

Decision maker: Cabinet 25th September 2014
City Council 14th October 2014

Subject: Budget & Performance Monitoring 2014/15 (1st Quarter) to end June 2014

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 first quarter for 2014/15 in accordance with the proposals set out in the "Portsmouth City Council - Council Tax Setting 2014/15 to 2017/18 & Medium Term Budget Forecast 2014/15 to 2017/18" report approved by the City Council on the 11th February 2014.

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 the overall forecast overspend of £3,073,600 representing a variance of 1.76% against the City Council Budget (as adjusted) of £175,029,925.
 - (ii) Reports are prepared setting out the options for significantly reducing or eliminating the adverse budget position presently being forecast within Children & Education, Health & Social Care and Traffic & Transportation Portfolios, including the associated impact of doing so.
 - (iii) That the Council Leader works with the relevant portfolio holder to consider measures necessary to significantly reduce or eliminate the adverse budget position presently being forecast within Children & Education, Health & Social Care and Traffic & Transportation Portfolios and any necessary decisions presented to a future meeting of the relevant portfolio.

3. Background

- 3.1 A Budget for 2014/15 of £174,363,725 was approved by City Council on the 11th February 2014. This level of spending enabled a contribution to General Reserves of £3.383m after in-year spending was met from in-year income from all sources.

- 3.2 Since the 11th February City Council meeting the Council has been allocated additional one off non ring-fenced grants totalling £566,200 in 2014/15. In order to achieve the government's priorities in these areas, service budgets have been amended accordingly. In addition, the adjusted budget includes a transfer to the PFI Reserve in respect of maintenance undertaken within the PFI for on-street parking.
- 3.3 In summary, changes to the budget as approved on 11th February 2014 are as follows:

	£
Budget Approved 11 th February 2014	174,363,725
Individual Voter Registration	131,200
Special Education Needs Reform	253,600
Adoption Reform	181,400
Transfer to PFI Reserve	100,000
Adjusted 2014/15 Budget	175,029,925

- 3.4 Once the above budget changes are taken into account, the Budget (as adjusted) for 2014/15 has increased to £175,029,926. After the additional non ring fenced grant funding is taken into account this results in an overall contribution to General Reserves of £3.283m for 2014/15 (i.e. assuming no overall budget variance).
- 3.5 This is the first quarter monitoring report of 2014/15 and reports on the forecast 2014/15 outturn as at the end of June 2014. 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.
- 3.6 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 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.
- 3.7 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 Budget 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 2014/15 – As at end June 2014

4.1 At the first quarter stage, the revenue outturn for 2014/15 is forecast to be overspent by £3,073,600 representing an overall budget variance of 1.76%.

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 (Adjusted Budget)
	£
Children and Education	2,950,600
Health and Social Care	751,200
Traffic and Transportation	340,100

These are offset by the following significant forecast underspends at the quarter 1 stage:

	Quarter 1 (Adjusted Budget)
	£
Environment and Community Safety	134,700
Commercial Port	218,400
Resources	233,000
Asset Management Revenue Account	973,800

5 Quarter 1 Significant Budget Variations – Forecast Outturn 2014/15

5.1 Children and Education – Overspend £2,950,600 (or 9.3%)

The cost of Children and Education Services is forecast to be £2,950,600 higher than budgeted.

The key variances are:

- Home to school and college transport is forecasting an overspend of £317,600 due to the number of children being supported. New transport policies are being implemented from September and it is anticipated that the overspend will begin to reduce.
- Fieldwork Services are experiencing significant budget pressures as a result of a combination of the inability to deliver vacancy savings, additional supernumerary front line posts and the need to employ agency workers to cover practice leader posts. The supernumerary posts have been employed by the service as part of the strategy to reduce Looked After Children numbers, whilst also focusing on the government's adoption agenda to move

children into permanent arrangements; as a result this service is forecast to overspend by £1,076,000. Changes in transport charging policy have also resulted in a substantial staff parking cost of £143,000 now being levied on the service; opportunities to reduce this by looking at working practices are currently being explored.

- Whilst placements with independent foster carers continue to reduce, this has been at a slower rate than that anticipated and this budget area is forecast to overspend by £844,800.
- Management and Support (£395,600 overspend): The Independent Reviewing Officer (IRO) service is experiencing budget pressures of £202,000 as a result of not achieving vacancy savings targets, combined with the additional cost of 2 supernumerary specialist posts, which were recruited to lower the number of cases held by the IRO officers. The service is also experiencing additional pressures due to the increased contribution to the Integrated Commissioning Unit (this investment is intended to deliver future cost reductions through commissioning arrangements) as well as increased requirements associated with medical and legal costs.

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 £751,200 (or 1.6%)

The cost of Health & Social Care is forecast to be £751,600 higher than budgeted.

The key variances are:

- Social Care Activities is forecast to overspend by £366,500 due to recent changes in legislation that has placed a requirement on local authorities to carry out Deprivation of Liberties assessments which presently are being completed at a rate of 25 per week.
- Assistive Equipment & Technology is forecast to overspend by £171,300 due to higher demand than expected.
- Increased activity regarding Joint Carers Breaks (£65,900) and a small number of disability care packages being reviewed later than originally anticipated (£89,000)

5.3 Traffic & Transportation – Overspend £340,100 (or 2.00%)

The Portfolio is forecasting an overspend of £340,100

The main causes of the underlying forecast overspend relate to:

- Off Street Parking is forecasting a net revenue income shortfall of £394,700 as a result of savings planned to arise in previous years within the parking service not being fully achieved. As in previous years this shortfall will be met by a transfer from the Off Street Parking Reserve.

- As a result of the Highways PFI Contract renegotiations currently taking place, Highways Street Lighting (Electricity) is forecasting an overspend of £340,100 due to the delay in the installation of LED Street lighting enhancements approved by Council in November 2013, which are anticipated to result in significantly lower energy costs.

5.4 Environment and Community Safety – Underspend £134,700 (or 0.7%)

The Portfolio is forecasting an underspend of £134,700 due to:

- Waste volumes being lower than expected coupled with additional income arising from an improvement in the market price of dry mixed recyclables (£50,000)
- Additional income arising from charges for project related work and staff vacancies £51,800

5.5 PRED (Port) – Underspend £218,400 (or 4.9%)

Overall net income from the Port is forecast to be £218,400 above target income.

The improvement over the target net income is as a result of:

- Increased operational dues following the introduction of the new Transfennica and Brittany Ferries Etretat services coupled with a reduction in Management and General expenses offset by;
- Higher Operational Expenses as a result of higher dredging and Business Rate costs mitigated by quay assistant vacancies and lower energy costs.

5.6 Resources – Underspend £233,000 (or 1.0%)

The portfolio is forecasting an underspend of £233,000.

The main reasons for the net underspend are that:

- The Local Welfare Assistance scheme, which supports those in greatest need, is expected to underspend by £245,500 following a refund relating to 2013/14 of £140,000 and, based on previous levels of demand, an underspend relating to the current year of £140,000. This favourable variance will reduce if a bid to the Big Lottery 'Fresh Start' programme which is aimed at working with 15-25 year olds who are not currently in education, employment or training is successful (match funding of £90,000 will be required). Trading income of the Spinnaker Tower is also expected to be £100,000 greater than originally budgeted.
- The main area offsetting these underspends is HR, Legal and Performance which is forecasting an overspend of £141,800 as a result of restructurings that have not yet been fully implemented.

5.7 Asset Management Revenue Account – Underspend £973,800 (or 4.3%)

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.

The forecast underspend relates to:

- Higher returns on investment balances than anticipated leading to increased interest earned due to higher cash balances than originally expected (primarily due to £49 million City Deal Grant received 28th March 2014), improving interest rates and a reduced level of contingency to guard against interest rate fluctuations.

6 **Other Minor Budget Variations – Forecast Outturn 2014/15**

6.1 Culture, Leisure & Sport - No Forecast Variance

6.2 Housing – Minor Overspend £20,000 (or 1.1%)

6.3 Leader – Minor Overspend £5,600 (or 2.4%)

6.4 Licensing Committee – Minor Underspend £6,500 (or 4.5%)

6.5 Governance and Audit Committee – Underspend £49,600 (or 11.9%)

The Committee is forecasting an underspend of £49,600

The principle reason for the forecast underspend is due to higher income than budgeted of £51,800 within the Registrars Service due to increased income generated from new initiatives, higher demand for existing services and the introduction of a competitive pricing structure.

6.6 Levies – No Forecast Variance

6.7 Insurance – No Forecast Variance

6.8 Other Miscellaneous – No Forecast Variance

7. **Relationships between Financial Performance and Service Performance**

The Quarter 1 performance report will be considered by the Governance, Audit and Standards committee on 26th September. The report sets out the highlights, concerns and areas for improvement for all services.

As is usual with quarter one reports, trends are at an early stage of development. However, whilst many projects are proceeding well, and targets are being achieved, a

number of services are expressing concern around capacity and sustainability of services with reduced resources.

8. Conclusion - Overall Finance & Performance Summary

- 8.1 The overall forecast outturn for the City Council in 2014/15 as at the end of June 2014 is forecast to be £178,103,500. This is an overall overspend of £3,073,600 against the Amended Budget and represents a variance of 1.76%.
- 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 “red” since the forecast outturn is higher than budget. However, finance is not having a negative impact on the overall performance status of the Council’s activities.
- 8.4 In financial terms, the forecast overspend within the Children and Education, Health and Social Care and Traffic and Transportation Portfolios represent the greatest concerns in terms of the impact that they have on the overall City Council budget for 2014/15. Consequently, it is recommended that the Council Leader works with the relevant portfolio holder to consider measures to significantly reduce or eliminate the adverse budget position presently being forecast by these Portfolios, and any necessary decisions presented to a future meeting of the relevant portfolio.
- 8.5 Where a Portfolio is presently forecasting a net overspend in accordance with current Council policy, any overspending in 2014/15 which cannot be met by transfer from the Portfolio Specific Reserve will be deducted from cash limits in 2015/16 and therefore the appropriate Heads of Service in consultation with Portfolio Holders should prepare an action plan outlining how their 2014/15 forecast outturn or 2015/16 budget might be reduced to alleviate the adverse variances currently being forecast.
- 8.6 Based on the Budget (as adjusted) of £175,029,925 the Council will remain within its minimum level of General Reserves for 2014/15 of £6.0m as illustrated below:

	<u>£m</u>
General Reserves brought forward @ 1/4/2014	23.426
<u>Less:</u>	
Forecast Overspend 2014/15	(3.073)
<u>Add:</u>	
Planned Contribution to General Reserves 2014/15	3.283
Forecast General Reserves carried forward into 2015/16	23.636

Levels of General Reserves over the medium term are assumed to remain within the Council approved minimum 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 Financial resources are not seen as a primary barrier during the current year to either performance achievement or performance improvement. Although there are currently no specific requests for additional resourcing within this report to ensure that targets are achieved or objectives met, in the future, resources are more likely to pose a risk to future delivery and this 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.

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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
Council Tax Setting 2014/15 to 2017/18 & 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 25th September, 2014

Signed:

Approved / Approved as amended / Deferred / Rejected by the City Council on 14th
October, 2014

Signed:

**FINANCIAL & SERVICE
PERFORMANCE**

**QUARTER 1
2014/15**

INFORMATION PACK