significantly reducing or eliminating in future financial years the adverse budget position presently being forecast by the Portfolio, including the associated impact of doing so.
- (iv) Heads of Service, 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 2014/15 Portfolio cash limit will be managed to avoid further overspending during 2014/15.

3. Background

- 3.1 The Revised Budget for 2013/14 of £192,781,200 was approved by City Council on the 11th February 2014. This level of spending required an overall contribution from General Reserves of £5.58m in order to meet the shortfall between in-year spending and in-year income from all sources.
- 3.2 This is the third quarter monitoring report of 2013/14 and reports on the forecast 2013/14 outturn as at the end of December 2013. The forecasts summarised in this report and detailed in the attached papers 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 Pack 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 Council Tax setting report approved by Council on 11th February 2014. 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 2013/14 – As at end December 2013

- 4.1 At the third quarter stage, the revenue outturn for 2013/14 before further forecast transfers to Portfolio Specific Reserves is forecast to be underspent by £133,000 representing an overall budget variance of 0.07%.

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 (Adjusted Budget)	Quarter 2 (Adjusted Budget)		Quarter 3 (Revised Budget)
£	£		£
2,923,600	1,170,500	Children and Education	2,555,300
595,700	162,100	Health and Social Care	156,000
925,500	870,900	Traffic and Transportation	Nil

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

Quarter 1 (Adjusted Budget)	Quarter 2 (Adjusted Budget)		Quarter 3 (Revised Budget)
£	£		£
	102,900	Environment and Community Safety	357,300
176,200		PRED	
	536,200	Port	
	294,700	Resources	353,800
118,300		Governance Audit and Standards Committee	
1,890,100	1,563,700	Asset Management Revenue Account	
		Other Miscellaneous	2,144,600

5 Quarter 3 Significant Budget Variations – Forecast Outturn 2013/14

5.1 Children and Education – Overspend £2,555,300 (or 7.9%)

The cost of Children and Education Services is forecast to be £2,555,300 higher than budgeted.

The key variances are:

- Staffing costs across the Portfolio are forecast to overspend by £689,000. As a result of:
 - fewer vacancies than assumed when the budget was prepared
 - delays in achieving planned efficiency savings
 - higher staffing requirements for children with disabilities and adoption placements
 - agency staffing costs in respect of sickness and maternity cover
- Child Support Services are forecast to overspend by £316,900 as a result of increased pupil transport requirements and the associated assessment process offset by a reduction in expenditure arising from a delay in the introduction of the new sitting service.

- The first three months of the financial year saw an increase in the number of children requiring placement. Whilst these numbers have returned to the levels at the beginning of the year, and remained stable over the last quarter, the numbers are still in excess of budgeted provision. The projected spend presumes that existing placements will continue for the remainder of the year, although review work will continue. The budget provided for an increase in the number of Portsmouth Foster Carers as part of the 5 year strategy to reduce the number of looked after children placed with Independent Fostering Agencies. Whilst the number of Portsmouth Foster Carers is growing it is at a pace slightly below expectations. Taking all of these factors into account the Looked After Children budget heading is forecast to overspend by £1,594,300.

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

5.2 Health and Social Care – Overspend £156,000 (or 0.3%)

The cost of Health & Social Care is forecast to be £156,000 higher than budgeted.

The key variances are:

Overspendings

- As a result of an increase in client numbers within the Mental Health and Substance Misuse service the budget is forecast to be overspent by £171,100
- PCC contribution to Continuing Health Care Pooled Budget – PCC's contribution is forecast to be £860,000 higher than budgeted due to:-
 - The residential care budget assumed client numbers of 112 however currently there are 121 being supported by Adult Social Care as at the end of December. It is expected to continue at this level for the remainder of the financial year. Currently 162 clients are in receipt of nursing care compared to a target level of 132. Domiciliary Care client numbers have also increased from 712 to 770 since April 2013. These factors are causing significant pressure within the budget which is projected to overspend by £860,000 as a result.

Underspendings

- The cost of in-house residential care is forecast to be £64,900 lower than budgeted as a result of increased income at Hilsea Lodge, Edinburgh House and Shearwater offset by increased staffing made in response to an inspection by the Care Quality Commission at Shearwater care home.
- Staffing costs are forecast to be £472,000 lower than originally budgeted primarily as a result of not filling posts in the early part of the year and the holding of vacancies pending an organisational restructure within the Adult Social Care Service.

- An increase in demand for dementia care has led to a rise in client numbers with a corresponding increase in client contributions. Income from clients on the Deferred Payments Scheme is also higher. Older Persons/Physical Disability Commissioned Residential Care Income is £126,100 higher than budgeted as a result.
- There has been an increase in client numbers for domiciliary care in both Older Persons and Physical Disability resulting in forecast income being £60,100 higher than budgeted.
- Management, Support & Premises are forecast to underspend by £95,600 arising from reductions in premises costs, training and IT expenditure

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

5.3 Traffic & Transportation – Nil variance

As approved by the City Council on 11th February 2014 any overspend against the Traffic & Transportation Portfolio will be funded by an equivalent transfer from the Parking Reserve. It is expected that a transfer of £851,000 will be necessary to meet the shortfall between in-year spending and in-year income.

The main causes of the underlying forecast deficit relate to:

- Income within Off Street Parking is forecast to be £606,600 less than budgeted.
- Despite budgeting for increases in street lighting energy costs, expenditure is forecast to be £139,600 higher than budgeted as a result of a change in the methodology used to measure consumption.
- The cost of travel concessions is anticipated to be £63,100 higher than originally budgeted.
- School Crossing Patrols - A budget saving of £200,000 was approved by the City Council in February 2013 with the intention that the remaining budget would be passed to schools who would then become responsible for providing their own school crossing patrols. However, such an arrangement would require lengthy and complex consultation with each school governing body which has meant that this saving is no longer achievable in the medium term. Once savings arising from holding posts vacant are taken into account the forecast overspend is reduced to £121,000.
- The above overspends are offset by higher income than budgeted within the Road Safety & Sustainable Transport and Passenger Transport services totalling £57,100.

5.4 Environment and Community Safety – Underspend £357,300 (or 2.2%)

The Portfolio is forecasting an underspend of £357,300.

A number of small areas of under and over spending are currently being forecast across the Portfolio. The more significant areas of under and over spending are:

- Primarily as a result of effective contract monitoring the cost of Refuse Collection and Waste Recycling is forecast to be £220,700 lower than budgeted.
- Staffing costs across the Portfolio are expected to be £129,300 lower than originally budgeted due to staff vacancies, higher fee income for staff time spent on major capital projects including Tipner, Northern Quarter and Northern Road Bridge and two staff previously wholly chargeable to Environment & Community Safety now being shared with Public Health.

5.5 Resources – Underspend £353,800 (or 1.5%)

The Portfolio is forecasting an underspend of £353,800.

The main causes of the forecast underspend are:

- The holding of posts vacant across the Portfolio in anticipation of savings requirements in future years has resulted in a reduction of staffing costs of £246,000.
- Claims for support under the Local Welfare Assistance scheme are currently forecast to be £42,200 lower than originally budgeted.
- Following a review of the despatch service and the impending changes to primary school meal provision a decision has been made to delay the purchase of a replacement vehicle until after any required changes to existing school meal delivery arrangements are known. This has resulted in a reduction in expenditure of £41,800 within the AMS Design & Maintenance Service.
- Following changes to the Non-Domestic Rates regulations, which govern the sharing of the cost of discretionary relief between local authorities and the Government, the Council's share of the cost of discretionary relief awarded has reduced by £42,200.

Offset by:

- Human Resources, Legal & Performance Management are expected to experience a shortfall in fee income of £39,400 as a result of staff being redeployed to corporate enabling based initiatives including City Deal and Super Connected Cities.

5.6 Other Miscellaneous – £2,144,600

As described in the Council Tax Setting Report to Council on 11th February 2014 Children and Education Portfolio is experiencing difficulty containing expenditure within budgeted limits. The Revised Budget approved by the City Council on the 11th February 2014 was prepared to include a Contingency provision of £2,144,600 which

was set aside to guard against an overall overspend on the Council budget. As set out in that report an action plan will be reported to Cabinet in April 2014 which will guide a decision on whether to "Claw Back" any 2013/14 overspend from the 2014/15 Cash Limit.

6 Other Minor Budget Variations – Forecast Outturn 2013/14

6.1 Culture, Leisure & Sport – Overspend £5,400 (or 0.1%)

6.2 Housing – Overspend £96,300 (or 3.0%)

Overspends within Green Deal and Licensing of Low Rise Houses in Multiple Occupation totalling £186,000 are offset by the following underspends:

- Private Housing enforcement and assistance projects have commenced, however due to department reorganisations they are now projected in some cases to continue past the end of the current financial year resulting in an underspend of £44,800. These projects relate to Landlord Accreditation, Winter Warmth, Un-Licensed gas fitters and Rogue Builders. It is anticipated that there will be no adverse impact on residents from a delayed start. It is expected that these projects will prove significant in providing appropriate support and protection for private housing owners and tenants which will enable housing in Portsmouth to be of sufficient long term quality.
- Savings within Housing Strategy and Home Check Scheme originally planned for implementation in 2014/15 have been brought forward to 2013/14 resulting in an underspend of £59,700

6.3 Leader – Minor Overspend £8,100 (or 3.5%)

6.4 PRED – Overspend £67,000 (or 5.1%)

A number of variances across the Portfolio are being forecast as follows:

- Staffing restructures coupled with staff vacancies has resulted in a small underspend across the Portfolio of £4,000.
- Income across the Portfolio is lower than budgeted by £41,100 primarily as a result of reduced income from PCMI manufacturing sales (£95,100) offset by increased income following an upturn in occupancy at enterprise centres (£54,000).
- Additional sponsorship combined with lower costs associated with Christmas lighting and seasonal events has resulted in an underspend of £44,500.
- Once City Council assets are declared surplus to requirements the holding and disposal costs become the responsibility of the Property Portfolio. The cost of holding and marketing these assets for subsequent disposal has led to a forecast overspend of £77,400.

6.5 PRED (Port) – Underspend £79,600 (or 7.7%)

Overall net income from the Port is forecast to be £79,600 above target income.

This is primarily due to increased rental and concession income of £77,200.

6.6 Licensing Committee – Underspend £47,100 (or 40.4%)

Additional net income arising from recent changes in legislation relating to scrap metal & motor salvage dealers which requires them to be licenced by the Local Authority from 2013/14. Previously these dealers were only required to be registered with the Local Authority. This net income is after direct costs associated with enforcement are deducted, but before the full indirect costs of administration and enforcement are taken into account.

6.7 Governance, Audit and Standards Committee – Underspend £16,100 (or 8.0%)

Additional income to the Registrars Service arising mainly from increased demand for priority birth certificate searches and civil marriage ceremonies.

6.8 Levies – Underspend £22,400 (or 2.9%)

Minor variation due to levies being lower than originally estimated.

6.9 Insurance – No Forecast Variance

6.10 Asset Management Revenue Account – No Forecast Variance

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.

7. Relationships between Financial Performance and Service Performance

7.1 There are a number of areas where the council is demonstrating strong performance. It is performing well on almost all of its key performance indicators in relation to Revenues and Benefits, although Council Tax collection is slightly below plan. The main impacts of welfare reform changes appear to be with council tax benefit changes. There is good progress on implementing working around the Better Care Fund. There are some positive outcomes in the recruiting of foster carers and potential adopters, and improvements in the timeliness of core assessments for children. Key projects at Tipner and Northern Road Bridge are expected to finish on schedule and on budget.

7.2 However, there are still some areas of concern. There remains uncertainty on key Department of Work and Pension initiatives, such as the Universal Credit and the

Single Fraud investigation service, for example. In line with many other local authorities, the recycling rate continues to fall. Recent changes to rent policy, along with cuts in benefits leading to increased rent arrears, may create a long term impact to the Housing Revenue account.

- 7.3 There are some areas where improvements need to be made, and there are plans to address these. There are some areas where sickness absence is a concern. The link between preventative services and early interventions needs to be better understood, and outcomes achieved. Available capital for school sufficiency and condition issues remains an on-going concern.
- 7.4 A full report on quarter 3 performance will be considered by Governance, Audit and Standards Committee on 13th March 2014.

8. Conclusion - Overall Finance & Performance Summary

- 8.1 The overall forecast outturn for the City Council in 2013/14, before further transfers to Portfolio Specific Reserves as at the end of December 2013, is forecast to be £192,648,200. This is an overall underspend of £133,000 against the Revised Budget and represents a variance of 0.07%. Once all transfers to Portfolio Specific Reserves are taken into account the forecast outturn for the City Council increases by £449,600 to £193,097,800. This is an overall overspend against the revised budget of £316,600 representing a variance of 0.16%.
- 8.2 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.
- 8.3 The overall financial position is deemed to be “amber” since the forecast outturn after transfers to Portfolio Specific Reserves is slightly higher than budgeted. However, finance is not having a negative impact on the overall performance status of the Council’s activities.
- 8.4 As outlined in paragraph 4.2, the forecast overspend within the Children and Education Portfolio represents the greatest area of concern in terms of the impact it has on the overall City Council budget for 2013/14. Consequently it is recommended that a report in respect of this Portfolio be prepared for the Cabinet in April setting out the options for significantly reducing or eliminating in future financial years the adverse budget position presently being forecast by the Portfolio, including the associated impact of doing so.
- 8.5 Where a Portfolio is presently forecasting a net overspend, in accordance with current Council policy, any overspending in 2013/14 will be deducted from cash limits in 2014/15 and therefore the appropriate Heads of Service in consultation with Portfolio Holders should prepare an action plan outlining how their 2013/14 forecast outturn or 2014/15 budget might be reduced to alleviate the adverse variances currently being forecast.
- 8.6 Based on the Revised Budget of £192,781,200 the Council will remain within its minimum level of General Reserves for 2013/14 of £6.0m as illustrated below:

	<u>£m</u>
General Reserves brought forward @ 1/4/2013	23.614
<u>Add:</u>	
Forecast Underspend 2013/14	0.133
<u>Less:</u>	
Planned Withdrawal from General Reserves 2013/14	(5.585)
Further Forecast Transfers to Portfolio Specific Reserves	(0.450)
Forecast General Reserves carried forward into 2014/15	17.712

Levels of General Reserves over the medium term are assumed to remain within the Council approved sum of £6.0m in 2014/15 and future years since any ongoing budget pressures / savings will be reflected in future years' savings targets.

- 8.7 In accordance with Recommendation (p) set out in the "Portsmouth City Council - Council Revenue Budget 2014/15 Savings and Council Tax Proposals" report approved by the City Council on the 11th November 2013 (which inter alia updated the Councils Financial Rules to enable each Portfolio to retain 100% of any year end under spending and to be held in an earmarked reserve for use by the relevant Portfolio) the balance on each Portfolio Specific Reserve as at 31st March 2014 is forecast to be:

Portfolio	Balance 1 st April 2013	Approved Transfers (From)/To	Further Forecast Transfers (From)/To	Forecast Balance 31 st March 2014
Culture, Leisure & Sport	0	72,000	(5,400)	66,600
Environment & Community Safety	0	442,000	357,300	799,300
Health & Social Care	0	2,500,000	(156,000)	2,344,000
Housing	0	186,000	(96,300)	89,700
PRED (excl. Port)	0	80,000	(67,000)	13,000
Resources	0	196,000	353,800	549,800
Licensing Committee	0	0	47,100	47,100
Governance & Audit Committee	0	80,000	16,100	96,100
Total	0 0	3,556,000	449,600	4,005,600

- 8.8 Financial resources are not seen as a primary barrier during the current year to either performance achievement or performance improvement. Although there are no specific requests for additional resourcing to ensure targets are achieved, or objectives met through this report, in some cases resources may be a possible risk to future delivery which ought to be considered in the context of all other current and emerging budget pressures and evaluated in context with each other.

9. 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.

10. 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.

.....

Chris Ward

Head of Finance & S151 Officer

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
Portsmouth City Council - Council Tax Setting 2014/15 & Medium Term Budget Forecast 2014/15 to 2017/18	Office of Deputy Head of Finance & Section 151 Officer
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 3rd March, 2014

Signed:

Approved / Approved as amended / Deferred / Rejected by the City Council on 18th March, 2014

Signed:

**FINANCIAL & SERVICE
PERFORMANCE**

**QUARTER 3
2013/14**

INFORMATION PACK