



To: Cabinet
Date: 24 June 2020
Report of: Finance and Performance Panel (Panel of the Scrutiny Committee)
Title of Report: Financial Monitoring Report April 2020

Summary and recommendations	
Purpose of report:	To present Finance and Performance Panel recommendations Financial Monitoring Report April 2020
Key decision:	Yes
Scrutiny Lead Member:	Councillor James Fry, Chair of the Finance and Performance Panel
Cabinet Member:	Councillor Ed Turner, Cabinet Member for Finance and Asset Management
Corporate Priority:	All
Policy Framework:	Budget and Policy Framework document
Recommendation: That Cabinet states whether it agrees or disagrees with the two recommendations in the body of this report.	

Appendices
None

Introduction and overview

1. At its meeting on 16 June 2020, the Finance and Performance Panel considered the financial monitoring report to Cabinet to April 2020, detailing the financial impacts of the coronavirus and recommended mitigative actions.
2. The Panel would like to thank Councillor Ed Turner, Cabinet Member for Finance and Asset Management, for attending the meeting and co-presenting the report and answering questions, Nigel Kennedy, Head of Financial Services, and Anna Winship, Management Accountancy Manager, for compiling the report, attending the meeting, presenting the report and answering questions.

Summary

3. The Panel was introduced to the Cabinet report by Head of Financial Services, Nigel Kennedy. Facing what is reported to be the worst recession since the 18th century, deficits in the Council's budget were estimated to be approximately £9m over the current financial year, and with Covid-19 related measures having a continued impact, a further £14m for the remainder of the Medium Term Financial Plan. The majority of the deficit reflected income losses from a variety of sources, including commercial rents, Council company dividends, and car parking in particular. In addition, however, Council expenditure had increased: providing all rough sleepers with accommodation, establishing locality hubs, and equipping the Council to work remotely were all areas of expenditure for which budget provision had not been made. Government grants of £1.6m had been received, but were far short of the predicted deficit for the year. Decisions of further support, if any, by central government were not expected until the autumn.
4. The recommended response to the situation was put forward as advising that the Council make use of earmarked reserves, with the attendant associated impact on the projects for which they were earmarked, to close the current year's budget deficit and to accept the loss of interest or increased borrowing costs that will arise. In conjunction, newly agreed expenditure would be paused and existing spending likewise unless it sat within set criteria for the good-running of the Council. Some capital spending would also be delayed. The purpose of the strategy was explained to give the Council as many options and give it the maximum flexibility on when considering how to close the predicted deficits of future years.
5. Councillor Ed Turner, Cabinet Member for Finance and Asset Management, noted that the Council's position of relative privilege in having reserves to meet one-off costs meant an emergency budget was not necessary, and making future budget decisions when the uncertainty of the figures had reduced was desirable. Further, lower impact budget reductions would take time. The Panel was also assured that Cabinet members were particularly devoting energy to consideration of the Council's companies and supporting their contribution towards the Council's priorities, and that the Council was being proactive in lobbying central government for additional funding in light of assurances made earlier in the pandemic.
6. The Panel was broadly supportive of the strategy. In its scrutiny of the topic it recognised that the question of the Council's companies would be dealt with through an alternative forum (the Companies Scrutiny Panel). Questions were raised over the eligibility of rate relief for language schools under the government's scheme, and it was confirmed that it was currently thought that such schools were not eligible. Practical questions over how paused projects might be assessed for restart were raised, as well as discussion over whether maintaining the housing of all rough sleepers was a sustainable long term option. There was also general discussion over the anticipated level of unemployment.
7. The Panel makes two recommendations concerning i) the capitalisation of deficits, and ii) the proposals to delay capital investment in cycling infrastructure.

Capitalisation of deficits

8. Highly significant as the projected current-year deficit of £9m is, and the additional £14m over the remainder of the Medium Term Financial Plan, the locus of these deficits is recognised to be more significant. Increased expenditure and reduced income are deficits to the Council's revenue account. The Council is under a legal duty to operate a balanced budget. Whilst the Cabinet is recommended in its substantive report to use reserves to reset the current budget, finding an additional £14m of savings over the course of the Medium Term Financial Plan to correct the projected deficit would require extremely challenging decisions to be made. The Panel feared that measures taken to close the budget deficit could create adverse outcomes, both financially and socially, with the potential to last beyond the deficit-reducing measures themselves.
9. The Council's General Fund revenue budget is approximately £24 million per annum. However, the Council also has an extensive capital budget of £450m over the next 4 years. Were the central government to permit Covid-induced deficits to be capitalised and funded by borrowing or other capital resources, to be repaid over time, the deficit could be tackled over a longer period, thus enabling a balanced, less disruptive approach to closing the deficit and avoiding the need to implement those budget reductions with the potential to cause lasting damage. The Panel acknowledged that extending the length of time over which the council can pay off the unanticipated deficit does not reduce the overall quantum of savings that will eventually need to be made but it will soften the blow and avoid the worst impacts.
10. It is recognised by the Panel that the Council has already begun making such enquiries to central government, and is working with councils whose situations are similar to Oxford's and who favour this solution. The Panel supports these activities. It stressed that it considers the capitalisation of deficits to be by some distance the best option available, and not only to the Council. Permitting the management of the MTFP deficits over a longer period would also be in the interests of central government, allowing the Council to manage its own deficits without requiring immediate and significant cash injections or requiring the Council to take steps with potentially damaging long-term effects. The Panel seeks that this point be made as strongly as possible to central government.

Recommendation 1: That the Council continues to take all possible steps in lobbying government to allow the capitalisation of its deficits

Pausing of Capital Investment on Cycling Infrastructure

11. As part of its budget reset the Cabinet is recommended to pause capital investment in those areas where it is most feasible for the Council to do so. The Panel supports the general aim to make considered decisions on options and priorities when the Council has greater clarity over the financial impact of the pandemic. However, it does query the decision to pause £60k of investment in cycling infrastructure.

12. Over the last three months cycling has increased enormously. Whilst an outlier, Edinburgh for example, saw up to a 482% increase in cycling traffic at weekends, and 252% during weekdays in the first three weeks of April.¹ Fewer vehicles on the road during lockdown, reduced public transport capacity, the closure of gyms and the sunniest month on record are all likely to have been contributors. Sales at Halfords, Britain’s largest bike seller, in May were double normal levels, with entry-level bikes being most in demand. Likewise, cycle repair shops have reported huge spikes in demand for their services. This suggests that increased participation in cycling is due to keen existing cyclists simply riding more, but to new and returning cyclists and as such represents a groundswell of interest. The Panel welcomes this development.

13. Whilst the early stages of lockdown provided an environment in which cycling participation could grow, the easing of lockdown measures mean some of the contributory factors to the rise are reducing. In particular, road traffic is once again increasing. It is the Panel’s view that there is a window of opportunity to nurture the increased participation in cycling into a long-term modal shift. Cycling infrastructure is an important part of that mix, and if delayed, spending is likely to be less effective. In light of the modest sum involved, the pro-cycling message funding would make and the opportunity to complement the Tranche 1 spending on cycling, the Panel recommends that this particular project is not paused.

Recommendation 2: That the Council does not pause its £60,000 planned capital spend on cycling infrastructure

Further Consideration

14. Nigel Kennedy, Head of Financial Services, has agreed that further consideration of this topic will be taken to the 7 July 2020 Finance and Performance Panel. The meeting will be held in confidential session and will focus on discussion of pre-submitted questions by Panel members to the Head of Financial Services.

15. The Finance Panel does not anticipate needing to discuss the Council’s proposed mitigations beyond the meeting on 7 July 2020. However, the impacts detailed in the report have very significant ramifications for the Council’s future budget, and the Panel expects to be involved fully in scrutinising the draft budget proposals through the annual Budget Review Group.

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¹ <https://www.theguardian.com/lifeandstyle/2020/may/09/coronavirus-cycling-boom-makes-a-good-bike-hard-to-find>

Cabinet response to recommendations of the Finance and Performance Panel made on 16/06/2020 concerning the Financial Monitoring Report April 2020

Provided by Cabinet Member for Finance and Asset Management, Councillor Ed Turner

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<i>Recommendation</i>	<i>Agree?</i>	<i>Comment</i>
<i>1) That the Council continues to take all possible steps in lobbying government to allow the capitalisation of its deficits</i>	Y	The Council is like a number of authorities lobbying for the Government to issue a Directive to allow capitalisation of its losses, in the absence of further cash support. This would ease the pressure of the balancing of the MTFP since losses could be charged over a longer period of time. We have raised this with representative organisations of which we are a member and with neighbouring districts, as well as directly to the government.
<i>2) That the Council does not pause but proceeds with its £60,000 planned capital spend on cycling infrastructure</i>	Y	We agree that the crisis presents a unique opportunity to promote cycling and other sustainable forms of transport. Moreover, it is important to show Oxfordshire County Council that we are supportive of cycle infrastructure and would wish it, as the Highways Authority (and in receipt of substantial government funding for this purpose) to pursue the same approach. For this reason, we agree not to include the £60k expenditure this year in the pause, although future years' funding will depend on the review of the MTFP.

Date of Cabinet meeting: 24.06.2020

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