



Agenda item:

Decision maker: Cabinet
Governance Audit & Standards Committee (for information)

Subject: Financial Impact of Covid-19 Pandemic

Date of decision: 14 July 2020

Report by: Director of Finance & Resources (Section 151 Officer)

Wards affected: All

Key decision: No

**Budget & policy
framework decision:** No

1. Executive Summary

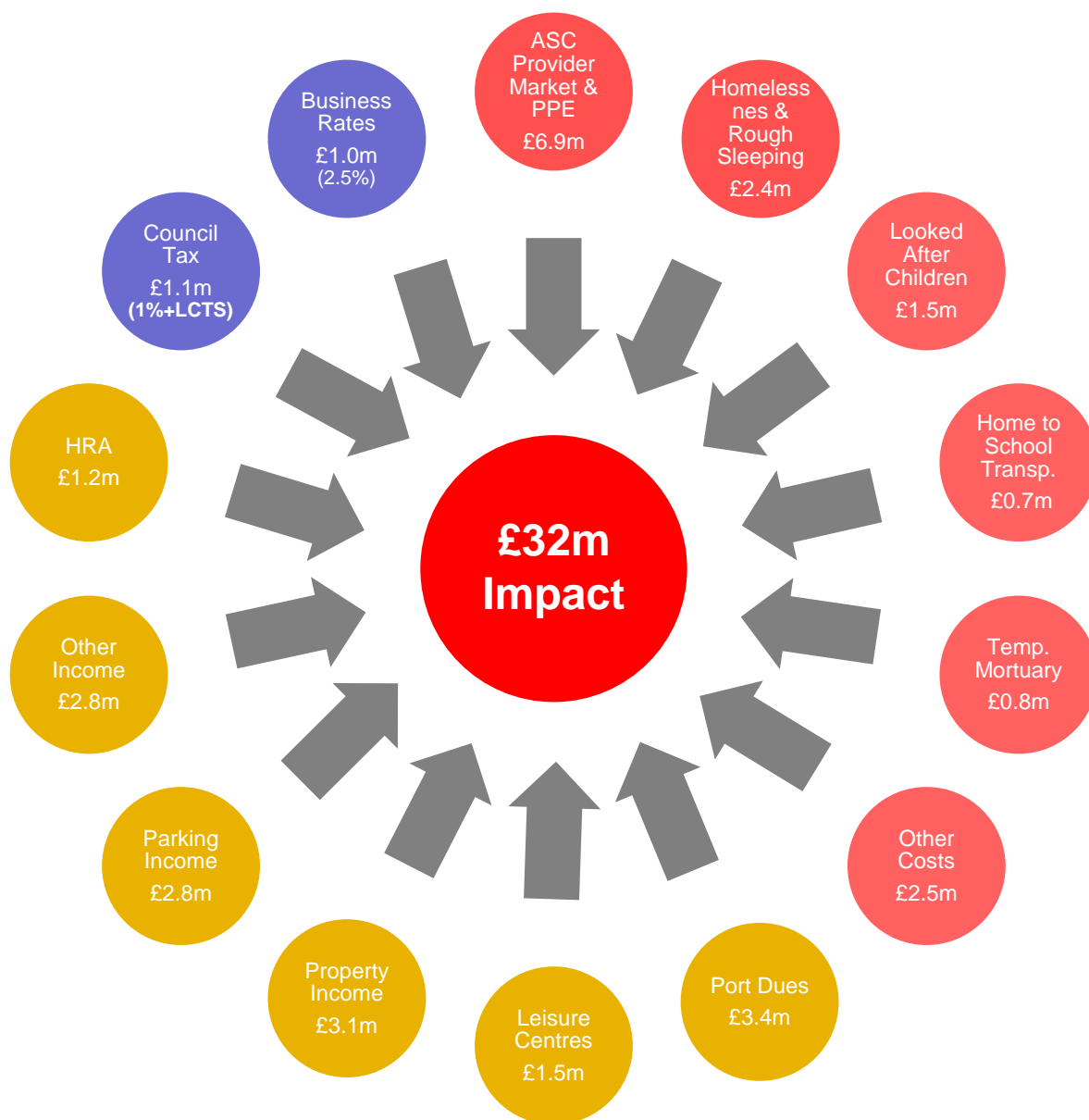
- 1.1 An Executive Summary of the financial implications arising from the direct impact of the Covid-19 pandemic including the cost of the response is set out below.

EXECUTIVE SUMMARY

- ❖ At the outset of the pandemic emergency, the Secretary of State gave a commitment that he would "give councils the resources they need to respond and I mean it"
- ❖ The forecast overall cost to the Council of the Covid-19 pandemic is currently £32m, to date Government have provided financial support of £12m leaving a forecast shortfall of £20m for the financial year 2020/21

EXECUTIVE SUMMARY (Cont'd)

- ❖ A summary of the £32m additional costs (red), income losses (gold) and funding reductions (purple) is illustrated below:



- ❖ On 2 July, the Secretary of State announced that a further funding package will be made available to Local Authorities, the details of this for Portsmouth have yet to be published and therefore the extent to which it will reduce the overall current shortfall is unknown.
- ❖ The forecast £20m shortfall remains uncertain and:
 - Will improve once the details of the new funding package are received
 - Could improve if the expected impact lessens
 - Could deteriorate if there is a second peak or the expected impact worsens
- ❖ To remain within the approved Budget parameters, a Deficit Recovery Strategy is proposed which includes a range of measures including earmarking funds from the Council's Corporate Contingency, MTRS Reserve and placing some Capital Spending plans "on hold"

2. Purpose of Report

2.1 The primary purpose of this report is to:

- ❖ Describe the overall forecast financial impact of the Covid -19 pandemic in 2020/21
- ❖ Explain the extent of the financial support that has been provided by the Council in response to the pandemic and the approach taken
- ❖ As a consequence of the Covid-19 pandemic, evaluate the financial resilience of the Council and its exposure to the prospect of the S.151 Officer issuing a Section 114 Notice
- ❖ Propose a financial strategy to remain within the Budget parameters approved by the City Council in February 2020

3. Recommendations

3.1 It is recommended that:

- 1) The financial strategy described in Section 8 of this report be approved
- 2) A further report be brought to a future meeting of the Cabinet to propose a detailed plan for placing certain Capital Spending plans "on hold" which will remain "on hold" until the overall financial impact on the Council is known with reasonable certainty
- 3) Note that the plan to place Capital Spending "on hold" is a plan only, and any cancellation of Capital Schemes would only be invoked in the event that the Council needs to respond to a forecast financial impact of the magnitude set out in this report.

4. Background

4.1 On 17 March 2020, the City Council invoked its Corporate Business Continuity Plan in response to the emergence of an accelerating infection rate of Covid-19. The Council moved to Business Critical Services only and its emergency response structure (Gold Command¹) was activated. All non-essential staff were sent home (although remaining available for work) and as many staff as possible that were engaged in business critical services were set up to work from home where it was practical and effective to do so. This action was designed to both protect staff and minimise the prospect of staff absence and thus causing the failure of business critical services.

4.2 By 23 March 2020, after a series of isolation steps to delay the spread of infection, lockdown measures had begun to be put in place nationally.

¹ Gold Command at PCC is the group responsible for making operational decisions in direct response to an emergency and comprises Senior Management across all of the Council's functions supported by Emergency Planning and attended by the Leader and Deputy Leader. It feeds into the wider Hampshire and Isle of Wight Local Resilience Forum.

5. The Council's Approach to Providing Financial Support

5.1 Even at the early stages of the Covid-19 pandemic, the Council was preparing for the significant financial impact that the emergency could have on the Council's financial position. Whilst the scale of the financial impact was uncertain, it had the potential to be substantial and de-stabilise the Council's financial resilience. In turn, this could place the ongoing delivery of the Council's business critical and essential services at risk. In readiness, the Council's Gold Command received and approved a report from the Council's Director of Finance & Resources (verbally on 06 April 2020 and formally on 09 April 2020) which proposed a targeted approach to any financial support arrangements to be applied across its activities as well as the accompanying financial governance regime to be adopted throughout the emergency period of the pandemic.

5.2 These arrangements are set out in brief below:

Types of Financial Support

Support available from the Council includes:

1. Cash Flow support - e.g. Changes to payment terms, Payment in Advance, Deferral of income due
2. Direct financial support e.g. Additional Payments, Grant or continuation of payments through disruption / suspension of service
3. Pass through of Government Provided Support - e.g. Business Rate Reliefs, Business Grants and Council Tax Support.

General Principles for Financial Support

1. *Provider of last resort*

Given the extent of the uncertainty surrounding the Council's financial position and that some financial impacts felt locally would be of such significance that it would be beyond the means for the Council to respond adequately, the Council should adopt a "Provider of Last Resort" approach, ensuring the following:

- a. All Government support has been exhausted
- b. Bank support has been exhausted
- c. Parent / Shareholder support has been exhausted
- d. Organisation's own Balance Sheet strength is not sufficient.

2. *A Proportionate approach targeted towards greatest need*

The following approach is adopted in order to ensure that the Council's limited financial support is targeted to need and to eliminate, as far as possible, any profiteering at the expense of need.

- a. Case by Case approach (no "blanket" approaches) - every organisation / individual is affected in a different way and has different levels of financial support available to them.

3. *Transparency - Individuals / Organisations must demonstrate that they are at risk / in need*

To demonstrate need, the following information (where available) is required to operate on a transparent basis. These will be indicators of risk / need and future viability:

- a. Cash flow
- b. Balance Sheet
- c. Other evidence
- d. Declarations and accounts available for inspection.

4. *Reasonable prospects of future viability (see above also)*

If it is clear that an organisation will not survive this emergency period even with an appropriate level of financial support from the Council, it would be a waste of valuable resources that could be directed elsewhere. Support in these circumstances should only be considered if crucial short-term goods / services are required to deal with the Emergency.

Indicators to test future viability are described above.

5. *Maximising the impact of the Council's Financial Support*

- a. A staged approach with periodic reviews so that any support can be flexed upwards or downwards according to current and emerging circumstances - this will limit risk of allocating too much or too little, provide the opportunity for other support measures to take effect and enable a flexible response
- b. Where appropriate, a rationed or negotiated level of support or payment for service to ensure any emergency funding is "stretched" as far as possible across as many vulnerable areas as possible
- c. Where appropriate, getting the best deal in terms of price to enable, overall, the Council's financial support to "stretch" further.

6. *Other Support*

- a. Guidance and signposting to national financial support schemes
- b. Lobbying on behalf of businesses and individuals through:
 - i) Formal structures to Central Government (e.g. LRF, LEPs, Government Departmental Forums / Contacts)
 - ii) Councillors and MPs
 - iii) Associations (e.g. LGA, SOLACE, ADASS, ADCS, SIGOMA, Professional Bodies).

6. Government Funding & Priorities for Financial Support

- 6.1 The government announced its first tranche of Emergency Funding for Councils of £1.6bn on 24 March 2020 and a further tranche of £1.6bn on 18 April 2020. Portsmouth City Council's share of this, in total, amounts to £12m. On 2 July 2020 Government issued a further statement that they would be providing "further measures as part of a comprehensive package of support for local authorities". Headline national allocations and principles have been released but the details of this for councils individually have not and therefore are not yet factored into the Council's forecasts.
- 6.2 Across all communications from Ministers, they have signalled that Councils should prioritise the following service areas throughout the emergency:
- ❖ Adult Social Care
 - ❖ Children's Services
 - ❖ Public Health Services
 - ❖ Fire and Rescue Services
 - ❖ Waste Collection Services
 - ❖ Shielding the clinically extremely vulnerable
 - ❖ Homelessness and rough sleeping
 - ❖ Domestic Abuse
 - ❖ Supporting the NHS
 - ❖ Managing excess deaths
 - ❖ Support for re-opening the country
- 6.3 Until the announcement of this further funding package on 2 July, Government had made far less mention of the other financial impacts on Councils such as losses of income and reductions in funding from Council Tax and Business Rates, which together have a greater financial impact on the Council than the additional costs referenced by Government (listed above).
- 6.4 Set against the £12m of Emergency Funding from Government are forecast additional costs plus reductions in income and funding amounting to £32m (see Executive Summary chart), leaving an overall forecast shortfall of £20m. This is discussed in further detail in Section 8 of this report.
- 6.5 The extent to which the latest funding announcement will contribute towards the current £20m shortfall is, at this stage, unclear and it remains unclear whether or not there will be further funding allocated from Central Government to help meet any remaining shortfall. The Secretary of State however, has made it clear that Councils should not expect Government to meet all shortfalls that they experience, especially for spending that is not explicitly in alignment with the Government's policy and guidance relating to the Emergency. By way of example, the Secretary of State and Ministers have written to Councils stating the following:

"This is both a local and a national challenge and it is vital that we work together to use available resources as wisely as possible. This might include redeploying staff or bringing in volunteers, or prudent use of financial reserves"

Robert Jenrick 30 April 2020

"We wouldn't want anybody to labour under a false impression that what they are doing will be guaranteed funded by central government"

Robert Jenrick 05 May 2020

"But as you can imagine it is only fair that central government supports things that are open to all rather than individual choices by local councils."

Robert Jenrick 05 May 2020

"The package we are delivering is designed to help councils through the coming months and, whilst there will be some shared financial pain, it continues to meet our commitment to stand with local government as it delivers vital support for our communities during the pandemic"

Simon Clarke 02 July 2020

7. Council Response and Overall Financial Impact

7.1 In response to the pandemic, the Council has provided a wide range of financial support across services to residents, businesses, the voluntary sector, commercial tenants, contract providers and suppliers generally. Some of the more significant elements of support include:

- External Care Homes - funding of additional staffing, additional care packages, guaranteeing income levels and PPE
- Hotel accommodation for the homeless
- Funded food deliveries for the vulnerable (via the HIVE)
- Flexible payment terms for Council Tax Payers
- Flexible payment terms for Business Rate Payers
- Free use of car parks and removed enforcement to enable key workers to park close to their homes
- Road closures to improve social distancing
- Financial relief for the City's Leisure Centres provider
- Contributions to the cost of temporary mortuary facilities
- Pitch relief for market traders
- Rent deferral scheme for commercial tenants
- Flexible payment terms for Brittany Ferries
- Flexible contracting arrangements with key suppliers
- Supporting Community Centres to submit furlough claims

7.2 The Council has been mindful to balance its own financial resilience in order to underpin the delivery of critical and essential services with the emergency needs of the residents and

businesses of the City. The Council has taken a responsible approach to meeting emergency spending for the direct costs associated with the emergency such as providing financial support to the Adult Social Care provider market, procuring necessary Personal Protective Equipment (PPE) and providing accommodation for the homeless and rough sleepers whilst also seeking to ensure that any financial support for residents, suppliers and external organisations is provided on a case by case basis with demonstration of need. The Council has also been careful to observe the guidance received from the Cabinet Office in relation to Public Procurement Notices in its dealings with suppliers and the flexibility that the Council has offered. In this way the Council has maintained an approach to target limited financial resources to those at risk and in most need.

- 7.3 Nevertheless, the financial position as a consequence of this Emergency is serious. Following two tranches of Emergency Government funding totalling £12m, the Council still has a forecast financial shortfall of £20m across both General Fund and Housing Revenue Account activities as described below:

| Description | £m |
|--|-----------|
| Additional Costs | 12 |
| Unachievable Budget Savings | 3 |
| Income Losses (e.g. Rents, Fees and Charges) | 15 |
| Funding Losses (i.e. Council Tax and Business Rates) | 2 |
| Sub-Total Impact | 32 |
| Less: Emergency COVID-19 Funding | (12)* |
| Total Shortfall | 20 |

*Excludes the 3rd Tranche of Funding announced on 2 July 2020, which is as yet unknown.

- 7.4 As described above, the major financial impact of the emergency has been driven by the additional costs and the loss of income. Crucially, the forecast £20m shortfall follows the Government's current stated planning assumptions and with no second wave.
- 7.5 A more detailed breakdown of the overall additional costs (red), income losses (gold) and funding reductions (purple) was described previously in the Executive Summary.
- 7.6 An overall financial impact is forecast at £20m is significantly beyond the approved budget. Due to the level of uncertainty associated with this forecast, which will depend substantially on both the depth of the forthcoming recession and the level of any further Government funding, an emergency budget at this stage would be premature.
- 7.7 The Council, however, has an obligation to plan its financial management responsibly and is required to formulate a robust financial strategy to be able to deal with the potential shortfall should it arise. Without such a strategy, the S.151 Officer would need to consider if a Section 114 Notice to the Council should be issued or at least make recommendations for an Emergency Budget to be considered by Full Council.
- 7.8 A Section 114 Notice refers to Section 114 of the Local Government Finance Act 1988. It has been described as the bankruptcy process for Local Authorities. The process is governed under legislation and involves the S.151 Officer issuing a report to Full Council setting out the financial position of the Council, that it is failing in its responsibility to maintain a Balanced Budget and that the Council is being given 21 days' notice to consider a response. However, during that time spending and other financial activity is suspended. Maintaining a Balanced

Budget effectively means not drawing on the Council's Reserves to the extent that General Reserves would fall below the minimum level of £8.0m.

- 7.9 The Chief Financial Officer (CFO) must explore all avenues before issuing a Section 114 Notice but should issue a notice where necessary. The Chartered Institute of Public Finance & Accountancy (CIPFA) has recently issued guidance to S.151 Officers which proposes that there should be a temporary modification to existing guidance in order to create an opportunity, within existing statutory limits, to enable an exploration of what further options and/or financial assistance may be available.

The proposed modifications are as follows:

- At the earliest possible stage a CFO should make informal confidential contact with MHCLG to advise of financial concerns and a possible forthcoming Section 114 requirement
- The CFO should communicate the potential unbalanced budget position due to Covid-19 to MHCLG at the same time as providing a potential Section 114 scenario report to the Council's Executive (Cabinet) and the external auditor

In practice, this means it should not normally be necessary for a Section 114 report to be issued while discussions with the Government that would address the issue are in progress.

8. Financial Resilience and Financial Strategy

- 8.1 The Council is not allowed to either set (or maintain) a deficit budget or to draw upon its General Reserves to the extent that they fall below the minimum level of £8m. Over the period of the Council's Medium Term Financial Strategy, the level of headroom above the minimum level of reserves that would be available to mitigate against all financial risks over the period is £9.3m, however this is predicated on the Council making cumulative budget savings of £6m over that period in accordance with its approved Medium Term Financial Strategy.
- 8.2 Given the forecast deficit of £20m compared with available General Reserves of £9.3m, (or just £3.3m if the Council's budget savings are not met), the Council is currently operating significantly outside of the Budget parameters set by Full Council.
- 8.3 Adopting a Deficit Recovery Strategy will enable the Council to continue to operate without the need to consider either an Emergency Budget or, if necessary, emergency spending controls and service reductions under a Section 114 Notice. Once adopted, the strategy will need to be developed into a more detailed plan shortly after, identifying savings amounting to £20m. The strategy itself (described below) identifies a contribution of £10m from Reserves and Contingencies leaving a remaining balance of £10m to be found by placing previously approved spending decisions "on hold" until such time as the overall financial position becomes clearer and therefore whether those capital spending plans can proceed or actually need to be deleted. The proposed strategy will involve the following:
- Earmarking £5m of the Council's Corporate Contingency - leaving a residual £5m for all other known and unknown financial risks that may arise during the year
 - Earmarking £5m of the MTRS Reserve which currently holds an uncommitted balance of £8m - leaving just £3m only to fund future Spend to Save schemes and any costs of redundancies that may be required

- Identifying the remaining sum (currently estimated at £10m) of Capital Schemes that have been funded by Revenue and placing those Capital Schemes "on hold"

8.4 A further report will be considered by the Cabinet to determine those Capital Schemes to place "on hold". Once the overall financial position is known with more certainty and should that plan need to be invoked, it may require an "In Year" revision to the approved Budget to be proposed by the Cabinet and considered by Full Council.

8.5 Whilst at the time of writing, the financial impact to the Council of the latest funding announcement of 2 July 2020 is unknown, assuming all other assumptions remain intact, the Council's £20m shortfall will reduce. The extent of any improvement is not yet known.

8.6 The funding package from Government includes the following:

- *An additional non-ringfenced national grant allocation of £500m*

To date the Council has received £12m from a national allocation of £3.2bn. £500m represents a further 15% on top of the current £3.2bn allocation. The Government has indicated that the distribution methodology for this latest £500m will not be the same as the previous distribution methodologies.

- *Non Tax Income Scheme*

Some re-imburement for irrecoverable income losses (£15m for PCC) but only from some of the affected income streams

- *Irrecoverable Tax Losses*

Government have stated that they will consider the issue of irrecoverable Council Tax and Business Rates (£2m for PCC) as part of the forthcoming Spending Review.

9. Other Financial Support Provided Directly by Central Government

9.1 Outside of the £12m provided to the City Council (from the £3.2bn national sum) to deal with the immediate more general impacts of the Covid-19 pandemic, Central Government has provided additional funding / financial support on a more targeted basis to particular sectors. Some of this funding has been channelled through Local Authorities to distribute whilst other funding has been allocated direct.

Local Authority Administered Funding

9.2 Funding administered by the City Council is summarised below:

- ❖ Council Tax - A £1.9m allocation from the National Hardship Relief Fund - this has provided the 8,500 households in Portsmouth in receipt of Local Council Tax Support with a further £150 reduction in their Council Tax bill.
- ❖ Business Rate Relief - £46m Business Rate Relief. This provides 1,609 businesses in the Retail, Hospitality and Leisure sectors with 100% reduction in their Business Rates for 2020/21.
- ❖ Business Rate Relief - £0.4m Business Rate Relief. This provides 34 Nurseries in the City with a 100% reduction in their Business Rates for 2020/21.

- ❖ Small Business Grants - £21.7m to provide 2,178 Small Businesses with a £10,000 grant.
- ❖ Retail Hospitality & Leisure Grant - £17.9m to provide 967 businesses in the Retail, Hospitality and Leisure sectors with a grant of either £10,000 or £25,000 depending on the size of their property.
- ❖ Discretionary Grant Fund - £1.9m to provide grant funding of up to £10,000 (and exceptionally £25,000) for small businesses that "fell through the cracks" of the grant schemes for the Small Business Grants and Retail, Hospitality and Leisure Grants.
- ❖ Rough Sleeping Grant - £19,000 to support rough sleepers or those at risk of rough sleeping to self-isolate and prevent the spread of Covid-19.
- ❖ Emergency Accommodation and Rough Sleepers - £105 million to help local authorities implement a range of support interventions for people placed into emergency accommodation during the COVID-19 pandemic. This includes supporting moves into the private rented sector, helping individuals to reconnect with friends or family, and extending or procuring interim accommodation.
- ❖ Infection Control Fund - £1.5m to support adult social care providers, including those with whom the Local Authority does not have a contract, to reduce the rate of Covid-19 transmission in and between care homes and support wider workforce resilience.
- ❖ Test and Trace service - £1.6m to develop tailored outbreak control plans, working with local NHS and other stakeholders to reduce the spread of the virus in their area.
- ❖ Re-opening High Streets Safely - £191,000 to support a range of practical safety measures including new signs, street markings and temporary barriers.
- ❖ Emergency Active Travel Fund - £961,000 (indicative allocation) to protect and increase transport services, level up infrastructure and regenerate local economies after the coronavirus (Covid-19) outbreak. To allow people to travel to hospitals, supermarkets or their place of work, to get to their destination safely and quickly, while helping ensure there is enough space for them to observe social distancing guidelines.

10. Conclusion

- 10.1 In total over £27bn of funding has been provided by Government both directly and indirectly to Local Authority areas to support the Covid-19 pandemic response. Nevertheless, the City Council is facing a forecast financial shortfall of some £20m after all government funding received to date has been taken into account.
- 10.2 Whilst the £20m financial shortfall may reduce, it is still expected that the residual shortfall will be a serious cause for concern for the Council and, if realised may require the Council to consider a revision to its Budget during the year. Given the level of uncertainty attached to this forecast, it is premature to consider revising the Budget at this stage. The Council does, however, have an obligation to plan responsibly in order to protect the financial resilience of the Council which underpins the continued delivery of its critical and essential services throughout this pandemic.

10.3 The financial strategy contained in Section 8 of this report identifies the measures that need to take place to meet the Council's obligations for the prudent management of the Council's financial affairs, and enables the Council to continue to operate under the normal budget management framework until such time as the overall financial position is known with greater certainty.

11. Integrated Impact Assessment (EIA)

11.1 An integrated impact assessment is not required at this time since no spending decisions are being proposed as part of the proposed strategy.

12. City Solicitor's Comments

12.1 The Council has a legal responsibility to set and maintain a "Balanced Budget" and the Cabinet has a responsibility to deliver its services within the Budget approved by Full Council. The Cabinet has authority to approve the recommendations made in this report.

13. S.151 Officer's Comments

13.1 All of the financial information is reflected in the body of the report.

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Signed by: Section 151 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 |
|-----------------------------------|---|
| Various Government communications | Office of Director of Finance & Resources |

The recommendation(s) set out above were approved / approved as amended / deferred / rejected by the Cabinet on 14 July 2020.

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Signed by: Leader of Portsmouth City Council