



CRISIS RESPONSE AND IMPACT ON THE MEDIUM TERM FINANCIAL STRATEGY (MTFS)

OXFORD CITY COUNCIL

July 2020

INTRODUCTION

LOCAL GOVERNMENT CRISIS SUPPORT

On 19 March 2020, the government announced £1.6 billion of additional funding for local government to help them respond to coronavirus (COVID-19) pressures across all the services they deliver. A further £1.6 billion in additional funding was announced on 18 April 2020.

This extra £1.6 billion takes the total given to Council's to help their communities through this crisis to over £3.2 billion. Of the above Oxford City Council (the Council) were allocated £1.6 million with the intention to protect the vulnerable and rehouse rough sleepers.

In July 2020 the Government has announced a further £500m to help councils in England facing extra cost pressures as a result of the coronavirus pandemic. The sector has raised some concerns on how the tranche of funding was distributed amongst Councils and whether it would be more beneficial to distribute in a structured manner eg on a per capita basis.

This paper summarised the impact on BDO's clients and our observations on current practice



RESPONSE TO THE CRISIS

The immediate response of local councils has been incredibly quick and effective. Councils have stepped up to support their communities and delivered at pace. For example:

- Emergency powers and plans enacted
- Government guidance implemented
- Home working arrangements put in place
- Governance arrangements amended – meetings postponed or transferred to virtual formats
- Major service changes undertaken, with thousands of staff being redeployed
- The financial response was rapid – including swift implementation and delivery of the Government grants to support businesses. See table 1 on the next page.
- The quick response will inevitably have resulted in some control issues over areas such as procurement, payments to suppliers and data governance. Most Councils have put internal audit work on hold until quarter 2, so these issues may take some time to emerge.



TABLE.1 TYPICAL INITIAL CRISIS RESPONSE BY COUNCILS

<p>Emergency Planning</p> <ul style="list-style-type: none"> - Emergency Powers are enacted - Adaptation of Governance and Decision making process 	<p>Protection of Key Services</p> <ul style="list-style-type: none"> - Continuation of main refuse collection services (some Councils have discontinued Green Waste Services) - Keeping Green Parks and Open spaces open where possible 	<p>Closure of Services</p> <ul style="list-style-type: none"> - Closure of Leisure Centres, Libraries and Museums and waste disposal sites - Car parking changes regarding charging and enforcement 	<p>Protecting Vulnerable and Community Resilience</p> <ul style="list-style-type: none"> - Identify, support and protect the vulnerable - Use of Community Hubs - Working with Community Groups and Voluntary Sector 	<p>Home Working</p> <ul style="list-style-type: none"> - 70 - 90% of all council workers are now home working (varying Council to Council) - Transferring and retraining staff to support Covid - 19 pressures 	<p>Supporting Local Businesses</p> <ul style="list-style-type: none"> - Distribution of information about new Government Grant Schemes to local businesses and paying grants to businesses 	<p>Communication of Key Information</p> <ul style="list-style-type: none"> - Range of Communication methods used to ensure key information is sent out quickly to residents, Businesses and community and Voluntary Sector - Constantly updating information
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THE FINANCIAL IMPACT ON THE MTFS

A significant sector concern is the financial implications for local councils. Responding to COVID-19 has brought twin financial pressures: increased spending in some areas (eg housing rough sleepers and social care); and often marked reductions in income from fees and charges (eg closure of leisure centres, reduced or no income from car parking). In the short term this has produced cash flow issues; in the long term lack of certainty over finances might inhibit recovery.

The Medium Term Financial Strategy is not only based on assumptions on the state of the national and local economies over the next three years but is also the financial expression of the council's policy. Therefore, every council is likely to have to fundamentally evaluate its MTFS in the light of the pandemic.

Councils may also need to review their commercial investment portfolios, with a view to confirming that the portfolio continues to provide the council with the overall financial security and liquidity it requires. This will be particularly important if the council's cash-backed reserves have become depleted as a result of the crisis.

Our benchmarking of how Councils are funding their deficit and responding to the financial implications of the pandemic noted the following themes:

- Funding through the use of Ear Marked Reserves
- Cancellation of Capital Programmes and Revenue Investment/ Transferring funds from Revenue and Capital schemes
- Reviewing Working Capital balances for more favourable terms
- Review of long term procurement contracts
- Reduction in Services
- Review of In Year Budget
- Awaiting on PWLB Consultation for Regeneration and Housing Investments.

Councils may need to re-evaluate both individual investments and the portfolio as a whole if the underlying assumptions made at the time of the investment decision in terms of anticipated income streams, estimated future capital values and overall risk have changed.

Elected members will already have crucial connections with the local community and are best placed to understand local need and it is important that the voice of the community is heard through its locally elected representatives as local priorities are reconsidered and potentially reshaped.

There may be significant longer term impacts on the economy and ways of working. Councils will need to consider what this means for housing, transport, city centre development etc. Accordingly, councils may need to revisit their capital strategy as well as its revenue requirements.

FAIR FUNDING REVIEW

Prior to the pandemic, government had already announced an overall increase in their funding to local councils and was due to consult over the coming months on a new system of funding allocation, known as the Fair Funding Review, which was to be implemented from 2021/22. Understandably, the government has recently announced a further delay in the implementation of this review, but it is currently unclear whether the expected reset of the Business Rates allocation system, which was also due to be implemented from 2021/22, has also been delayed.

CASE STUDIES ON HOW COUNCILS PLAN TO MANAGE THEIR DEFICIT

Birmingham City Council

Grant Fund to Date: £70.31m

Shortfall Forecasted?: Yes

File S114?: No

Expected Shortfall: £212m

Shortfall per Resident: £186

Spillage into 21-21? 87m

How will the Council plan to meet the deficit?

The Council is engaged in ongoing discussions with the government around further funding support, and freedoms and flexibilities that the government could provide to support the rectification of the budget gap caused by Covid-19 in both 2020/21 and 2021/22. At some point and depending on the outcome of these discussion there could well be a reset of the Council's budget. (datasets obtained from BBC news)

Oldham City Council

Grant Fund to Date: £14.17m

Shortfall Forecasted?: Yes

File S114?: No

Expected Shortfall: £19.3m

Shortfall per Resident: £81

Spillage into 21-21? 9.6m

How will the Council plan to meet the deficit?

A range of measures are under review including restricting recruitment and non-essential spending, reconfiguring the capital programme and the use of reserves as a last resort. The Council is expecting the Government to issue further unringfenced funding to provide additional support. When the Government funding already provided of £14.2m is netted off, this leaves £19.3m to be addressed. On top of this is an estimated £9.6m of reduced Council Tax and Business Rates income. This will have a cash impact in 2020/21 but will have a budgetary impact in 2021/22.

Barnsley Metropolitan Borough Council

Grant Fund to Date: £14.99m

Shortfall Forecasted?: Yes

File S114?: No

Expected Shortfall: £20m

Shortfall per Resident: £81

Spillage into 21-21? -

How will the Council plan to meet the deficit?

Cancelled revenue investment and capital programmes



CASE STUDIES ON HOW COUNCIL'S PLAN TO FILL THEIR DEFICIT

Leicestershire County Council

Grant Fund to Date: £27.59m

Shortfall Forecasted?: Yes

File S114?: No

Expected Shortfall: £30m

Shortfall per Resident: £42

Spillage into 21-21? -

How will the Council plan to meet the deficit?

We will manage the current year problem by utilising contingencies (Combination of MTFs Risks Contingency, which is built into the revenue budget, and a proportion of the Council's General Fund) and reprioritising planned capital investment. This will provide time to put fully thought through savings plans in place when the financial position is clearer. This avoids creating a distraction for council services while they support our residents through this crisis. The Council does face a huge financial pressure as contingencies can only be used one and the General fund will need to be replenished. Tough decisions will inevitably need to be made. How tough will depend on whether further Government support is provided.

Stockport Council

Grant Fund to Date: £16.33m

Shortfall Forecasted?: Yes

File S114?: No

Expected Shortfall: £31m

Shortfall per Resident: £106

Spillage into 21-21? -

How will the Council plan to meet the deficit?

Considerations are being made about a number of factors which will enable the Council to meet the financial challenge ahead. This includes a review of the Council's revenue and capital budget commitments, a review of the Council's MTFP, use of available resources and spending controls particularly for discretionary spend (i.e. spend not linked to the Council's legal requirements or statutory duties).

Trafford Council

Grant Fund to Date: £12.66m

Shortfall Forecasted?: Yes

File S114?: Possible

Expected Shortfall: £25m

Shortfall per Resident: £105

Spillage into 21-21? -

How will the Council plan to meet the deficit?

The Council has already applied £4.7m of reserves to this budget gap, we will be reviewing capital expenditure plans and all revenue expenditure plans and may have an emergency budget later in the year. A council tax rise would not be possible in year.



FOR MORE INFORMATION:

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