

Decision maker: Cabinet 5th March 2015
City Council 17th March 2015

Subject: Budget & Performance Monitoring 2014/15 (3rd Quarter) to end December 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 third quarter for 2014/15.
- 1.2 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 forecast outturn position for 2014/15 be noted:
- (a) An overspend of £822,200 after further forecast transfers to Portfolio Specific Reserves
 - (b) An overspend of £562,000 before further forecast transfers to Portfolio Specific Reserves.
- (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 2015/16 Cash Limit.
- (iii) Members note that the following actions have been instigated by the Head of Finance and S151 Officer in relation to the Children & Education Portfolio overspend:
- (a) Initiated a review of the cost effectiveness of the use of supernumerary and agency posts and the contribution to the Integrated Commissioning Unit by Children's Social Care
 - (b) Requested that the Head of Children's Social Care produce a detailed action plan for reducing expenditure within the service to operate within the authorised cash limit for 2015/16
 - (c) Initiated fortnightly budget monitoring meetings, to review progress against budget and the action plan, with the Leader of the Council, Portfolio Holder, Chief Executive and Head of Children's Social Care.

- (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 2015/16 Portfolio cash limit will be managed to avoid further overspending during 2015/16.

3. Background

- 3.1 The Revised Budget for 2014/15 of £182,053,100 was approved by City Council on the 10th February 2015. This level of spending required an overall contribution from General Reserves of £8.83m 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 2014/15 and reports on the forecast 2014/15 outturn as at the end of December 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.
- 3.3 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 Budget report approved by Council on 10th February 2015. 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 December 2014

- 4.1 At the third quarter stage, the revenue outturn for 2014/15 after further forecast transfers to Portfolio Specific Reserves (which are retained by right) is forecast to be overspent by £822,200 representing an overall budget variance of 0.50%.
- 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)
£	£		£	£
2,950,600	2,914,500	Children and Education	3,975,800	3,975,800
	227,800	Culture, Leisure & Sport		
751,200	497,000	Health and Social Care	215,100	215,100
340,100		Traffic and Transportation	166,200	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 From Portfolio Reserves)
£	£			£
		Environment & Community Safety	161,400	Nil
	221,000	PRED		
	1,007,700	Commercial Port		
973,800	985,500	Asset Management Revenue Account	114,500	114,500
	279,600	Other Miscellaneous	3,267,000	3,267,000

5 Quarter 3 Significant Budget Variations – Forecast Outturn 2014/15

5.1 Children and Education – Overspend £3,975,800 (or 12.5%)

The cost of Children and Education Services is forecast to be £3,975,800 higher than budgeted. Of this figure £3,889,300 relates to the Children's Social Care and Safeguarding service areas.

The key variances are:

- Family Support Services is forecast to overspend by £200,000. The forecast overspend includes previously agreed savings and efficiency targets of £40,000 which have yet to be fully implemented and realised. The service is also unable to deliver vacancy savings targets, due to the operational

decision not to operate with vacancies, in order to try and maintain manageable caseload levels.

- Fieldwork Services are currently forecasting an overspend of £1,612,000 as a result of a combination of the inability to deliver vacancy savings, the need to employ agency workers to cover practice leader posts, the implementation of agreed re-grading arrangements and additional supernumerary front line 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 these pressures have led to a forecast overspend of £788,000. This overspend has been exacerbated by the withdrawal of the one-off £273,000 of Social Work Matters funding allocated in 2013/14 (which was originally provided on the basis that savings would be made or costs avoided in the Looked After Children's budget as a consequence of increasing more senior Social Worker provision)

The service has also experienced increased expenditure of £436,000 from numbers and the cost of adoptive and care leaver placements alongside reduced income from other local authorities using Portsmouth supported adoptive parents; as we make greater use of these placements ourselves which is more cost effective for the Council.

Changes to the Council's car parking charging policy has also resulted in a substantial staff parking cost increase of £143,000. Opportunities to reduce this by looking at working practices have been implemented and are currently being explored for further cost reduction opportunities in the forthcoming year.

- Whilst placements with independent foster carers continue to reduce, this has been at a slower rate than that anticipated and due to the complexity of needs the Looked After Children budget area is forecast to overspend by £1,699,000.
- Commissioned Services are forecast to overspend by £114,000: £40,000 relates to the loss of income following a decision not to pursue parental contributions, (means tested contributions in respect of s.20 placements), a further £60,000 from increased cost of emergency duty, child advocacy and supervised contact commissioned services. The remainder relates to additional project support and consultancy costs.
- Management and Support (£398,000 overspend): The Independent Reviewing Officer (IRO) service is experiencing budget pressures 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 OFSTED inspection requirements.

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

It was reported to the Children and Education Portfolio on 26th September 2014 that Social Care and Safeguarding had exceeded the budget provision by £2.3m in 2013/14 and as at 30th June 2014 was forecasting an overspend of £2.5m in 2014/15 (The forecast overspend has risen to £3.89m as at the end of Quarter 3). As a result the Director of Adults and Children's Services was instructed to develop proposals for reducing the operating expenditure requirements of the Portfolio in:

- i. the current financial year
- ii. the 2015/16 financial year to ensure that it can operate within its allocated Cash Limit in 2015/16 to deliver a balanced budget.

As a consequence savings proposals totalling £1,917,000 per annum from 2015/16 were noted by City Council as part of the Budget & Performance Monitoring 2014/15 (2nd Quarter) Report on 20th January 2015.

In response to the worsening financial position of the Portfolio, the Head of Finance & S151 Officer has instigated the following action:

- (a) Initiated a review of the cost effectiveness of the use of supernumerary and agency posts and the contribution to the Integrated Commissioning Unit by Children's Social Care
- (b) Requested that the Head of Children's Social Care produce a detailed action plan for reducing expenditure within the service to operate within the authorised cash limit for 2015/16
- (c) Initiated fortnightly budget monitoring meetings, to review progress against budget and the action plan, with the Leader of the Council, Portfolio Holder, Chief Executive and Head of Children's Social Care.

The combination of the proposed £1.917m of saving proposals for 2015/16 plus these actions set out above are intended to minimise the underlying budget deficit being experienced in the Portfolio. As reported to the City Council within the Budget Report on 10th February 2015, given the proximity to the end of the financial year, the scale of this overspend cannot be rectified within the current financial year. To ensure that the Council's budget overall remains robust, some funding will be retained within the Council's corporate contingency provision to cover the 2014/15 overspend position of the Portfolio. This is described in paragraph 5.6.

The prospects for the Children & Education Portfolio Budget in 2015/16 remain challenging but achievable if the proposals described in the report to Cabinet in December 2014 to save £1.917m are successfully delivered.

5.2 Health and Social Care – Overspend £215,100 (or 0.4%)

The cost of Health & Social Care is forecast to be £215,100 higher than budgeted.

The key variances are:

- Assistive Equipment and Technology is forecast to overspend by £103,200 as a result of the equipment required to maintain clients in their home for longer. However, this overspend is offset by an underspend of £91,800 within Memory Cognition as a result of these clients being cared for in their homes.

- Social Care Activities are forecast to overspend by £197,500 primarily as a result of Deprivation of Liberties (DOL's) assessments which have rapidly increased from a few per month to approximately 25 per week.

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

5.3 Traffic & Transportation – Overspend £166,200 (1.0%) or After Transfer From Off-Street Parking Reserve Nil variance

Any overspend against the Traffic & Transportation Portfolio will be funded by an equivalent transfer from the Off-Street Parking Reserve. It is expected that a transfer of £166,200 will be necessary to meet the shortfall between in-year spending and in-year income.

5.4 Environment and Community Safety – Underspend £161,400 (1.0%) or After Transfer to Portfolio Specific Reserve Nil variance

The Portfolio is currently forecasting an underspend of £161,400.

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:

- As a result of effective contract monitoring the cost of Refuse Collection and Waste Disposal is forecast to be £97,000 lower than budgeted.
- Staffing costs across the Portfolio are expected to be £55,000 lower than originally budgeted due to staff vacancies, higher fee income for staff time spent on major capital projects offset by staffing costs associated with the 'Delivering Differently' project.

As portfolio underspendings are transferred to portfolio specific reserves at the end of the year no variance is currently forecast.

5.5 Asset Management Revenue Account – Underspend £114,500 (or 0.5%)

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.

5.6 Other Miscellaneous – £3,267,000

As described in the Budget & Council Tax 2015/16 & Medium Term Budget Forecast 2016/17 to 2018/19 Report to Council on 10th February 2015, the Children and Education Portfolio is experiencing difficulty containing expenditure within budgeted limits. The Revised Budget approved by the City Council on the 10th February 2015 was prepared to include a Contingency provision of £2,912,000 which was set aside

to guard against an overall overspend on the Children's Safeguarding budget. In addition it is now expected that a further £355,000 currently provided within the 2014/15 Contingency will not be required.

6 Other Minor Budget Variations – Forecast Outturn 2014/15

6.1 Culture, Leisure & Sport – Underspend £57,600 (or 0.7%) (No variance after transfers to Portfolio Reserves)

The Portfolio is forecasting an underspend of £57,600.

The Portfolio is forecasting a number of minor variations across a number of services, the most significant of which are an underspend of £70,900 within Parks, Gardens & Open Spaces due to lower maintenance requirements offset by lower Golf Income (£25,100) due to reduced demand.

6.2 Housing – Minor Overspend £27,900 (or 1.5%) (No variance after transfers From Portfolio Reserves)

6.3 Leader – Minor Overspend £12,800 (or 5.5%)

6.4 PRED – Minor Underspend £3,900 (or 0.4%) (No variance after transfers to Portfolio Reserves)

6.5 PRED (Port) – Minor Overspend £19,500 (or 0.5%) (No variance after transfers from Portfolio Reserves)

6.6 Resources – Minor Underspend £45,300 (or 0.2%) (No variance after transfers to Portfolio Reserves)

The Portfolio is forecasting an underspend of £45,300.

A number of underspendings are forecast across the Portfolio mainly as a result of posts that are being held vacant. These underspendings have been largely offset by overspending elsewhere, primarily Housing Benefit subsidy being lower than budgeted (£118,200), a budget saving totalling £90,000 not achieved by Property Services and the under achievement of design fee income by the AMS Design & Maintenance team.

6.7 Licensing Committee – Underspend £33,100 (or 22.8%) (No variance after transfers to Committee Reserves)

Staff vacancy saving and additional net income arising from the licensing of scrap metal & motor salvage dealers. 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.

6.8 Governance, Audit and Standards Committee – Underspend £6,300 (or 2.1%) (No variance after transfers to Committee Reserves)

6.9 Levies – No Forecast Variance

6.10 Insurance – No Forecast Variance

7. **Transfers From/To Portfolio Specific Reserves**

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 Head of Finance and 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 that will be carried forward into 2015/16 is set out below:

Portfolio/Committee Reserve	Balance	Approved	Forecast	Balance
	Brought Forward	Transfers 2014/15	Under/ (Over) Spending	Carried Forward
	£	£	£	£
Children & Education	228,600	(228,600)		0
Culture, Leisure & Sport	115,600	207,000	57,600	380,200
Environment & Community Safety	1,177,400	(292,000)	161,400	1,046,800
Health & Social Care	2,194,600	(2,194,600)		0
Housing	136,800	(3,000)	(27,900)	105,900
Leader	0			0
PRED	375,500	41,000	3,900	420,400
Port	418,100		(19,500)	398,600
Resources	666,600	(12,000)	45,300	699,900
Licensing	33,700		33,100	66,800
Governance, Audit & Standards	145,000	110,000	6,300	261,300
Total	5,491,900	(2,372,200)	260,200	3,379,900

Note: Releases from Portfolio Reserves to fund overspending cannot exceed the balance on the reserve

8. Relationships between Financial Performance and Service Performance

8.1 The quarter 3 performance reports highlight some service-specific issues, including a high level of overspending in Children's Safeguarding and Social Care, and some concerns about financial pressures in Adults Social Care particularly. However, there are also a number of common themes, and these are generally the same as were raised in the previous quarter including;

- demand, where this is seen to be increasing despite an accepted need to reduce demand;
- challenges in delivering on change projects already in the pipeline to reduce costs and particularly to deliver on income;
- workforce capacity in some areas critical to longer term objectives, linked to sustainability of services.

8.2 More work needs to be done to consider the link between the information in the report to Governance, Audit & Standards and the budget process; and also the extent to which questions of capacity could be addressed by adding more capacity in an "invest to save" scheme - or where it appears skills are insufficient or original assumptions were not correct. It is important to identify where greater benefit could be derived by bringing schemes forward, including IT schemes.

8.3 A full report on quarter 3 performance will be considered by Governance, Audit and Standards Committee on 13th March 2015.

9. Conclusion - Overall Finance & Performance Summary

- 9.1 The overall forecast outturn for the City Council in 2014/15, before further transfers to Portfolio Specific Reserves as at the end of December 2014, is forecast to be £182,615,100. This is an overall overspend of £562,000 against the Revised Budget and represents a variance of 0.30%. Once all transfers to Portfolio Specific Reserves are taken into account the forecast outturn for the City Council increases by £260,200 to £182,875,300. This is an overall overspend against the revised budget of £822,200 representing a variance of 0.50%.
- 9.2 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.
- 9.3 The overall financial position is deemed to be “red” since the forecast outturn after transfers to Portfolio Specific Reserves is higher than budgeted. However, finance is not having a negative impact on the overall performance status of the Council’s activities.
- 9.4 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 2014/15. Consequently the Head of Finance & S151 Officer has set in train a series of actions to minimise the underlying budget deficit.
- 9.5 Where a Portfolio is presently forecasting a net overspend, in accordance with current Council policy, any overspending in 2014/15 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.
- 9.6 Based on the Revised Budget of £182,053,100 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	23.427
<u>Add:</u>	
<u>Less:</u>	
Forecast Overspend 2014/15	(0.822)
Planned Withdrawal from General Reserves 2014/15	(8.827)
Forecast General Reserves carried forward into 2015/16	13.778

Levels of General Reserves over the medium term are assumed to remain within the Council approved sum of £6.5m in 2015/16 and future years since any ongoing budget pressures / savings will be reflected in future years' savings targets.

9.7 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 relation to each other.

10. 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.

11. 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
Budget & Council Tax 2015/16 & Medium Term Budget Forecast 2016/17 to 2018/19	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 5th March, 2015

Signed:

Approved / Approved as amended / Deferred / Rejected by the City Council on 17th March, 2015

Signed:

**FINANCIAL & SERVICE
PERFORMANCE**

**QUARTER 3
2014/15**

INFORMATION PACK