

Agenda item:

**Decision maker:** Cabinet 1<sup>st</sup> October 2024

**Subject:** Revenue Budget Monitoring 2024/25 (First Quarter) to end June 2024

**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 first quarter for 2024/25, in accordance with the proposals set out in the "Portsmouth City Council - Budget & Council Tax 2024/25 & Medium Term Budget Forecast 2025/26 to 2027/28" report approved by the City Council on 13<sup>th</sup> February 2024.

## 2. Recommendations

2.1 It is recommended that:

- (i) The General Fund Forecast Outturn for 2024/25 (as at 30<sup>th</sup> June 2024) be noted:

The overspend is analysed as follows:

<b>FORECAST OUTTURN 2024/25</b>		<b>£000</b>
Forecast Net Overspend (before transfers to/from) Reserves		6,417
Less Transfers From Portfolio / Cabinet Reserve:		
	Overspendings (in accordance with approved Council resolutions)	(732)
Add Transfers to Portfolio and Other Reserves:		
	Underspendings (in accordance with approved Council resolutions)	66
<b>Forecast Net Overspend 2024/25 (before Windfall Costs)</b>		<b>5,751</b>
Less Expenditure funded from Corporate Contingency:		
	Windfall Costs	(2,386)
<b>Forecast Net Overspend 2024/25</b>		<b>3,365</b>

- (ii) Members note that in accordance with approved policy as described in Section 6 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 2025/26 Cash Limit.
- (iii) Directors, in consultation with the appropriate Cabinet Member, consider options that seek to minimise any forecast overspending presently being reported and prepare strategies outlining how any consequent reduction to the 2025/26 Portfolio cash limit will be managed to avoid further overspending during 2025/26.

### 3. Background

- 3.1 A Budget for 2024/25 of £221,698,100 was approved by City Council on 13<sup>th</sup> February 2024. This level of spending requires a contribution from General Reserves of £0.2m since in year expenditure exceeds in year income.
- 3.2 Since the 13<sup>th</sup> February City Council meeting, the Council has been allocated additional one off non ring-fenced grants totalling £800,500 in 2024/25. 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 13<sup>th</sup> February 2024 are as follows:

	£
<b>Budget Approved 13<sup>th</sup> February 2024</b>	<b>221,698,100</b>
Implementation of Supported Accommodation Reforms	490,200
Staying Close Grant	280,100
Electoral Integrity New Burdens Funding	30,200
<b>Adjusted 2024/25 Budget</b>	<b>222,498,600</b>

- 3.4 This is the first quarter monitoring report of 2024/25 and reports on the forecast 2024/25 outturn as at the end of June 2024. 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.
- 3.5 Any variances within Portfolios that relate to windfall costs or windfall gains 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 gains" are those savings that occur fortuitously without any manager action and all such savings accrue to the corporate centre.

#### 4. Forecast Revenue Outturn 2024/25 – As at end June 2024

- 4.1 At the first quarter stage the General Fund Revenue Outturn for 2024/25 is forecast to be overspent by £3,365,000.
- 4.2 The Quarter 1 General Fund Outturn before transfers to / from Reserves is an overall overspend of £6,417,000. After releases from Contingency (to fund Windfall Costs of £2,385,600) and transfers to and from Reserves, the Council is forecasting an overall overspend of £3,365,000.

	<b>Net Portfolio Variance</b>	<b>Other Windfall and Exceptional &amp; Significant Items</b>	<b>Transfers (from)/to Portfolio/ Parking Reserves</b>	<b>Total Variance</b>
	£	£	£	£
Central Services	568,400	(308,400)	(260,000)	0
Children, Families & Education	2,211,900	0	(189,200)	2,022,700
Climate Change & Greening the City	(400)	0	400	0
Community Safety, Leisure & Sport	(10,100)	0	10,100	0
Community, Wellbeing, Health & Care	2,937,600	0	0	2,937,600
Culture, Regeneration & Economic Development	(55,400)	0	55,400	0
Environmental Services	261,700	0	(101,400)	160,300
Housing & Tackling Homelessness	2,665,500	(1,907,000)	0	758,500
Leader	152,400	(70,200)	(82,200)	0
Planning Policy & City Development	122,200	(100,000)	0	22,200
Licensing Committee	0	0	0	0
Transport	99,500	0	(99,500)	0
<b>Total Portfolio Variance</b>	<b>8,953,300</b>	<b>(2,385,600)</b>	<b>(666,400)</b>	<b>5,901,300</b>
Treasury Management	(2,536,300)			(2,536,300)
<b>Overall Variance</b>	<b>6,417,000</b>	<b>(2,385,600)</b>	<b>(666,400)</b>	<b>3,365,000</b>

## 5. Quarter 1 Budget Variations – Forecast Outturn 2024/25

### 5.1 Central Services – Overspend £568,400 or After Transfer From Portfolio Reserve and windfall costs £Nil

The cost of Resources is forecast to be £568,400 higher than budgeted.

This level of overspending has arisen because of reduced income from traded services and higher employee costs within Human Resources (£0.19m); and higher employee costs coupled with an increase in Microsoft licensing costs within Information Services (£0.17m). These overspends are partially offset by underspends within Customer Services, Registrars and Procurement due to staff vacancies (£0.1m).

The forecast also includes costs associated with the Coroners service recharged from Hampshire County Council (£0.21m), as well as a shortfall in land charges income, following a national standardisation change to the land charges service (£0.1m). Both are windfall items and are therefore met corporately from within the Council's Contingency (Para 3.5).

### 5.2 Children, Families & Education – Overspend £2,211,900 or After Transfer From Portfolio Reserve £2,022,700

The cost of Children, Families & Education is forecast to be £2,211,900 higher than budgeted.

Despite significant additional funding being provided for 2024/25 of £5.1m, and the overall cash limit being set at a level to accommodate all anticipated service demands, costs continue to rise in excess of funding.

The overspend is due to high cost care experienced placements (£0.9m); youth remand accommodation costs in excess of the grant (£0.37m); cost of placements for Unaccompanied Asylum Seeking minors in excess of the grant (£0.17m); staff vacancies being covered by agency staffing (£0.26m); increased legal fees (£0.14m); and higher numbers of families with no recourse to public funds (£0.06m); as well as other minor variances £0.3m.

### 5.3 Community Safety, Leisure & Sport - Underspend £10,100 or After Transfer To Portfolio Reserve £Nil

The cost of Safety in the Community is forecast to be £10,100 lower than originally budgeted primarily because of staff vacancies within the Civil Contingencies Team, which have been partially offset by the cost of emergency works at the Southsea and Hilsea Splash pools.

5.4 Community, Wellbeing, Health & Care – Overspend £2,937,600

The cost of Community, Wellbeing, Health & Care is forecast to be £2,937,600 higher than budgeted.

Additional funding of £9.4m was provided for 2024/25. Despite the overall cash limit being set at a level to accommodate all anticipated service demands, service costs continue to rise generally, but particularly in Residential and Nursing care, which continue to outstrip the funding available.

The overspend is primarily due to higher than anticipated care package costs for clients in external Residential & Nursing care placements, combined with a delayed delivery of planned savings within the Adult Care & Support service (£2.2m). The in-house units are also experiencing cost pressures relating to staffing and agency costs (£0.1m) combined with a reduction in client contributions (£0.2m). The Learning Disability service and has incurred additional staff costs to meet increasing client demand (£0.2m), whilst the locum staff were required to cover vacancies within the Safeguarding Team (£0.09m). Other variances amounted to £0.15m.

5.5 Culture, Regeneration & Economic Development – Underspend £55,400 or After Transfer To Portfolio Reserve £Nil

The cost of the Culture, Regeneration & Economic Development Portfolio is forecast to be £55,400 lower than budgeted, due to lower staffing costs arising from vacancies, as well as additional income generated by Museum Services.

5.6 Environmental Services – Overspend £261,700 or After Transfer From Portfolio Reserve £160,300

The cost of Environmental Services is forecast to be £261,700 higher than budgeted.

The main reason for the overspend is due to higher than anticipated disposal costs for DIY materials and wood, as result of increased waste volumes following the removal of the disposal charges in April 2024 (£0.21m), inflationary cost pressures (£0.26m) and a reduction in income from electricity generation from the Energy Recovery Facility due to maintenance downtime for a turbine replacement (£0.05m).

This overspend has been partly offset by underspends in relation to refuse collection, arising from lower than expected staff costs (£0.07m), favourable market conditions for the Hydrotreated Vegetable Oil (HVO) fuel used by the vehicles (£0.12m), as well as a lower than anticipated final contract payment to previous service provider (£0.07m).

5.7 Housing & Tackling Homelessness – Overspend £2,665,500 or After windfall costs £758,500

The cost of Housing & Tackling Homelessness is forecast to be £2,665,500 higher than budgeted.

The forecast overspend is primarily driven by the increased demand for temporary accommodation within the City (£1.9m), a shortfall in income for Design and Building Engineering Services (£0.13m), as well higher than budgeted landlord repairs and maintenance costs, due to rising costs in the supply chain, mandatory minimum levels of statutory maintenance combined with the variability of ad-hoc repairs which are unpredictable in frequency and cost (£0.67m). The temporary accommodation overspend will be treated as windfall cost and will be met from Corporate Contingency (Para 3.5).

5.8 Leader – Overspend £152,400 or After Transfer From Portfolio Reserve and windfall costs £Nil

The cost of Leader is forecast to be £152,400 higher than budgeted.

The overspend has arisen mainly because of lower than anticipated utilisation of the Programme Management Office and therefore their ability to generate income to cover team costs (£0.08m).

The forecast also reflects the loss of sponsorship for the Spinnaker Tower (£0.1m). Whilst rental income from the Property Portfolio is currently greater than anticipated (£0.03m). Both are windfall items and are therefore met corporately from within the Council's Contingency (Para 3.5).

5.9 Planning Policy & City Development – Overspend £122,200 or After windfall costs £22,200

The cost of Planning Policy & City Development is forecast to be £122,200 higher than budgeted.

The main reason for the overspend is due to lower than anticipated Planning Application Fee income (£0.1m) which is a windfall cost and will be met from the Corporate Contingency allocation (Para 3.5). The remaining overspend is due to the use of additional agency staff.

5.10 Transport – Overspend £99,500 or After Transfer From Parking/PFI Reserve £Nil

The cost of Transport is forecast to be £99,500 higher than budgeted.

The forecast overspend has arisen because of a fall in Park & Ride Income due to lower passenger numbers (£0.18m) and a reduction in departure charge income from the Hard Interchange due to re-surfacing works (£0.08m), which has been partly offset by higher than expected parking income (£0.07m) and lower than expected staffing costs due to vacancies (£0.09m).

5.11 Treasury Management – Underspend £2,536,300

This budget funds all 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 the income in respect of the investment of the City Council's surplus cash flows. Consequently, 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 is largely because of the sustained higher interest rates which has provided the Council with increased levels of interest on its short term cash flows.

5.12 Corporate Contingency – release £2,385,600

As at Quarter 1, net windfall costs totalling £2,385,600 are being forecast which will be funded from the Corporate Contingency. (Para 3.5)

Items identified as windfall or exceptional and significant costs in this Quarter 1 report are:

	£
Homelessness	1,907,000
Land Charges	94,000
Coroners	214,400
Spinnaker Tower Sponsorship	100,700
Commercial Property Income	(30,500)
Planning Development Control Fee Income	100,000
<b>Total Windfall and Exceptional &amp; Significant Items</b>	<b>2,385,600</b>

**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

6.2 The forecast balances on Portfolio Reserves are set out below:

<b>Portfolio/Committee</b>	<b>Balance Brought Forward £</b>	<b>Approved Transfers £</b>	<b>Forecast Under/(Over) Spending £</b>	<b>Balance Carried Forward £</b>
Central Services	646,800	(144,600)	(260,000)	242,200
Children, Families & Education	395,200	(206,000)	(189,200)	0
Community Safety, Leisure & Sport	111,300	(40,500)	10,100	80,900
Community, Wellbeing, Health & Care	183,600	(183,600)	0	0
Culture, Regeneration & Economic Development	465,700	(291,600)	55,400	229,500
Environmental Services	101,400	0	(101,400)	0
Climate Change & Greening the City	0	0	400	400
Housing and Tackling Homelessness	0	0	0	0
Leader	584,800	(171,700)	(82,200)	330,900
Planning Policy & City Development	0	0	0	0
Transport	0	0	0	0
Licensing	87,700	0	0	87,700
Cabinet	0	200,000	0	200,000
	<b>2,576,500</b>	<b>(838,000)</b>	<b>(566,900)</b>	<b>1,171,600</b>

## 7. Conclusion - Overall Financial Summary

- 7.1 The overall 2024/25 outturn for the City Council as at the end of June 2024 is forecast to be £225,863,600. This is an overall overspend of £3,365,000 against the Adjusted Budget.
- 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 drawdown from Portfolio Reserves of £0.6m, has mitigated some Portfolio overspending. The Portfolio Reserves are now largely depleted (Para 6.2) and therefore this may indicate financial difficulties for Portfolios in future years.
- 7.4 The overall financial forecast for Quarter 1 is an overspend. The levels of overspending in the following areas are of concern: Children, Families and Education



(£2.2m), Adult Social Care (£2.9m), Housing & Tackling Homelessness (£2.7m), as well as some corporate services such as Human Resources (£0.19m) and Information Technology (£0.17m).

- 7.5 Whilst the approved Budget 2024/25 originally sought to remedy unavoidable budget pressures, since the budget was approved in February increasing demand for services continues to place pressure or exacerbate known pressures. Consequently, there remains longer term uncertainty relating to further increases in demand. Should this persist, the Council's savings requirements in the future could rise. It is therefore 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 Portfolios with a view to eliminating deficits in the medium term, and any necessary decisions presented to a future meeting of the relevant Portfolio.
- 7.6 Where a Portfolio is presently forecasting a net overspend, in accordance with current Council policy, any overspending in 2024/25 which cannot be met by transfer from the Portfolio Specific Reserve will be deducted from cash limits in 2025/26 and therefore the appropriate Directors in consultation with Portfolio Holders should prepare an action plan outlining how their 2024/25 forecast outturn or 2025/26 budget might be reduced to alleviate the adverse variances currently being forecast.
- 7.7 Alongside the current financial and demand pressures, Children's Services, Adult Care, Public Health and Housing Services are currently reliant on £19.5m of revenue grants and external contributions to maintain the delivery of services. Currently, there is uncertainty as to whether these funding sources will continue beyond the end of the current financial year and therefore the ability for the Council to continue the associated services in the future.
- 7.8 Based on the Budget of £222,498,600 the Council will remain within its minimum level of General Reserves for 2024/25 of £10.0m as illustrated below:

	£m
General Reserves brought forward at 01/04/2024	21.4
<b>Add:</b>	
Forecast Overspend 2024/25	(3.4)
<b>Add:</b>	
Planned Contribution from General Reserves 2024/25	(0.2)
Forecast General Reserves carried forward into 2025/26	17.8

## 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 & 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 2024/25 & Medium Term Budget Forecast 2025/26 to 2027/28	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 1<sup>st</sup> October 2024

Signed: .....