

Decision maker: Cabinet 19th March 2021

Subject: Revenue Budget Monitoring 2020/21 (3rd Quarter) to end December 2020

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 third quarter for 2020/21 in accordance with the proposals set out in the "Portsmouth City Council - Budget & Council Tax 2021/22 & Medium Term Budget Forecast 2022/23 to 2024/25" report approved by the City Council on the 9th February 2021.

2. Recommendations

2.1 It is recommended that:

- (i) The forecast financial shortfall of between £2.0m & £8.5m across the General Fund and the Housing Revenue Account as consequence of the Covid-19 Pandemic, and which relates to multiple years, be noted
- (ii) The forecast General Fund outturn position for 2020/21, excluding funding losses relating to the current year but occurring in later years, be noted:
 - (a) The Base Case forecast of COVID-19 related surplus of £754,200 after expected government funding
 - (b) That the Base Case forecast surplus of £754,200 remains uncertain and in a pessimistic scenario could see that rise to an overspend of £5,200,000
 - (c) The COVID-19 forecasts do not currently make any provision for additional costs or losses of income / funding that may arise from the national restrictions effective from 5th January 2021.
 - (d) Non COVID-19 related underspending of £3,000,300
 - (e) Taking account of the likely range of COVID-19 forecast overspends, the combined spending for the Council is forecast to be between £3,754,500 underspending and £2,200,000 overspending.

- (iii) Members note that any deficit or surplus arising as a consequence of the COVID-19 pandemic will be funded by / transferred to the COVID-19 Deficit Recovery Strategy (i.e. contingency provision) approved by Full Council at the Annual Budget Meeting in February 2021, meaning that the COVID-19 impact on the current year's Budget will be neutral
- (iv) Members note that this report was prepared during a renewed period of national restrictions. Due to the wide ranging and rapidly changing implications arising from the COVID-19 Pandemic, the overall financial impact of COVID-19 over the remainder of the 2020/21 financial year and into the medium term remains very uncertain and maintaining headroom within the Revised COVID-19 Deficit Recovery Strategy is vital in order to ensure that the financial resilience of the Council is not compromised and the council continues to remain financially resilient into the medium term.
- (v) Members note that in accordance with approved policy as described in Section 8, any actual non COVID-19 overspend at year end will in the first instance be deducted from any Portfolio Reserve balance and once depleted then be deducted from the 2021/22 Cash Limit.
- (vi) Directors, in consultation with the appropriate Cabinet Member, consider options that seek to minimise any forecast non COVID-19 overspend presently being reported and prepare strategies outlining how any consequent reduction to the 2021/22 Portfolio cash limit will be managed to avoid further overspending during 2021/22.

3. Background

- 3.1 A Revised Budget for 2020/21 of £221,036,400 was approved by City Council on the 9th February 2021. This level of spending enabled a contribution to General Reserves of £0.4m since in year income exceeds in year expenditure.
- 3.2 Full Council on 8th December considered a report which identified a forecast ranging between £36m and £32m as being the Financial Impact on the City Council of the Covid-19 Pandemic which, after emergency COVID-19 funding from Government, would give rise to a shortfall in the Councils 2020/21 budget of between £11.8m and £5.4m.
- 3.3 As consequence, City Council approved the adoption of the following Deficit Recovery Strategy:
 - 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 leaving a residual £1.8m to support future Spend to Save schemes
 - Removal of Capital Schemes that have been funded by Revenue with a total value of £1.927m

- Should any funding remain after meeting the financial impact of COVID-19, that it be returned to the MTRS Reserve / Contingency to be available for any short-term legacy impacts of COVID-19 that continues into 2021/22

- 3.4 Each month, the Council has been comprehensively reviewing and updating the forecast financial impact of the COVID-19 Pandemic in 2020/21. Since the December report, the government has announced an extension of the income compensation scheme for lost sales, fees and charges to the 30th June 2021 and announced a compensation scheme to reimburse 75% of irrecoverable loss of Council Tax and Business Rates revenues. The revised Deficit Recovery Strategy outlined below has been updated to accommodate the latest forecast of the financial impact of the COVID-19 pandemic and these additional Government initiatives.
- 3.5 Along with the summary of the forecast full year variances as usually reported through these quarterly budget monitoring reports, this Quarter 3 report also includes an updated assessment of the financial impact in 2020/21 of the COVID-19 Pandemic.
- 3.6 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.
- 3.7 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 financial position of the Council. Similarly, “windfall savings” are those savings that occur fortuitously without any manager action and all such savings accrue to the corporate centre.

4 Council Response to the COVID-19 Pandemic and the Overall Financial Impact of COVID-19

- 4.1 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
 - Grants to Businesses that have been severely impacted by the pandemic
 - 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
- Payments to individuals required to self-isolate

4.2 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.

4.3 Nevertheless, the financial position as a consequence of this Emergency is serious. Following four tranches of Emergency Government funding totalling £19.4m, estimated compensation for lost income from Sales, Fees and Charges of £9.1m and estimated compensation for irrecoverable loss of Council Tax and Business Rates revenues totalling £3.3m (n.b. 2020/21 irrecoverable loss and associated compensation will not impact the General Fund until 2021/22) the Council still has a forecast financial shortfall between £2.0m & £8.5m across both General Fund and Housing Revenue Account of which between £1.6m and £8.1m relates specifically to General Fund related activities as described below:

Overall Forecast Financial Impact of COVID-19	Central Forecast £m	Pessimistic £m
Additional Costs	10.0	12.0
Income Loss	18.1	20.0
Funding Loss (impact in 2021/22)	5.7	7.0
Total Financial Loss	33.8	39.0
Government Funding (4 Tranches)	(19.4)	(19.4)
Sales, Fees & Charges Compensation Scheme	(9.1)	(7.0)
Council Tax & Business Rates Compensation Scheme (impact in 2021/22)	(3.3)	(4.1)
Financial Shortfall (Expected) - General Fund & HRA	2.0	8.5
Less: HRA	(0.4)	(0.4)
Financial Shortfall (Expected) - General Fund	1.6	8.1

4.4 Non COVID-19 related forecast budget variances are set out in more detail below but in summary, the consolidated General Fund financial position taking into account the forecast impact of COVID-19 outlined above and all non COVID-19 related forecast variances is as follows:

Consolidated General Fund Outturn Forecast - 2020/21	Central Forecast £m	Pessimistic £m
COVID-19 Financial Shortfall (Expected)	1.6	8.1
Less Funding Cost and Funding Impacts in 2021/22:		
Funding Loss (impact in 2021/22)	(5.7)	(7.0)
Council Tax & Business Rates Compensation Scheme (impact in 2021/22)	3.3	4.1
Forecast Non COVID-19 Portfolio Variances	(3.0)	(3.0)
Total Forecast (Under)/Overspending 2020/21	(3.8)	2.2

5 Forecast Outturn 2020/21 – As at end December 2020

5.1 At the third quarter stage, the General Fund revenue outturn for 2020/21 is forecast to be underspent by £3,754,500 as follows:

- Forecast surplus on COVID-19 related costs and funding - £754,200
- Forecast underspend arising from Non COVID-19 related variances - £3,000,300

5.2 The quarter 3 variance of £3,754,500 consists of a number of forecast under and overspendings within Portfolios and these are summarised below.

Under and overspendings at the quarter 3 stage are:

	COVID-19 Related Variances	Other Variances	Total Variance
	£	£	£
Children, Families & Education	1,337,000	(1,276,500)	60,500
Communities & Central Services	3,896,000	(168,600)	3,727,400
Community Safety	82,000	(65,300)	16,700
Culture, Leisure & Economic Development	2,118,000	(318,900)	1,799,100
Environment & Climate Change	270,000	30,200	300,200
Health, Wellbeing & Social Care	3,084,000	72,700	3,156,700
Housing	2,699,000	156,800	2,855,800
Leader	2,653,000	(801,500)	1,851,500
Port	6,689,000	0	6,689,000
Planning Policy & City Development	257,000	17,000	274,000

	COVID-19 Related Variances	Other Variances	Total Variance
Licensing Committee	119,000	19,900	138,900
Traffic & Transportation	3,903,000	(269,500)	3,633,500
Treasury Management	0	(396,600)	(396,600)
Other Miscellaneous	620,000	0	620,000
Total Portfolio Variances	27,727,000	(3,000,300)	24,726,700
COVID-19 Grant	(19,404,800)		(19,404,800)
Income Compensation - SF&C	(9,076,400)		(9,076,400)
Total Forecast Underspend	(754,200)	(3,000,300)	(3,754,500)

6 Quarter 3 Budget Variations – Forecast Outturn 2020/21

6.1 Children, Families & Education – Overspend £60,500 or £1,276,500 Underspend Before COVID-19 Related Variances

The cost of Children, Families & Education is forecast to be £60,500 higher than budgeted.

Additional costs expected to arise as a result of the pandemic total £1.3m; primarily due to higher costs relating to Looked After Children £0.8m (£0.4m of which is the delay in the implementation of planned savings), higher home to school transport costs of £0.1m as a result of social distancing requirements, early help, inclusion and family safeguarding £0.3m and reductions in income of £0.1m.

These additional costs are offset by non COVID-19 related underspending and costs avoided due to COVID-19 of: £1.3m due to additional Unaccompanied Asylum Seeking Children Grant of £0.6m offset by additional staffing and care costs of £0.6m within Looked After Children, reduced home to school transport costs due to reduced pupil numbers being transported to school (£0.6m), lower costs related to children with disabilities and direct payments (£0.2m), staff vacancies across the Portfolio (£0.3m) and other reduced non pay spend/additional income (£0.2m).

6.2 Communities & Central Services – Overspend £3,727,400 or £168,600 Underspend Before COVID-19 Related Variances

The cost of Communities & Central Services is forecast to be £3,727,400 higher than budgeted.

Additional costs expected to arise as a result of the pandemic total £3.9m; primarily due to, Purchase of IT hardware and the rapid deployment of new software to enable remote working (£0.8m), costs associated with the setting up of temporary mortuary facilities (£0.4m), additional costs associated with the delivery of large infrastructure capital projects as a consequence of delays caused by remote working and additional workloads (£0.3m), suspension of the recovery of Council Tax arrears through the courts resulting in forgone court fees (£1.4m), an expected reduction in subsidy relating

to the recovery of Housing Benefit Overpayments (£0.4m) and reduced income across the Portfolio (£0.4m), of which £0.2m relates to income arising from wedding ceremonies conducted by the Registrar.

6.3 Forecast underspending relating to non COVID-19 activity of £0.2m is primarily as a result of; overspending within IT services of £0.3m due to unexpected increases in a number of contracts, temporary staffing engaged at higher rates and an underlying deficit as consequence of the non-achievement of savings expected to occur in previous years. These overspends have been offset by reduced staffing costs arising from vacant post across the Portfolio.

6.4 Community Safety – Overspend £16,700 or £65,300 Underspend Before COVID-19 Related Variances

The cost of Community Safety is forecast to be £16,700 higher than budgeted.

Regulatory Services income is forecast to have fallen by £72,000 as consequence of the pandemic.

This income loss has been offset by non COVID-19 related underspending elsewhere in the Portfolio totalling £65,300 primarily as a result of staff vacancies.

6.5 Culture, Leisure & Economic Development – Overspend £1,799,100 or £318,900 underspend Before COVID-19 Related Variances

The cost of Culture Leisure & Economic Development is forecast to be £1,799,100 higher than budgeted.

As a direct consequence of the COVID-19 Pandemic, income across the Portfolio is forecast to be lower than originally budgeted by £1.3m; primarily as a result of the initial closures and, lower usage at leisure sites (£0.9m) and museums (£0.3m), additional costs totalling £805,000 have been incurred (of which £771,000 relates to payments to contractors who operate the Councils Leisure sites).

This income loss has been offset elsewhere within the Portfolio by non COVID-19 related underspending, and costs avoided due to COVID-19, totalling £318,900 principally as consequence of reduced expenditure following cancellation of the 2020 events programme and staff vacancies across the Portfolio.

6.6 Environment and Climate Change – Overspend £300,200 or £30,200 Overspend Before COVID-19 Related Variances

The cost of Environment and Climate Change is forecast to be £300,200 higher than budgeted.

Additional costs within the Waste Collection and Waste Disposal Services totalling £270,000 due to the pandemic are forecast; primarily due to a downturn in the global recycles market which, has been further impacted by the differing restrictions put in place by countries in respect to the movement of materials.

Non COVID-19 related overspending totalling £30,200 is also forecast.

6.7 Health, Wellbeing and Social Care – Overspend £3,156,700 or £72,700 Overspend Before COVID-19 Related Variances

The cost of Health, Wellbeing and Social Care is forecast to be £3,156,700 higher than budgeted.

The financial impact of the COVID-19 pandemic on the Health, Wellbeing and Social Care Portfolio is forecast to be £3.1m.

Of this overspending, £0.8m relates to planned 2020/21 savings in Commissioned Care that will now not be achieved; £0.9m to meet additional staffing costs at in house units due staff illness (including shielding) and to increase Social Worker capacity; £0.6m funding assistance to the Adult Social Care market including reimbursement of PPE/infection control costs; and £0.7m forgone income in respect of contributions to care packages and day care services by clients.

Overspending of £72,700 is forecast unrelated to the COVID-19 pandemic.

6.8 Housing – Overspend £2,855,800 or £156,800 Overspend Before COVID-19 Related Variances

The cost of Housing is forecast to be £2,855,800 higher than budgeted.

Additional costs expected to arise as a result of the pandemic total £2.7m. Of this £2.0m relates to the provision of temporary accommodation with the remainder being primarily as result of lower income from charges to external Local Authority clients for professional services, lower net income from 'The View' restaurant and Telecare services.

6.9 Leader – Overspend £1,851,500 or £801,500 Underspend Before COVID-19 Related Variances

The cost of Leader is forecast to be £1,851,500 higher than budgeted.

As a direct consequence of the COVID-19 Pandemic, income across the Portfolio is forecast to be £2.7m lower than originally budgeted.

The COVID-19 pandemic has led to an expectation that that there will be an increase in the level of tenant rent defaults relating to commercial properties owned by the City Council. As a consequence a total reduction in property rental income and professional fees of £1.9m is currently forecast. Much of this relates to commercial properties that have been in the ownership of the City Council for many years. In addition, Spinnaker Tower income is expected to be lower by £0.7m compared to budget; of which £0.5m is as a result of the ending of the Spinnaker Tower sponsorship arrangement with Emirates and £0.2m is the estimated reduction in the profit share that will be payable by Heritage following the temporary closure of the attraction to visitors due to COVID-19 restrictions.

These lost incomes are offset by forecast underspending of £801,500 not directly related to COVID-19, primarily as a result of additional rental income from an investment property acquired late in 2019/20 and higher than budgeted tenant income arising from the Lakeside complex.

6.10 Port – Overspend £6,689,000 or nil Before COVID-19 Related Variances

Net income from the Port is forecast to be £6,689,000 below target.

Net income as a consequence of the COVID-19 Pandemic is £6.7m lower than originally budgeted.

Of this figure £6.5m relates to a net reduction in port dues because of reduced traffic passing through the Port and £0.2m is a result of higher costs relating to PPE, cleaning and additional staffing costs to enable cover for those staff self-isolating and shielding.

6.11 Planning & City Development – Overspend £274,000 or £17,000 Overspend Before COVID-19 Related Variances

The cost of Planning & City Development is forecast to be £274,000 higher than budgeted due to COVID-19 related lost income at Enterprise Centres (£0.1m), Planning Application Fees (£0.1m) and Market Trader Licence income (£62,000).

6.12 Traffic and Transportation – Overspend £3,633,500 or £269,500 Underspend Before COVID-19 Related Variances

The cost of Traffic and Transportation is forecast to be £3,633,500 higher than budgeted.

Additional net expenditure expected to arise as a result of the pandemic totals £3.9m; £3.6m is as a consequence of lower income relating to Parking and Park & Ride; £0.2m from reduced Hard interchange Departure Charges and costs associated with road closures to aid social distancing totalling £0.1m.

These costs are offset by forecast underspending relating to non COVID-19 activity of £0.3m, primarily as a result of staffing vacancies across the Portfolio (£0.2m) and reduced running costs of the Park & Ride and Parking Services (£0.1m).

6.13 Treasury Management – Underspend £396,600

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.

6.14 Other Miscellaneous – Overspend £620,000

Due to higher cleaning costs and a reduction in income because of the COVID-19 Pandemic, Portico is forecasting an increased loss totalling £620,000.

7. Transfers From/To Portfolio Specific Reserves

7.1 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

7.2 However, as a consequence of the COVID-19 Pandemic Cabinet have agreed that the individual Portfolio Reserves will operate as a single Cabinet Reserve in 2020/21.

7.3 This report was prepared during a renewed period of national restrictions and the overall financial position remains particularly uncertain at this time.

The forecast balance on the Cabinet Reserve is set out below:

	Balance Brought Forward £	Approved Transfers £	Commitments £	Balance Carried Forward £
Cabinet Reserve	3,962,000	(2,011,600)	(1,745,100)	205,300

8. Conclusion - Overall Financial Summary

8.1 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.

8.2 Taking account of the likely range of COVID-19 forecast overspends, the combined spending as at the end of December 2020 for the Council is forecast to be between £3.8m underspending and £2.2m overspending.

8.3 The revised Deficit Recovery Strategy approved in December 2020 made additional funding available amounting to £11.9m which is sufficient to cover the pessimistic forecast of the COVID-19 impact of £8.1m.

- 8.4 Following approval of the 2021/22 Revenue Budget by Full Council on 9th February 2021, forecast funding from the Strategy remaining after meeting the impact of COVID-19 in 2020/21 has been included in the Council's Contingency and is available within the Budget 2021/22. In particular, it will be used to meet short term legacy implications of COVID-19 relating to 2021/22 and beyond that are currently being forecast.
- 8.5 Any surplus or deficit incurred in relation to COVID-19 will be transferred to / from the Council's Contingency which now accommodates all of the Deficit Recovery Funding identified. This means that the impact of COVID-19 in the current year will be neutral on the Budget and only the Non COVID-19 variances will cause the Budget to be under or overspent. Should the non COVID forecast contained in this report remain, the year-end position would be an underspend of £3.0m.
- 8.6 This report has been prepared during a renewed period of national restrictions, due to the wide ranging and rapidly changing implications arising from the COVID-19 Pandemic, the overall financial impact of COVID-19 over the remainder of 2020/21 and into the medium term remains very uncertain and maintaining the level of headroom within the strategy outlined above is vital to ensure that the financial resilience of the Council is not compromised and the council continues to remain resilient into the medium term.

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 & 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 2021/22 & Medium Term Budget Forecast 2022/23 to 2024/25	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 19th March, 2021

Signed: