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OXFORD CITY COUNCIL

To:	**Cabinet:**
Date:	**24th June 2020**
Report of:	**Head of Financial Services**
Title of Report:	**Financial Monitoring Report – April 2020**

Summary and Recommendations

Purpose of report:	To update members on the estimated financial impact of the Coronavirus together with agreement upon mitigating actions
Key decision:	Yes
Cabinet member:	Councillor Ed Turner, Deputy Leader and Cabinet Member for Finance and Asset Management
Policy Framework:	Budget and Policy Framework document

Recommendations:

Cabinet is asked to

a) agree the mitigating actions proposed against the financial impact of the coronavirus.

b) note the additional spend commitments taken under Executive Emergency powers to commit further expenditure in 2020-21 in the order of £1.5 million as detailed in paragraph 11-12

c) agree the strategy of a transfer from reserves by the Head of Financial Services to cover the estimated increased net expenditure in 2020-21 followed by a budget re-set for 2021-22 and beyond

Appendices to the report:

Appendix A	General Fund Revenue Account
Appendix B	Capital Programme
Appendix C	Housing Revenue Account
Appendix D	Key Income Streams

Introduction

1. On the 13th February 2020 the Council agreed a balanced budget and MTFP over each of the four years commencing 1st April 2020.
2. The COVID 19 pandemic has brought with it considerable financial uncertainty around the current estimates especially around income streams both in the current financial year and beyond. This has required some mitigating actions to be put in place to alleviate the short term and long term effect on the Council's finances.
3. It would not be normal practice to come forward with a report on the budget position of the Council for the end of April since normally a month's income and expenditure shows no real variances to the budget approved in February. However given the significant reduction in income streams and increased expenditure currently being experienced and forecast, members need to be made aware at an early stage of the implications, the mitigating action taken by officers to date and the recommended strategy for dealing with the implications in the current year and going forward.

Economic Outlook

4 The economic outlook for the UK in a post COVID world looks very challenging. Some insight to this through a number of economic indicators recently published include:

- **Cost of Government Support -**The table below produced by the Office for Budget Responsibility below provides initial broad-brush estimates of the costs of various policy interventions since the commencement of the COVID pandemic. On this provisional basis, it is estimated that the direct impact of new policy measures on cash borrowing in 2020-21 will be £123 billion.

Table 1 : Government Support (May 2020)	£ billion,
Direct effect of Government decisions, of which:	123.2
Spending	118.4
Tax reductions	17.4
Increased tax as a result of spending measures	-12.6

- **Budget Deficit -**The budget deficit (the difference between Government spending and tax receipts) in April 2020 increased by £62.1 billion, £19.6 billion higher than market expectations and £51.6 billion up on April last year. This is the largest budget deficit in any month on record and close to the deficit for 2019-20 as a whole with tax receipts to HMRC being 42% down, the bulk of which arises from Government's VAT deferral with income tax, corporation tax and fuel duties also seeing a sharp fall on a year earlier.

In addition Government spending is up by 52% reflecting the assumed impact of the coronavirus job retention scheme (CJRS), with grants to local authorities and higher public services spending, much of which was coronavirus related (including NHS spending). The Office for Budget Responsibility, the Treasury tax and spending watchdog, estimates the deficit could max out close to £300bn this year, five times the sum borrowed a year ago, and almost twice as much as after the 2008 financial crisis.

- **Gross Domestic Product** -Official figures show just nine days of lockdown caused gross domestic product (GDP), the broadest measure of the economy, to fall by 5.8% in March, and by 2% in the first three months of the year. Activity declined across the board, with a slump by almost as much in a single month as in the 18-month slide caused by the 2008 financial crisis. Economists regard two consecutive quarters of shrinking GDP as the technical definition of recession. Most forecast a second quarterly decline in the three months to June, given the scale of restrictions on business and social life, with the Bank of England pencilling in a 25% drop
- **Unemployment indicators** -The number of people claiming unemployment benefits rose by almost 70% in April, the most since records began, to reach 2.1 million as rising numbers of people lose their jobs during the health emergency. This figure would have been much higher without the government's furlough scheme
- **Consumer Price Index (CPI)** Inflation in Britain fell to 0.8% in April, its lowest level in four years, as the collapsing global oil price sent the cost of petrol tumbling. Inflation is not expected to increase until 2022.
- **Interest Rates** -The Bank of England has reduced interest rates down to the lowest levels in its 325-year history with its cut in the base rate to 0.1%. It is thought by some analysts that this level will be with us until the end of 2020-21.

5 The Bank of England have reportedly concluded that the UK is heading for the worst recession since the 18th Century.

Financial Forecasts – General Fund Revenue

6 **Appendix A** gives an overview of the estimated financial impact on the Council's General Fund with a summary given in Table 1 below.

Table 2 : Summary of net increased cost				
	2020-21	**2021-22**	**2022-23**	**2023-24**
	£000's	**£000's**	**£000's**	**£000's**
Increased costs	1,520	500	130	130
Losses of income	9,658	6,600	4,400	2,400
Emergency (COVID) fund	(1,622)			
Rough sleepers fund	(32)			
Furlough Grant	(100)			

Net deficit	9,423	7,100	4,530	2,530

7 The forecast net increased costs for 2020-21 is estimated at around £9.2 million with ongoing implications for the Medium Term Financial Plan (MTFP) estimated at around £14 million over the ensuing three year period.

8 There is still significant uncertainty around these figures which are based on data from one month of lock down with a current assumption that this will last to some degree for at least 3 months with a long period of recovery thereafter. Should the recovery take longer than the period assumed then increased costs in 2020-21 may be higher and the recovery time of income streams longer.

Income Streams

9 Appendix D gives information on the Council's key income streams with a summary shown in table 3 below. Overall key income streams are 93% of what is expected although there are some key variations and mitigating factors which need to be taken on board when analysing these figures.

Table 3 : Summary of cash income versus budget March 2020 - April 2020

Summary	Budgeted income for 2019-20	Actual Cash collected March 2019-20	Percentage income collected in March 2020	Budgted income 2020-21	Actual Cash collected April 2020-21	Profiled income	Percentage of profile collected
	£	£	%	£	£	£	%
Service Based Income	25,428,746	2,977,450	12%	26,819,231	1,861,197	3,826,864	49
Collection Fund	197,192,106	2,800,864	1%	148,675,990	16,276,681	15,788,236	103
Housing	44,642,084	3,961,161	9%	44,471,671	3,342,544	3,466,456	96
Total	267,262,936	9,739,475	4%	219,966,892	21,480,422	23,081,556	93

10 Cash received for service based charges is only 49% of profiled income. Other areas worthy of note include:

- **Commercial rent income -** only 62% of the first quarter income invoiced in March has been taken to date. No payment 'holidays' have been given to date although deferrals and rephrasing of payments have been granted. A quarter's rent has been waived, at a cost of around £250k, in respect of the covered market, given the Council's decision to close the building, The April position may not be reflective of the financial impact going forward. Many of the properties the city council owns are currently closed for business although the Government have indicated that a return of some businesses will be allowed on the 15th June with appropriate social distancing. All businesses regardless of size in the retail, hospitality and leisure sectors have been awarded 12 months' business rates relief and many businesses have furloughed staff, or accessed other business grants that have been provided by Government. It remains to be seen how businesses fair and a prudent figure for ongoing losses of commercial rent receivable has been allowed for in the forecasts both in the short and medium term.
- **Leisure Services –** Leisure facilities have been shut and the Council has agreed a 'holding position' with Fusion, its leisure services partner, to waive the management fee of £46k per month and pay residual costs for maintenance of the leisure centres of £32k per month with effect from

20th March, which has been built into the forecasts although should the centres re-open the cost may be significantly higher than this. The Council is commencing work to determine how future leisure operations will commence.

- **Council tax** collection figures at 30th April represent around 106% of the collectable debit. As in the case of business rates these figures are skewed by the number of council tax payers who pay the whole year in advance and also those council tax payers that the Council agreed to move onto payment plans starting on June or July (around 2% of council tax payers).
- **Business Rates** cash collection figures at the 30th April represent around 98% of the expected amount. The amount collectable is 50% less than last year due to the Expanded Retail Discount. These figures may not present an accurate picture due to
    - The number of businesses who continue to pay the full annual debt in advance
    - Reduced cash from those on payment plans which don't start until June or July effecting around 10% of business rate payers.
- **Town Hall** Cash from town hall bookings in April was 55% of profiled income although this may portray an over optimistic rate of collection since many future events have been cancelled given that social distancing will be in place for much longer than the lock down. Total income is around £1m per annum of which a reduction of £735k has been factored in to forecasts. Further reductions have also been allowed for going forward.
- **Car Parks –** Car park revenues are estimated at around £550k per month, but in April only £10k of income was received. Whilst this may pick up from mid-June onwards it seems reasonable to assume lost revenue of at least £1.5 million over the next few months. The level of income loss may reduce given the temporary move away from public transport which may see an increase in the use of cars.
- **Oxford Direct Services Ltd**- The Council's wholly owned company Oxford Direct Services are forecast to deliver a dividend back to the Council of £1.7 million in 2020-21. The Company has been prevented from carrying out much of its building works and repairs to Council dwellings and has furloughed over 200 staff. In addition the closure of any businesses has resulted in reduced external income streams from motor transport, building services and trade waste which is down 70% on expected income. A reduction in the dividend of around £1 million has been allowed for together with reductions over the next few years as the Company seeks to adjust its business plan to contain the losses and commence recovery.
- **Oxford City Housing Ltd** -A number of development schemes in OCHL have been delayed due to COVID by on average 6-9 months. The estimated cost to the Council based on a 2% margin on loans taken out by OCHL is estimated at £300k although this could increase as more information on slippages is reflected in a revised business plan. Once the

lock down is over the company should be strongly encouraged to forge ahead with schemes, given that the returns to the Council built into its plans are considerable.

Increased Expenditure

11 Whilst primarily the Council's increased net costs arises mainly from reductions in income streams there are a number of areas where the Council has needed to increase expenditure, under Emergency powers given to the Council's Head of Paid Service.

12 Additional revenue expenditure has been committed for 2020-21 in the order of £1.5 million under the Emergency powers given to the Council's Head of the Paid Service. These include :

- providing accommodation for rough sleepers and provision of meals at an estimated additional cost of £532k (this is based on initial 3 month lockdown period and does not reflect potential future requirements for rough sleepers)
- Additional one-off ICT software and equipment and mobile handsets to accommodate remote working £455k
- Provision of food parcels and other costs in supporting vulnerable people through the locality hubs - £115k
- One off additional costs in the Benefits Team to process increased numbers of Housing benefits claims and changes in circumstances. - £50k

13 With the exception of some costs in relation to remote working no allowance has been made in the figures for any potential increased costs that may arise from the 'New Normal' of working in localities. Work is currently being undertaken on a future new localities hub model the costs of which will be factored into the budget the next budget setting process.

14 The Council has been given £134k from central Government to support this and has allocated £100k of CIL to support measures, but it is unclear what the on-going requirements will be in this area or any additional cost that could arise for maintenance of these areas and our parks whilst social distancing measures are in place.

Government Support

15 The Government to date has nationally pledged £3.2 billion of support to local government and the Council's allocation of this is £1.6 million, but clearly this is far short of the estimated amount it requires to balance the books. The MHCLG minister in a statement on 4th May advised:

- Not all costs incurred by local authorities will be recovered
- Government is prepared to reimburse costs to councils of the requirement to accommodate rough sleepers in single room accommodation
- It would not be until late Summer when there will be a clearer picture
- He has always warned against commercial investments using PWLB
- The spending review to review local government finances would be undertaken in Summer/ Autumn

16 The Council has also accessed the Government's Job Retention Scheme. On average the Council have furloughed on average 28 staff per day since the 7th April to date and at its peak had furloughed 40 staff between the 27th April and 15th May. It is also understood that ODS have furloughed around 200. Taking account of current numbers furloughed total grant of around £400k to £500k is expected to be received by the Council and ODS when the scheme closes in October.

17 The authority continues to lobby for more financial support and more recently for the Government to allow the capitalisation of lost income and increased expenditure in order to defer the impact of the net increased costs over a period of time. Should either of these be forthcoming then clearly the projected deficit would be mitigated to some extent.

18 Against this background of uncertainty this paper sets out a an initial plan of actions in the absence of further Government support that the authority could take in order to ensure that it mitigates the increased net costs in 2020-21 in advance of any Medium Term Financial Planning .

Constraining Revenue Costs in 2020-21

19 If we are to have a sustainable MTFP then action is required now to lay the foundations for the future. Discussion recently has been about when lockdown measures will be lifted and when the country will commence the road to recovery. Some corrective action is required now to the 2020-21 budgeted spend if we are to protect the council's future financial position against financial uncertainty and a changing back drop.

20 Advice has already been issued to managers on how budgets should be managed over the coming months. It is **recommended** that, while the organisation needs to continue to operate, that orders should only be committed for items of expenditure that:

- provide statutory services
- safeguards vulnerable citizens
- are funded through ring fenced grants
- are of a health and safety or regulatory nature
- are required to ensure appropriate financial control and governance
- assists the delivery of additional income or future savings

21 Where the business case has been made to fill vacant posts these will be for the time being be filled on a temporary or fixed term contract basis if practicable.

22 It is **recommended that n**ew expenditure included in the Budget and approved by Council in February 2020 totalling around £1.1 million is for the time being paused, although there may be some elements which may be released for operational reasons; the relevant portfolio holder and the portfolio holder for finance and corporate assets will be consulted before any such release. The new expenditure in the approved budget includes:

- **Marketing the Covered market**
- **Additional surveying resources in Property Services**
- **Additional Executive assistant**
- **Support post**
- **Climate change reduction additional spend**

- **Toilet Attendants to city centre toilets** (this will be the subject of a wider discussion with ODS about servicing provision during the pandemic)
- **Grounds maintenance and street cleansing additional staffing**
- **Additional Planning Lawyer and Commercial Property Lawyer**
- **Data Manager (investigation Services)**
- **Crèche at Ferry leisure centre**
- **Leisure access for homeless pathway clients**
- **Green neighbourhood grants increase**
- **Living wage promotion**

23 These adjustments to the Council's budget now, temporarily or not, will give time for the emerging picture both in terms of costs and any additional Government financial support that may be forthcoming and also assists the Council in dealing with the financial pressures it will experience going forward. Conversely making no adjustment now would make it more difficult to deal with emerging risks and reduces the options for dealing with financial pressures going forward.

Capital Programme

24 There are revenue consequences from undertaking capital schemes and pausing or stopping schemes within the capital programme will a) release resources to spend on other capital schemes and b) potentially reduce the revenue cost to the council to the extent that the scheme is funded from borrowing. Mitigating action with regard to the Council's capital programme will enable the Council to keep its options open as the uncertain financial picture becomes clearer. Moreover, because of the situation in the construction sector, it would be difficult to progress work on some schemes at present. Work has already been undertaken by officers to classify the schemes into a number of categorises which in priority order are:

1. Housing Revenue Account (HRA) (100% funded) – the assumption is the Council are carrying on with these programmes at this stage
2. Health & Safety – again, the Council may want to stress test this list, but the assumption would be this should carry on
3. Commercially viable – assumption would be to carry on, with scrutiny of business cases through the gateway process
4. Totally externally funded (100% non-Council) – no reason not to carry on
5. Partially externally funded (with some Council budget) – would form part of more detailed review - judgement to be made, based on financial leverage the Council would lose etc.
6. Council funded only, but including Community Infrastructure Levy (CIL) - would form part of a more detailed review
7. Council funded only with General Fund – would form part of a more detailed review

25 **Appendix B** gives details of spend to date and forecast spend in terms of the current capital programme. A summary of the schemes by categorisation is shown in the table below

Table 4 : Capital Programme by Categorisation

Capital Scheme	Director Responsible	Category	2020-21 Budget with Carry Forwards	2021-22 Budget	2022-23 Budget	2023-24 Budget	Grand Total of Projected Remaining Spend
1 - HRA (100% Funded)			51,639,725	41,428,000	54,842,000	56,732,000	204,641,725
2 - Health and Safety, Compliance and Data Security			2,392,962	1,020,450	560,000	560,000	4,533,412
3 - Increase Income or Reduce Spend			94,888,400	57,367,520	24,087,000	31,860,723	208,203,643
4 - Totally Externally Funded (100% non-Council)			4,013,748	6,201,750	1,200,000	1,200,000	12,615,498
5 - Partially Exeternally Funded (with some Council Budget)			2,971,540	488,312	575,350	0	4,035,202
6 - Council Funded Only, but including CIL			660,000	270,000	60,000	60,000	1,050,000
7 - Council Funded only with General Fund			7,386,764	3,182,097	700,000	700,000	11,968,861
8 - Completed or Closed Category			21,136	0	0	0	21,136
TOTAL			**163,974,275**	**109,958,129**	**82,024,350**	**91,112,723**	**447,069,477**

26 For the time being it is **recommended** that only schemes that fall into categories 1-5 will be progressed subject to business case review by the Development Board and within the officer Scheme of Delegation. Schemes which will be put on pause fall largely into categories 6 and 7 since these are financed wholly from within the Councils resources and do not fit the other criteria identified. This action is considered prudent and will provide options to the Council in the future re-evaluation of its financial position once there is more clarity or during budget setting for later in the year. It also relates to the difficulty of delivering some schemes in the current context. These schemes are highlighted in Appendix B and include:

- Upgrade of tennis courts
- Car park resurfacing
- Rosehill Community Centre Parking
- East Oxford Community Centre
- Bullingdon Community Centre
- Cycling infrastructure
- Purchase of grey fleet
- Additional ICT requirements in ODS

Other points worthy of note include:

- The Programme includes £42 million for the purchase of commercial property financed by borrowing. Increased revenue income predicated from such purchases has been included in the MTFP. There are proposed changes to the use of Prudential borrowing for property purchases and consequently such expenditure is proposed to be paused pending clarification of this position.
- Included in the Programme in 2020-21 is £492k in respect of car park resurfacing, some of this spend will be required to finance works of an essential nature. Should this be the case then some of the budget will be released, otherwise it will not.
- The Council has a number of schemes in a pipeline which are not as yet included within the Capital Programme. Ordinarily these schemes would come forward for Cabinet approval after feasibility works have been carried out and the budget has been identified. Once the business case has been established these will be categorised in line with the above and recommendations made to members as to whether the schemes can move forward.

- The Council is currently undertaking a condition survey of all its operational buildings. Tenders have yet to be full evaluated but the cost of the survey is estimated at between £200k and will be financed from the Capital Feasibility budget. No provision has yet been made in the capital programme specifically for this work or indeed any resultant work that arises from the surveys. The work will evaluate the condition of all council buildings and identify and works required to bring a building back to a reasonable condition including any works of a health and safety nature. The condition survey work is considered essential and it will no doubt bring with it a significant cost of works to be undertaken. Equally it will inform any future asset management strategy and assist any decisions on whether to retain and repair or dispose of such buildings, the latter potentially raising essential capital receipts.
- An amount has been included within the capital programme of £13 million in respect of works to a new single depot. The project is currently at outline business case and has yet to have full business case approval. This is an integral part of both the ODS future business plan and also could feed into the Councils future ‘accommodation’ strategy and therefore should be considered as a key part of it’s financial strategy moving forward
- There is an overall increase in the forecast Capital Programme for 2020-21 of around £1.2 million as at the end of April which relates largely to bringing forward future years budgeted amounts for vehicle replacements given the delays in the programme last year and also work on bringing forward the business case on the single depot. Further work is being undertaken to revise the Business Plan for the Councils Housing Company (OCHL) and also reassess the Capital Budgets to allow for optimism bias in the amount that will be spent in this year. Any revisions to this plan, taking into account delays arising from COVID 19 will be made and reported to members in July in the first quarter monitoring report.

Future Actions

27 Clearly the Council’s financial problems will be long lasting and a longer term view of service readjustment will be required going forward as part of the budget setting process. Normally such a process would commence in around August/ September of each year for preparing the Consultation Budget in December with Council agreeing the budget in February.

28 Corporate Management Team have already commenced work together with a number of managers on a number of key areas for review which will feed into the MTFP review including:

- **Budget** – including ODS and OCHL Business planning
- **Capital Programme** – as referred to above
- **Housing Delivery** – refresh of the Business Plan for OCHL which could provide a real income stream for the council
- **Community Services-** How to build on the locality based hubs that the Council has established across the city
- **Customer Contact** – facilitating staff working from home, channel shift and exploring new ways of customer engagement
- **Office Workspace-** looking at ways to reduce the councils office accommodation footprint

- **Leisure Provision –** reviewing the future provision of leisure services in the light of the challenges presented by their temporary closure
- **Homelessness provision**– re-evaluating the strategy for rough sleepers together with other partner organisations in the County

29 The outcome of these reviews which will be undertaken over the coming months will feed into the MTFP Refresh, together with decisions around new expenditure agreed in 2020-21 as referred to in paragraph 20 and any projects in the capital programme that are paused as discussed in paragraph 22-24, more detailed information on which will follow in due course.

Use of Reserves

30 Even with some of the mitigations outlined above the Council is likely to face a deficit of around £9 million to £10 million for the financial year 2020-21. The Council has General Fund revenue reserves estimated to be around £39 million inclusive of around £2.5 million surplus from 2019-20 as detailed below by 1-4-2019.

Table 5 : General Fund Revenue Reserves		
	Balance 1-4-2019	Estimated balance 1-4-2020
	£	£
Earmarked reserves	33,891	39,219
Working Balances	3,855	3,300
	37,746	42,519

31 Some of these reserves could be used to cover the financial gap in 2020-21 although there are a number of points to consider:

- The use of reserves is one-off: once they are gone they are gone. They provide a temporary stop gap to fund one-off spend. Revenue reserves unlike capital receipts for instance are more flexible in their usage and therefore should be used as a last resort. Whilst the financial pressures currently experienced are considered to be at a peak in 2020-21 it is hoped that these tail off as income returns to normal although there is much uncertainty as to when this will happen.
- Earmarked reserves are earmarked for specific purposes and to help manage risks and unforeseen pressures. Once spent they are no longer available for these perceived needs.
- Earmarked reserves are part of the councils overall cash balances which are pending their use are invested in banks, building societies, other local authorities, money market funds and property funds or are used in lieu of external borrowing (so called internal borrowing). They do therefore have a positive net effect on the councils finances earning on average around 1% last year (estimated £1 million return) when invested or saving around 2.5%

in borrowing costs. Using revenue reserves will therefore create a revenue pressure.

- The working balance is currently £3.6 million but in balancing the MTFP over the next 4 years it will fluctuate before returning to around £3.3m in 2023-24. No further draw on this balance is recommended.
- The levels of reserves and balances to be held by a Council is a judgement call based on a number of factors the largest of which is the level of risk that the Council is carrying. In February 2020 in his report to Council on the 'levels of reserves and balances and robustness of estimates' the Head of Financial Services provided information from a CIPFA survey of local authority financial resilience which is summarized below

TABLE 1 : RESILIANCE INDICATORS - NON METROPOLITAN DISTRICTS - 2018-19				
	Minimum	Oxford Council	Maximum	Risk
Reserves sustainabilty measures	2.86	100.00	100.00	L
Level of reserves (%) **1**	23.28	104.42	300.00	M
Change in reserves (%) **2**	-51.16	7.36	490.83	M
Interest payable/ Net Revenue Expenditure	-7.13	24.35	525.04	H
Gross External Debt (£000)	0.00	198.50	1,212.00	H
Fees and Charges to Service Expenditure ratio (%)	1.58	29.23	70.32	L
Council Tax Expenditure/ Net Revenue Expenditure (%)	36.95	50.86	100.00	H
Growth above baseline %	-129.00	124.00	287.00	H
Unallocated reserves/ net revenue expenditure %	0.00	14.53	252.00	H
Earmarked reserves/ net revenue expenditure %	3.31	89.89	300.00	M

Notes

1 The level of reserves to net revenue expenditure

2 Average change in reserves over the last 3 years

3 Current level of reserves and the average change in the level of reserves over the last 3 years

The usefulness of this survey is questionable in the absence of more granular analysis. The survey showed that at 29.23% fees and charges compared to service expenditure presented a low risk although at the time the Head of Financial Services advised that

> 'At 29.23% of service expenditure then one could argue that the Council's ratio may present a high to medium risk should income receipts fall. In fact going forward this risk will increase with the increasing reliance on income streams from ODS and OCHL'

The Councils strategy of increased income streams to fund service costs is likely to continue post COVID 19 and hence these risk will still be there albeit with a lower amount of reserves to cover any unexpected variations.

- The use of earmarked reserves does have other financial consequences including :

    a. A loss of interest from investments or increasing the need to borrow externally to fund capital expenditure

    b. Earmarked reserves as the name suggests means that they earmarked for a particular purpose. Using the earmarked reserves to fund the deficit will remove their use for the original purpose for which they were set aside and therefore could affect future service delivery

Housing Revenue Account (HRA)

32 The outlook for the HRA is forecast at around £1.7 million overspend as shown in Appendix C. The Councils HRA is not under the same financial pressure as the General Fund although there are a number of issues which give rise to concern in the short term including:

- Losses of rent and service charge income. The Collection rate for such income at the end of April 2020 is marginally down against the same position for last year at 96% of that expected. Worryingly those debtors that were previously in arrears pre COVID are proving difficult to contact and there has been an increase in the number of tenants that are cancelling direct debits with 179 cancelled in April. This could be because enforcement action including court action and evictions have been temporarily suspended. The position will be monitored but there is an expectation that some degree of income estimated at around £500k will be irrecoverable once the crisis is over.
- Backlog repairs and maintenance. The repairs and maintenance programme undertaken largely by ODS has been completely stopped. Discussions are currently taking place to restart the programme with backlog repairs being undertaken over a longer period of time to allow catch up. Some additional loss of rent can be expected with increased void periods due to inability to operate safely in the order of £500k and the potential for increased disrepair claims.
- The purchase of Personal Protective Equipment (PPE) in the order of £382k together with increased cost of undertaking welfare visits is estimated to cost another £390k

33 The temporary pausing of development schemes within OCHL will no doubt result in a re-phasing of purchases of social dwellings by the HRA which will change the budget, the work on which is still to be done. There are some new schemes currently being evaluated within OCHL and there are some schemes which are seeing cost increase which have not yet been reflected in the HRA.

34 For the time being no in year adjustment of spend for 2020-21 is required for HRA related budgets although this positon will be monitored in the context of the issues raised above. Forecast overspends will be charged against the HRA working balance.

Conclusions

35 The COVID pandemic has brought with it considerable financial uncertainty around the Councils finances which even based on current estates is likely to have an initial impact in this financial year of around £9 million with a longer term increased cost of around £13 million over the MTFP period. The financial picture however is still uncertain.

36 The Government has already given an estimated £1.6 million of support to the Council in the form of an Emergency Funds. However recent Government announcements would seem to indicate that there would be little more support forthcoming for local authorities.

37 The Council has already paused new expenditure approved by Council in February 2020 on its General Fund Revenue Budget and also the Capital Programme in addition to restricting spend to a statutory or regulatory nature, to protect vulnerable clients and income generation or schemes capable of producing savings to provide flexibility and release financial pressure going forward.

38 Reserves can be used to cover income losses and additional costs currently forecast at £9.2 million in 2020-21 based on current estimates. Lowering the reserves by this amount reduces the financial resilience of the authority and will have financial implications for the authority which will need to be factored into the next budget setting round.

39 Taking mitigating action now will give time for the financial impacts on the authority's finances to become more crystallised including the potential for any further Government support to be taken in account. These measures will also enable the Council to consider all uncommitted expenditure alongside other priorities in the next Medium Term Financial Planning process which will commence shortly.

Financial Implications

40 The COVID pandemic is estimated to increase net expenditure by around £9.2 million in 2020-21 and potentially another £13 million for the ensuing 3 years. There is an option to use earmarked reserves to cover all or some of the increased spend in 2020-21, though these will then no longer be available for other purposes and will need to be replaced through future savings to ensure financial resilience of the council.

41 Pausing revenue and capital spend will give time for the effects of the pandemic to unfold and give more clarity on the financial uncertainty especially given the warning signs of the UK economy entering a recession. Cessation of such spend would also mitigate the amount of reserves required to balance the budget in 2020-21 and allow for a reprioritisation of such spend to be undertaken in the next budget round.

42 The ability to draw on further reserves to cover estimated increased costs in future years may not be an option and such costs may therefore need to be found from service savings to be identified in the next Medium Term Financial Planning process which is shortly due to commence.

Legal Implications

43 A local authority is required to ensure it has a financial plan which is based on sound assumptions which shows how income will equal spend over the short- and medium-term after taking into account deliverable cost savings and/or local income growth strategies as well as useable reserves.

44 If during monitoring of the original budget it is considered that significant alteration in either expenditure or income may result in an unbalanced budget then alternative action must be taken to bring the budget back into balance. Such action would include drawing further on reserves or reducing expenditure.

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Risk Implications

45 There is still significant financial uncertainty around the financial implications to the Council of the COVID pandemic especially in relation to key income streams. This report represents the best estimate of what the effect will be in the current year and the medium to longer term. The picture will change as the Government tackles the pandemic and the economic recovery begins, but this recovery is likely to take a significant amount of time and with warnings of an economic recession looming the authority may have to factor in additional financial losses which have yet to materialise.

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Background Papers:
1 None

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