

Title of meeting: Cabinet

Date of meeting: 22 March 2022

Subject: Revenue Budget Monitoring 2021/22 (Third Quarter) to end December 2021

Report by: Director of Finance & Resources

Wards affected: All

Key decision: Yes/No

Full Council decision: Yes/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 2021/22 in accordance with the proposals set out in the “Portsmouth City Council - Budget & Council Tax 2022/23 & Medium Term Budget Forecast 2023/24 to 2025/26” report approved by the City Council on 15 February 2022.

2. Recommendations

2.1 It is recommended that:

- (i) The General Fund Forecast Outturn for 2021/22 (as at 30 December 2021) of an overall net overspend of £802,700 be noted; this is analysed as follows:

FORECAST OUTTURN 2021/22		£000
Forecast Net Overspend (before transfers to/from) Reserves		13,774.0
Less Expenditure funded from Corporate Contingency:		
	Covid-19 Costs	(10,280.0)
	Windfall Costs	(2,002.8)
Less Transfers From Portfolio / Cabinet Reserve:		
	Overspendings (in accordance with approved Council resolutions)	(2,116.1)
Add Transfers to Portfolio and Other Reserves:		
	Underspendings (in accordance with approved Council resolutions)	1,427.6
Overall Forecast Net Overspend 2021/22		802.7

- (ii) The forecast additional spending and forgone income as consequence of the Covid-19 Pandemic totalling £10.28m be noted



- (iii) Members note that the financial consequences arising during 2021/22 from the Covid-19 pandemic will be met from the provision held within the Council's Corporate Contingency which was set aside specifically for this purpose as approved by City Council on 15 February 2022.
- (iv) 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 2022/23 Cash Limit.
- (v) In accordance with (iv) above and the requirement that in the first instance any Portfolio overspending must be met from the Portfolio Reserve, that £1,354,400 has been withdrawn from the Cabinet Portfolio Reserve to fund current forecast overspendings, leaving a nil balance.
- (vi) Directors, in consultation with the appropriate Cabinet Member, consider options that seek to minimise any forecast non Covid-19 overspending presently being reported and prepare strategies outlining how any consequent reduction to the 2022/23 Portfolio cash limit will be managed to avoid further overspending during 2022/23.

3. Background

- 3.1 A Revised Budget for 2021/22 of £175,975,800 was approved by City Council on 15th February 2022. This level of spending required a contribution from General Reserves of £2.0m since in year expenditure exceeds in year income.
- 3.2 The Budget approved by City Council in February 2022 included provision within the Corporate Contingency of £10.1m to meet estimated Covid-19 related costs and lost income during 2021/22 (**The £10.1m set aside in the Corporate Contingency was majority funded by additional grants from Government estimated at £8m**).
- 3.3 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 2021/22 of the Covid-19 Pandemic.
- 3.4 This is the third quarter monitoring report of 2021/22 and reports on the forecast 2021/22 outturn as at the end of December 2021. The forecasts summarised in this report are made on the basis that management action to address any forecast overspends are only brought in when that action has been formulated into a plan and there is a high degree of certainty that it will be achieved.
- 3.5 Any variances within Portfolios that relate to windfall costs or windfall 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. Forecast Outturn 2021/22 As at end of December 2021

4.1 At the Third Quarter stage the General Fund Revenue Outturn for 2021/22 is forecast to be overspent by £802,700. This is represented in the following tables in paragraphs 4.2 and 4.3. Paragraph 4.2 represents the financial position before any transfers to and from Portfolio and Other Reserves. Paragraph 4.3 shows the overall financial position of the Council once "windfall costs" have been funded and Portfolio Reserves have been used to fund any remaining overspendings.

4.2 The Quarter 3 General Fund Outturn before transfers to / from Reserves is an overall overspend of £13,774,000. After releases from Contingency (to fund Covid related costs of £10,280,000 and Windfall Costs of £2,002,800), there is a net forecast overspend of £1,491,200 as summarised below.

	Total Portfolio Variance	Less Covid-19 Related Costs Met From Contingency	Net Variance
	£	£	£
Children, Families & Education	4,316,600	(2,004,000)	2,312,600
Communities & Central Services	746,800	(240,000)	506,800
Community Safety & Environment	417,100	(15,000)	402,100
Culture, Leisure & Economic Development	1,534,300	(1,230,000)	304,300
Health, Wellbeing & Social Care	1,299,700	(1,172,000)	127,700
Housing	899,800	(246,000)	653,800
Leader	961,300	(73,000)	888,300
Port	4,678,000	(4,678,000)	0
Planning Policy & City Development	391,900	(105,000)	286,900
Licensing Committee	47,000	(44,000)	3,000
Traffic & Transportation	(611,000)	(473,000)	(1,084,000)
Total Portfolio Variance	14,681,500	(10,280,000)	4,401,500
Treasury Management	(907,500)		(907,500)
Total Budget Variance	13,774,000	(10,280,000)	3,494,000
Costs - Met from Corporate Contingency			(2,002,800)
Total General Fund Variance			1,491,200

4.3 As described above, the forecast Portfolio variances do not take account of:

- i) Windfall costs funded by the Council's Corporate Contingency
- ii) Transfers from Portfolio Reserves to fund Portfolio Overspendings
- iii) Transfers to Portfolio and Other Reserves for forecast underspendings.

These are taken into account in the table below and illustrate that after transfers to and from Reserves, the Council is forecasting an overall overspend of £802,700.

	Net Portfolio Variance	Less Windfall Items	Transfers (from)/to Portfolio/ PFI Reserves	Total Variance Excluding Covid-19 Costs
	£	£	£	£
Children, Families & Education	2,312,600		(439,900)	1,872,700
Communities & Central Services	506,800	(850,400)	343,600	0
Community Safety & Environment	402,100		(88,100)	314,000
Culture, Leisure & Economic Development	304,300	(282,600)	(21,700)	0
Health, Wellbeing & Social Care	127,700		(127,700)	0
Housing	653,800		(41,000)	612,800
Leader	888,300	(700,000)	(10,200)	178,100
Port	0		0	0
Planning Policy & City Development	286,900	(169,800)	(30,100)	87,000
Licensing Committee	3,000		(3,000)	0
Traffic & Transportation	(1,084,000)		1,084,000	0
Total Portfolio Variance	4,401,500	(2,002,800)	665,900	3,064,600
Use of Cabinet Reserve			(1,354,400)	(1,354,400)
Treasury Management	(907,500)			(907,500)
Overall Variance	3,494,000	(2,002,800)	(688,500)	802,700

5. Quarter 3 Budget Variations - Forecast Outturn 2021/22

5.1 Children, Families & Education – Non Covid-19 related Overspend £2,312,600 or After Transfer From Portfolio Reserve £1,872,700; Covid-19 related costs funded from Corporate Contingency £2,004,000

The cost of Children, Families & Education is forecast to be £2,312,600 higher than budgeted.

The Non Covid-19 overspend is largely due to higher Looked after Children costs of £2.2m due to a small number of very high cost care leavers and to a lesser extent because of increasing numbers of care leavers. In addition, lower numbers of under 18 unaccompanied asylum seeking children has resulted in a greater loss of Home Office Grant than the reduction in cost.

Additional costs expected to arise as a result of the pandemic total £2.0m; primarily due to higher costs relating to Looked After Children (£1.2m) due to a delay in the implementation of planned savings, additional staffing costs arising from an increase in referrals leading to more children being subject to a child protection plan (£0.3m) and higher home to school transport costs due to Covid-19 precautions (£0.2m). These costs will be met from Corporate Contingency.

5.2 Communities & Central Services – Non Covid-19 related Overspend £506,800 or After Transfer From Portfolio Reserve and windfall costs Nil; Covid-19 related costs funded from Corporate Contingency £240,000

The cost of Communities & Central Services is forecast to be £506,800 higher than budgeted.

Forecast overspending relating to non COVID-19 activity of £0.5m is primarily as a result of the introduction of Universal Credit for new clients from September 2018 which has resulted in a fall in the level of subsidy received for rent allowances and rent rebates. As a consequence, the reduction in the level of net subsidy received by the Council relating to Housing Benefit overpayments has been £0.9m. This is a windfall cost and will be met from Corporate Contingency (Para 3.5). In addition, there is overspending within IT services of £0.1m due to delays in savings arising from the Office 365 project. These overspendings are offset by reduced staffing costs arising from vacant posts across the Portfolio of £0.5m and additional income generated through the provision of Professional Procurement services to external organisations.

Additional costs expected to arise as a result of the pandemic total £0.2m. These costs will be met from Corporate Contingency.

5.3 Community Safety & Environment – Non Covid-19 related Overspend £402,100 or After Transfer To Portfolio Reserve £314,000; Covid-19 related costs funded from Corporate Contingency £15,000

The cost of Community Safety & Environment is forecast to be £402,100 higher than budgeted.

Overspending totalling £0.5m is forecast within the Waste Collection and Waste Disposal Services due to falling recycling income, reduced Energy Recovery Facility and Material Recycling Facility income and a reduction in recycling credits. This overspending is offset by underspending totalling £0.1m as a result of staff vacancies and additional income.

Additional costs expected to arise as a result of the pandemic total £15,000. These



costs will be met from Corporate Contingency.

5.4 Culture, Leisure & Economic Development – Non Covid-19 related Overspend £304,300 or After Transfer From Portfolio Reserve and windfall costs Nil; Covid-19 related costs funded from Corporate Contingency £1,230,000

The cost of Culture Leisure & Economic Development is forecast to be £304,300 higher than budgeted.

Overspending relating to non COVID-19 activity of £0.3m is forecast as a consequence of increased utility costs at leisure sites operated by BH Live. This is an exceptional and significant cost which as a result will be met from Corporate Contingency.

As a direct consequence of the COVID-19 Pandemic, income across the Portfolio is forecast to be lower than originally budgeted by £1.2m; primarily as a result of lower usage at leisure sites (£1.1m) and museums (£0.1m). These costs will be met from Corporate Contingency.

5.5 Health, Wellbeing and Social Care – Non Covid-19 related Overspend £127,700 or After Transfer From Portfolio Reserve Nil; Covid-19 related costs funded from Corporate Contingency £1,172,000

The cost of Health, Wellbeing and Social Care is forecast to be £127,700 higher than budgeted.

Overspending of £0.1m has arisen principally within the Older Persons Physical Disability in House Residential and Day Care Services due to increased staffing and agency costs.

The financial impact of the COVID-19 pandemic on the Health, Wellbeing and Social Care Portfolio is forecast to be £1.2m. Of this overspending, £0.3m relates to planned 2021/22 savings in Commissioned Care where implementation has been delayed; £0.4m to meet additional staffing costs at in-house units due to staff illness (including shielding) and to increase Social Worker capacity; £0.5m due to an increase in client volume within domiciliary care with supporting increases within the fieldwork team, offset by lower costs within Nursing and Residential.

5.6 Housing – Non Covid-19 related Overspend £653,800 or After Transfer From Portfolio Reserve £612,800; Covid-19 related costs funded from Corporate Contingency £246,000

The cost of Housing is forecast to be £653,500 higher than budgeted.

The forecast overspend of £0.7m is primarily as a consequence of increased demand for temporary accommodation within the City (£0.6m).

Additional costs expected to arise as a result of the pandemic total £0.2m as result of the loss of income from the View Restaurant; enhanced building cleaning and loss



of the annual rental income from the "Your Centre". These costs will be met from Corporate Contingency.

5.7 Leader – Non Covid-19 related Overspend £888,300 or After Transfer From Portfolio Reserve and windfall costs £178,100; Covid-19 related costs funded from Corporate Contingency £73,000

The cost of Leader is forecast to be £888,300 higher than budgeted.

The £0.9m overspend being forecast has arisen due to Spinnaker Tower Sponsorship income not now expected (£0.7m) and lower rental income following the departure of a tenant from the Brunel Wing of the Civic Offices. The forgone Spinnaker Tower Sponsorship income is a windfall cost which will be met from the Corporate Contingency allocation (Para 3.5).

As a direct consequence of the COVID-19 pandemic, income across the Portfolio is forecast to be £73,000 lower than originally budgeted. Of this, £55,000 relates to the estimated reduction in the profit share that will be payable by Heritage due to visitor numbers not returning to pre-pandemic levels at the Spinnaker Tower and a £18,000 loss of income due to a unit being used as a Covid-19 test centre. These costs will be met from Corporate Contingency.

5.8 Port – Non Covid-19 related Overspend Nil; Covid-19 related costs funded from Corporate Contingency £4,678,000

The overall net General Fund contribution by the Port excluding the impact of Covid-19 is forecast to be on target.

Due to a net reduction in port dues because of reduced traffic passing through the Port, net income as a consequence of the COVID-19 Pandemic is £4.7m lower than originally budgeted. The income shortfall will be met from Corporate Contingency.

5.9 Planning Policy & City Development – Non Covid-19 related Overspend £286,900 or After Transfer From Portfolio Reserve and windfall costs £87,000; Covid-19 related costs funded from Corporate Contingency £105,000

The cost of Planning Policy & City Development is forecast to be £286,900 higher than budgeted.

The Planning Development Control Service is currently forecast to overspend by £246,800 as a consequence of Agency Staff employed within the service to assist with clearing the back log of planning applications and a shortfall in Planning income.

£169,800 of this overspending relates to Planning Application Fee income which is a windfall cost and will be met from the Corporate Contingency allocation (Para 3.5).

In addition, the Portfolio is forecasting a loss of income totalling £105,000 (£94,000 of which relates to Planning Application Fee income) as a consequence of the Covid-19 pandemic. The income shortfall will be met from Corporate Contingency.



5.10 Traffic and Transportation – Non Covid-19 related Underspend £1,084,000 or After Transfer To Parking/PFI Reserve Nil; Covid-19 related costs funded from Corporate Contingency £473,000

The cost of Traffic and Transportation is forecast to be £1,084,000 lower than budgeted.

Underspending relating to non COVID-19 activity of £1.1m, primarily as a result of lower Concessionary Travel payments to bus operators due to significantly lower passenger miles travelled, (£0.4) and staff vacancies and higher levels of fee earning work (£0.5m).

Additional net expenditure expected to arise as a result of the pandemic totals £0.5m, as a consequence of lower income relating to Park & Ride (£0.2m), Off Street Parking (£0.1m) and Hard interchange Departure Charges (£0.2m). These costs will be met from Corporate Contingency.

5.11 Treasury Management – Underspend £907,500

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.

5.12 Corporate Contingency – Non Covid-19 related releases £2,002,800; Covid-19 related releases £10,280,000

As at Quarter 3, windfall costs totalling £12,282,800 are being forecast which will be met from Corporate Contingency. (Para 3.5)

Items identified as windfall or exceptional and significant costs in this Quarter 3 report are:

Loss of Housing Benefit Subsidy (windfall)	£850,400
Spinnaker Tower Sponsorship (windfall)	£700,000
Planning Development Control Fee Income (windfall)	£169,800
Covid-19 (windfall)	£10,280,000
Increased Energy Costs at Leisure Sites (exceptional and significant)	282,600

Non Covid-19 - Movement between Quarter 2 compared to Quarter 3

5.13 The Portfolio Quarter 3 Non Covid-19 position has moved from a forecast £5.3m overspend to a forecast £4.4m overspend, an improvement of £0.9m.

This improvement is largely as a consequence of improvements in the forecast

financial positions reported by Communities & Central Services Portfolio and Traffic & Transportation Portfolio.

The movement between Quarter 2 and Quarter 3 Non Covid-19 Forecast Outturn is:

	Quarter 1	Quarter 2	Quarter 3	Deterioration / (Improvement)
	£	£	£	£
Children, Families & Education	920,400	2,404,700	2,312,600	(92,100)
Communities & Central Services	1,544,300	986,800	506,800	(480,000)
Community Safety & Environment	480,700	484,600	402,100	(82,500)
Culture, Leisure & Economic Development	30,000	21,700	304,300	282,600
Health, Wellbeing & Social Care	533,900	237,500	127,700	(109,800)
Housing	422,700	596,500	653,800	57,300
Leader	620,500	753,200	888,300	135,100
Port	0	0	0	0
Planning Policy & City Development	327,700	383,800	286,900	(96,900)
Licensing Committee	(13,000)	0	3,000	3,000
Traffic & Transportation	(576,300)	(526,000)	(1,084,000)	(558,000)
Total Portfolio Variance	4,290,000	5,342,800	4,401,500	(941,300)

Covid-19 Costs / Income Losses - Movement between Quarter 2 compared to Quarter 3

5.14 Additionally, Portfolios are forecasting Covid-19 related costs totalling £10.3m this is a £0.4m decrease compared to Quarter 2.

The overall sum available within Contingency to fund 2021/22 Covid-19 related costs is £10.1m.

The Quarter 3 Covid-19 Forecast Outturn compared to Quarter 2 is:

	Quarter 1	Quarter 2	Quarter 3	Deterioration /(Improvement)
	£	£	£	£
Children, Families & Education	1,556,000	1,873,000	2,004,000	131,000
Communities & Central Services	649,000	639,000	240,000	(399,000)
Community Safety & Environment	66,000	20,000	15,000	(5,000)
Culture, Leisure & Economic Development	1,201,000	1,281,000	1,230,000	(51,000)
Health, Wellbeing & Social Care	771,000	1,259,000	1,172,000	(87,000)
Housing	267,000	285,000	246,000	(39,000)
Leader	258,000	170,000	73,000	(97,000)
Port	2,987,000	4,678,000	4,678,000	0
Planning Policy & City Development	41,000	14,000	105,000	91,000
Licensing Committee	18,000	18,000	44,000	26,000
Traffic & Transportation	458,000	400,000	473,000	73,000
Total Portfolio Variance	8,272,000	10,637,000	10,280,000	(357,000)

6. Transfer From/To Portfolio Specific Reserves

6.1 In November 2013, Full Council approved the following changes to the Council's Budget Guidelines and Financial Rules:

- Each Portfolio to retain 100% of any year-end underspending and to be held in an earmarked reserve for the relevant Portfolio
- The Portfolio Holder be responsible for approving any releases from their reserve in consultation with the Section 151 Officer
- That any retained underspend (held in an earmarked reserve) be used in the first instance to cover the following for the relevant portfolio:
 - i) Any overspendings at the year-end
 - ii) Any one-off Budget Pressures experienced by a Portfolio
 - iii) Any on-going Budget Pressures experienced by a Portfolio whilst actions are formulated to permanently mitigate or manage the implications of such on-going budget pressures
 - iv) Any items of a contingent nature that would historically have been funded from the Council's corporate contingency provision
 - v) Spend to Save schemes, unless they are of a scale that is unaffordable by the earmarked reserve (albeit that the earmarked reserve may be used to make a contribution)

- Once there is confidence that the instances i) to v) above can be satisfied, the earmarked reserve may be used for any other development or initiative

6.2 Cabinet have agreed that in addition to the individual Portfolio Reserves a Cabinet Reserve created from a top slice of Portfolio Reserves will also be established from 2021/22.

6.3 The forecast balances on the Cabinet and Portfolio Reserves are set out below:

Portfolio/Committee	Balance Brought Forward	Approved Transfers	Forecast Under/(Over) Spending	Balance Carried Forward
	£	£	£	£
Cabinet	0	1,354,400	(1,354,400)	0
Children, Families & Education	1,626,400	(1,186,500)	(439,900)	0
Communities & Central Services	874,900	(749,600)	343,600	468,900
Community Safety & Environment	811,800	(723,700)	(88,100)	0
Culture, Leisure & Economic Development	235,300	(205,400)	(21,700)	8,200
Health, Wellbeing & Social Care	497,400	(277,500)	(127,700)	92,200
Housing & Preventing Homelessness	92,700	(51,700)	(41,000)	0
Leader	772,600	(762,400)	(10,200)	0
Port	3,290,100	31,900	0	3,322,000
Planning Policy & City Development	68,000	(37,900)	(30,100)	0
Traffic & Transportation	0	0	0	0
Licensing Committee	77,400	0	(3,000)	74,400
	8,346,600	(2,608,400)	(1,772,500)	3,965,700

7. Director of Finance's comments - Conclusion and Overall Financial Summary

7.1 The overall 2021/22 forecast outturn for the City Council as at the end of December 2021 is forecast to be £176,778,500. This is an overall overspend of £802,700 against the Revised Budget.

7.2 The forecast takes account of all known variations at this stage, but only takes account of any remedial action to the extent that there is reasonable certainty that it will be achieved.

7.3 The overall overspend is only achieved by the use of the Council's forecast contingency of £12.3m and the drawdown from Portfolio Reserves of £1.8m.

7.4 The overall financial position is deemed to be "amber" as in year expenditure exceeds in year income, although the Council's Corporate Contingency has sufficient funding to meet this "in year" overspending if required. The overspending however, may indicate financial difficulties for Portfolios in future years once Portfolio Reserves are depleted.

7.5 The overall financial forecast for Quarter 3 for the whole Council is a cause for



concern with significant forecast overspends in the areas of Looked after Children (£2.2m), Waste Collection & Disposal (£0.5m) and Temporary Accommodation (£0.6m). Whilst the approved Budget 2022/23 has sought to remedy unavoidable budget pressures such as many of those being experienced in the current year, there remains longer term uncertainty relating to further increases in demand. Should this persist, the Council's savings requirements in the future could rise. Consequently, it is recommended that Directors continue to work with the relevant portfolio holder to consider measures to significantly reduce the adverse budget position presently being forecast by Portfolios with a view to eliminating deficits in the medium term, and any necessary decisions presented to a future meeting of the relevant Portfolio.

7.6 Where a Portfolio is presently forecasting a net overspend in accordance with current Council policy, any overspending in 2021/22 which cannot be met by transfer from the Portfolio Specific Reserve will be deducted from cash limits in 2022/23 and therefore the appropriate Directors in consultation with Portfolio Holders should prepare an action plan outlining how their 2021/22 forecast outturn or 2022/23 budget might be reduced to alleviate the adverse variances currently being forecast.

7.7 Based on the Budget of £175,975,800 the Council will remain within its minimum level of General Reserves for 2021/22 of £8.0m as illustrated below:

	£m
General Reserves brought forward at 01/04/2021	23.374
Less:	
Forecast Overspend 2021/22	(0.803)
Less:	
Planned Contribution from General Reserves 2021/22	(1.962)
Forecast General Reserves carried forward into 2022/23	20.609

8. City Solicitor's Comments

8.1 The City Solicitor is satisfied that it is within the Council's powers to approve the recommendations as set out.

9. Equalities Impact Assessment

9.1 This report does not require an Equalities Impact Assessment as there are no proposed changes to PCC's services, policies, or procedures included within the recommendations.

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Signed by:

Appendices:

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 2022/23 & Medium Term Budget Forecast 2023/24 to 2025/26	Office of Deputy Director of Finance
Electronic Budget Monitoring Files	Financial Services Local Area Network

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

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Signed by: