

Decision maker: Cabinet 24th September 2015
City Council 13th October 2015

Subject: Revenue Budget Monitoring 2015/16 (1st Quarter) to end June 2015

Report by: Director of Finance & Information Service

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 2015/16 in accordance with the proposals set out in the "Portsmouth City Council - Budget & Council Tax 2015/16 & Medium Term Budget Forecast 2016/17 to 2018/19" report approved by the City Council on the 10th February 2015.

2. Recommendations

- 2.1 It is recommended that:

- (i) The forecast outturn position for 2015/16 be noted:
- (a) An overspend of £5,247,800 before further forecast transfers from/(to) Portfolio Specific Reserves
 - (b) An overspend of £5,381,100 after further forecast transfers from/(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 2016/17 Cash Limit.
- (iii) 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 2016/17 Portfolio cash limit will be managed to avoid further overspending during 2016/17.

3. Background

- 3.1 A Budget for 2015/16 of £168,340,900 was approved by City Council on the 10th February 2015. This level of spending required a contribution from General Reserves of £1.15m since in year spending exceeds in year income.

3.2 Since the 10th February City Council meeting, the Council has been allocated additional one off non ring-fenced grants totalling £788,400 in 2015/16. In order to achieve the government's priorities in these areas, service budgets have been adjusted as appropriate. In addition, the adjusted budget includes £332,000 grant income relating to an improvement in the Final 2015/16 Local Government Settlement and a transfer from the Parking Reserve in respect of overheads and insurances chargeable to the On-Street Parking Service.

3.3 In summary, changes to the budget as approved on 10th February 2015 are as follows:

	£
Budget Approved 10 th February 2015	168,340,900
Transformation Challenge Award (Up to You)	305,000
Independent Living Fund	388,400
Deprivation of Liberties	95,000
Transfer From Parking Reserve	(100,000)
Adjusted 2015/16 Budget	169,029,300

3.4 Once the above budget changes are taken into account, the Budget (as adjusted) for 2015/16 has increased to £169,029,300. After the additional non ring fenced grant funding is taken into account this results in an overall contribution from General Reserves of £0.718m for 2015/16 (i.e. assuming no overall budget variance).

3.5 This is the first quarter monitoring report of 2015/16 and reports on the forecast 2015/16 outturn as at the end of June 2015. 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 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 2015/16 – As at end June 2015

4.1 At the first quarter stage, the revenue outturn for 2015/16 after further forecast transfers from/to Portfolio Specific Reserves (Underspends are retained by right) is forecast to be overspent by £5,381,100 representing an overall budget variance of 3.2%.

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 Forecast Variance	Quarter 1 Forecast Variance (After Transfers From Portfolio Reserves)
	£	£
Children and Education	2,312,200	2,312,200
Health and Social Care	2,926,500	2,902,700
PRED	292,100	Nil
Other Expenditure	650,000	650,000

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

	Quarter 1 Forecast Variance	Quarter 1 Forecast Variance (After Transfers To Portfolio Reserves)
	£	£
Commercial Port	208,600	Nil
Asset Management Revenue Account	450,300	450,300

5 Quarter 1 Significant Budget Variations – Forecast Outturn 2015/16

5.1 Children and Education – Overspend £2,312,200 (or 7.6%)

The cost of Children and Education Services is forecast to be £2,312,200 higher than budgeted.

The key variances are:

- Home to school and college transport is forecasting an overspend of £206,000 due to the number of children being supported. New transport

policies were implemented from September 2014 and the cost of travel compared to 2013/14 has already reduced.

- Looked After Children is forecasting an overspend of £1,734,600.
 - Whilst the continuing review of placements and placement plans has produced a reduction in external residential numbers in the first part of this year, this has not yet matched budgeted numbers. Similarly numbers in Independent Fostering placements are also reducing but at a slower rate than planned and in house placements continue to rise (£965,000).
 - In addition staffing costs are currently projected to exceed the budget provision by around £420,000, largely as a result of the loss of one-off funding allocations which have not been able to be matched with similar spending reductions or savings arising from reduced placement numbers as anticipated.
 - The added focus on Adoption Support, in line with the government's adoption agenda, to move children into permanent arrangements has led to an anticipated pressure of £170,000 associated with the purchase of placements. It is possible that this may be reduced following the recent announcement by the Government that they will pay the inter-agency fee for the next twelve months (from 8th July 2015) for a targeted group of children. The impact of this announcement is currently being assessed.
 - A further £108,000 projected overspend relates to savings proposals on income generation that are proving difficult to implement, £40,000 of which relates to the decision not to pursue parental contributions (means tested contributions in respect of placements under s.20 of the Children's Act 1989)
- Safeguarding & Monitoring is forecasting an overspend of £259,400. Of this £52,000 relates to a reduction in budget arising from an anticipated improvement in service absence management. A further £123,000 relates to the delayed implementation of savings plans together with increased recharges and a further £40,000 is as a result of the enhancement of contracted Family Group conferencing and Information governance arrangements.
- Youth Support Activities are forecast to overspend by £135,000. This projected overspend is predominantly related to Care Leavers accommodation and allowance payments related to the current numbers of care leavers.

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 £2,926,500 (6.8%) or After Transfer From Portfolio Reserve £2,902,700 (6.7%)

The cost of Health & Social Care is forecast to be £2,926,500 higher than budgeted.

The key variances are:

- Greater demand for older persons domiciliary care and delays in the implementation of savings proposals has resulted in a forecast overspend within Physical Support services of £1,861,200.
- An increased volume of clients transitioning from Children's Services coupled with a delay in the initiation of a review of day care services and ongoing funding claims from other Local Authorities under the 'ordinary residence ruling' has resulted in a forecast overspend within the Learning Disability Support Service of £1,028,100.

5.3 PRED – Overspend £292,100 or (14.8%) (No variance after transfers from Portfolio Reserves)

The cost of Planning, Regeneration and Economic Development is forecast to be £292,000 higher than budgeted.

Overspends:

- As a result of reduced manufacturing income and reduced employment and training contract income PCMI is forecasting an over spend of £99,000.
- Following a decision by the Skills Funding Agency to reduce college funding by 25% colleges have not renewed their training sub contracts. As a result Community Learning and Pride in Pompey are forecasting an overspend of £148,000
- Lower rental income across the property portfolio following rent reviews and asset disposals had resulted in a reduction in income of £230,000.

Underspends:

- Planning income is forecast to be £100,000 higher than originally budgeted due to large additional developments within the city
- As a result of increased occupancy levels Enterprise Centres are forecast to receive additional income rental income of £68,000

5.4 Other Expenditure – Overspend £650,000 (or 4.00%)

MMD trading results are not improving as quickly as originally expected, although the overall financial position relating to MMD activities continues to exceed the breakeven position.

5.5 PRED (Port) – Underspend £208,600 (or 4.6%) (No variance after transfers to Portfolio Reserves)

Overall net income from the Port is forecast to be £208,600 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 Operational Employee, security and berthing costs offset by;
- Higher Management and General Expenses as a result of the provision of consultant advice to mitigate risk attached to an IT project.

5.6 Asset Management Revenue Account – Underspend £450,300 (or 1.9%)

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:

Increased interest earned due to higher cash balances than originally expected, interest rates and a reduced level of contingency to guard against interest rate fluctuations.

Increased investment returns arising from an active shift in the portfolio towards both higher yielding and longer term investments.

6 Other Minor Budget Variations – Forecast Outturn 2015/16

6.1 Culture, Leisure & Sport – Minor Underspend £21,000 (or 0.3%)

6.2 Environment & Community Safety – Minor Overspend £5,400

6.3 Housing – No Forecast Variance

6.4 Leader – Minor Overspend £4,500 (or 2.1%)

6.5 Resources – Minor Underspend £89,500 (or 0.4%)

Approved budget reductions relating to additional income from the HRA totalling £147,200 are still being identified. This overspend is offset by underspending across the Portfolio primarily as a result of posts being held vacant pending service reviews.

6.6 Traffic & Transportation – Minor Underspend £42,500 (or 0.3%)

6.7 Licensing Committee – No Forecast Variance

6.8 Governance and Audit Committee – Minor Underspend £97,500 (or 43.4%)

The principle reason for the forecast underspend is higher income than budgeted of £102,000 within the Registrars Service due to increased income generated from new initiatives and higher demand for existing services.

6.9 Levies – Minor Underspend £33,500 (or 3.7%)

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 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 Brought Forward £	Approved Transfers 2015/16 £	Forecast Under/ (Over) Spending £	Balance Carried Forward £
Children & Education	42,000	(42,000)	0	0
Culture, Leisure & Sport	409,800	0	21,000	430,800
Environment & Community Safety	1,241,300	0	(5,400)	1,235,900
Health & Social Care	730,700	(706,900)	(23,800)	0
Housing	541,700	0	0	541,700
Leader	6,900	0	(4,500)	2,400
PRED	919,400	0	(292,100)	627,300
Port	879,900	0	208,600	1,088,500
Resources	1,397,600	(435,200)	89,500	1,051,900
Traffic & Transportation	32,700	0	42,500	75,200
Licensing	0	0	0	0
Governance, Audit & Standards	255,300	0	97,500	352,800
Total	6,457,300	(1,184,100)	133,300	5,406,500

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

8. Conclusion - Overall Finance & Performance Summary

- 8.1 The overall forecast outturn for the City Council in 2015/16 as at the end of June 2015 is forecast to be £174,410,400. This is an overall overspend of £5,381,100 against the Amended Budget and represents a variance of 3.2%.
- 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.
- 8.4 In financial terms, the forecast overspend within the Children & Education and Health and Social Care Portfolios represent the greatest concerns in terms of the impact that they have on the overall City Council budget for 2015/16. Furthermore, a significant proportion of the overspend is of an ongoing nature representing an underlying deficit. Consequently, it is recommended that Directors work 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 In terms of the overall budget position for 2015/16, the Council has set aside funding within the Contingency Provision to guard against potential overspending. So, whilst the forecast of overspend of £5.4m in the current year can be mitigated to a large extent, this underlying deficit will need to be addressed in 2016/17.

- 8.6 Where a Portfolio is presently forecasting a net overspend in accordance with current Council policy, any overspending in 2015/16 which cannot be met by transfer from the Portfolio Specific Reserve will be deducted from cash limits in 2016/17 and therefore the appropriate Directors in consultation with Portfolio Holders should prepare an action plan outlining how their 2015/16 forecast outturn or 2016/17 budget might be reduced to alleviate the adverse variances currently being forecast.
- 8.7 Based on the Budget (as adjusted) of £174,410,400 the Council will remain within its minimum level of General Reserves for 2015/16 of £6.5m as illustrated below:

	<u>£m</u>
General Reserves brought forward @ 1/4/2015	14.864
<u>Less:</u>	
Forecast Overspend 2015/16	(5.381)
<u>Add:</u>	
Planned Contribution from General Reserves 2015/16	(0.718)
Contingency Provision to guard against overspending	4.134
Forecast General Reserves carried forward into 2016/17	12.899

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

- 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 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
Director of Finance & Information Service

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 24th September, 2015

Signed:

Approved / Approved as amended / Deferred / Rejected by the City Council on 13th October, 2015

Signed:

**FINANCIAL & SERVICE
PERFORMANCE**

**QUARTER 1
2015/16**

INFORMATION PACK