**North East Derbyshire District Council**

**Audit and Corporate Governance Scrutiny Committee**

**1 December 2021**

| **Financial Resilience Benchmarking** |
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**Report of the Assistant Director – Finance & Resources (S151 Officer)**

Classification: This report is public

Report By: Jayne Dethick – Assistant Director – Finance & Resources (S151 Officer)

Contact Officer: as above

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## PURPOSE/SUMMARY

- To present the Audit and Corporate Governance Scrutiny Committee with benchmarking information on the Council's financial resilience.

## RECOMMENDATIONS

1. That the Audit and Corporate Governance Scrutiny Committee note the report

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## IMPLICATIONS

**Finance and Risk** **Yes** ✓ **No**

Contained within the attached report to Council.

On Behalf of the Section 151 Officer

**Legal including Data Protection** **Yes** ✓ **No**

On Behalf of the Solicitor to the Council

**Staffing** **Yes** **No** ✓

There are no staffing issues arising directly from this report.

On Behalf of the Head of Paid Service

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## DECISION INFORMATION

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|---|---|
| **Is the decision a Key Decision?**<br>A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:<br>*BDC: Revenue - £75,000* ☐<br>*Capital - £150,000* ☐<br>*NEDDC: Revenue - £100,000* ☐<br>*Capital - £250,000* ☐<br>☑ *Please indicate which threshold applies* | N/A |
| **Is the decision subject to Call-In?**<br>(Only Key Decisions are subject to Call-In) | N/A |
| **Has the relevant Portfolio Holder been informed** | N/A |
| **District Wards Affected** | All |
| **Links to Corporate Plan priorities or Policy Framework** | All |

## REPORT DETAILS

### 1 Financial Resilience Benchmarking

1.1 The Committee received a report in July outlining the requirements of CIPFA's Financial Management Code. One of the key areas of focus in the code is Financial Performance Monitoring, demonstrating through benchmarking and other means that the Council's financial resilience is being assessed.

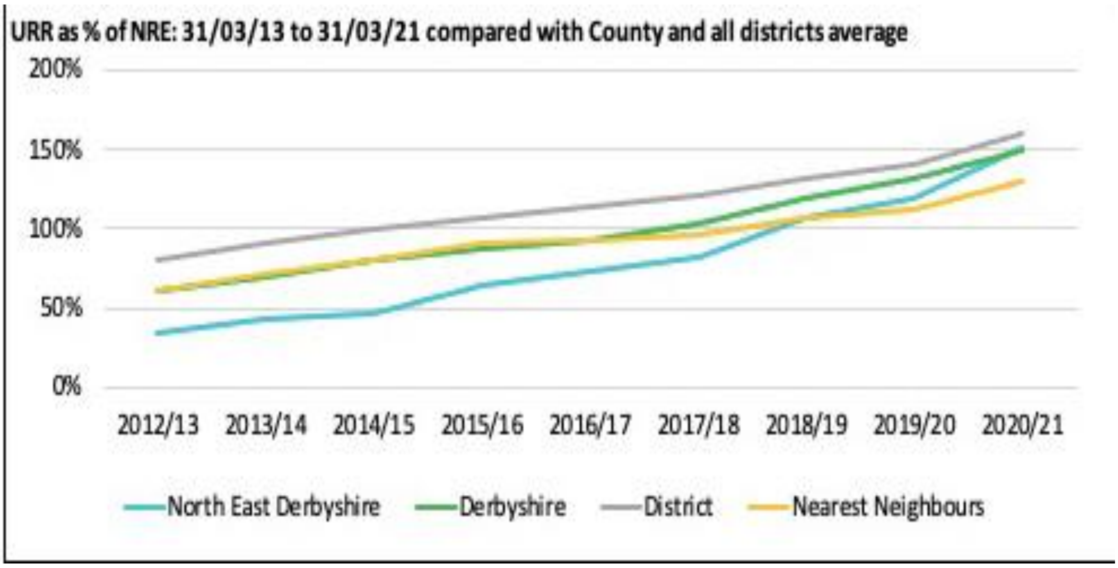
1.2 In order to meet this requirement and measure our resilience, a benchmarking tool is being utilised. This allows us to scrutinise our financial health by analysing ourselves against other local authorities through a set of metrics. In order to make this as meaningful as possible, the benchmarking comparators are as far as possible made against "like" Councils.

1.3 The metrics focus on three main areas, revenue health, capital health and funding, to draw comparisons and conclusions on our current and estimated future position.

Revenue Health

1.4 Section 25 of the Local Government Act 2003 requires the chief financial officer to report on, amongst other things, the adequacy of proposed usable revenue reserves. This is a key measure of revenue health and is becoming increasingly important at a time of uncertainty and complexity around national funding systems such as business rates and the spending power formulae. Planned use of reserves can be a useful tool for meeting Council aims and ensuring ongoing financial resilience, however unplanned use might point to less than robust financial plans. The benchmarking measures levels of reserves, compared to others and over time, alongside the rate of depletion to form a view on adequacy. Bottom quartile performance for level of reserves and rate of depletion have been found to be a key indicator of poor financial resilience.

**Table 1 – Usable Revenue Reserves (URR) as a percentage of Net Revenue Expenditure (NRE) over time**

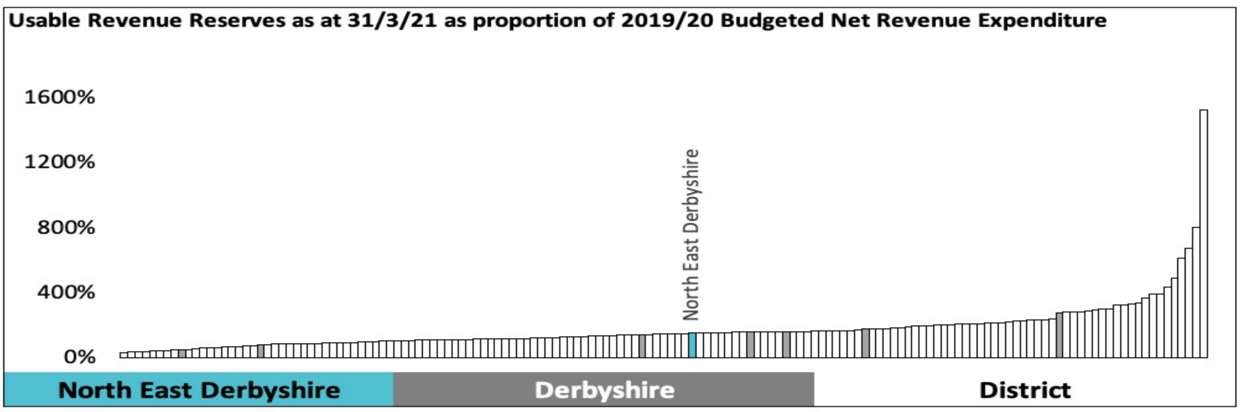



1.5 The purpose of Table 1 is to show the proportion of reserves held when compared to the cost of providing services over time. Retaining reserves over 100% demonstrates an ongoing ability to meet liabilities. The higher the percentage the more resilience the local authority has.

1.6 The results shows that our position is slightly better than the overall Derbyshire districts position but lower than all districts nationally. We sit just below the top quartile ranking 72/151 nationally and the positive direction of travel over last nine years leads to a healthy position in 2021.

1.7 Some caution does need to be exercised with this measure as reserves can fluctuate depending on the timing of receipt and spend of grants, for example 2020/21 was impacted by the large amount of Covid grants.

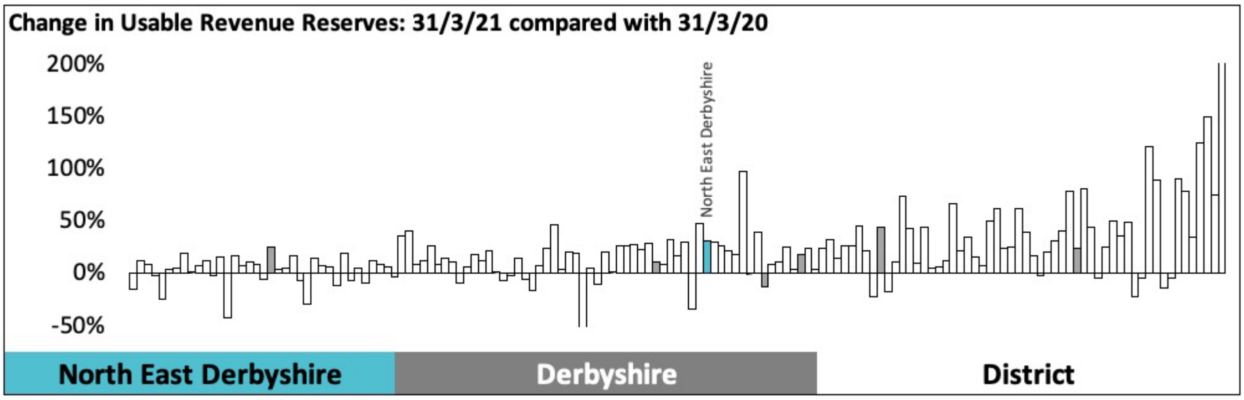
**Table 2 – Usable Revenue Reserves as a proportion of budget**



1.8 The purpose of Table 2 is to show the proportion of reserves held when compared to the cost of providing services in any given financial year. As with Table 1, holding reserves over 100% demonstrates an ability to meet liabilities in that year. Again, the higher the percentage the more financial resilience the local authority has.

1.9 The results show that we held sufficient reserves in year to meet our liabilities and our level of reserves are in the median quartile when compared to both Derbyshire and nationally.

**Table 3 – Annual Change in Usable Revenue Reserves**




1.10 The purpose of Table 3 is to show the movement in reserves over any given financial year. This measures the direction of travel in the level of reserves held and provides an early warning sign that reserves are depleting as they are used to fund budget shortfalls.

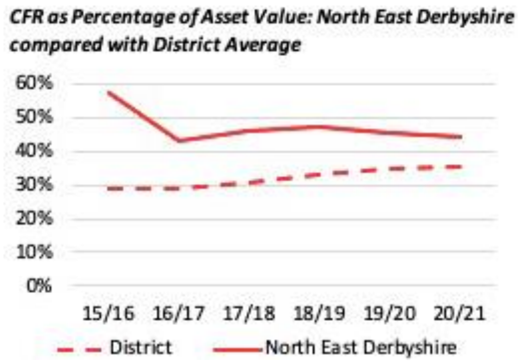
1.11 The results show that we are in a positive position, having had an annual increase (no unringfenced reserves were required to fund the budget) and this is in line with the majority of other districts.

<u>Capital Health</u>

1.12 Capital Health focuses on a local authority's need to borrow to finance its capital plans and the associated interest costs and its equity levels. High levels of borrowing does not directly correlate to poor capital health, provided the costs of borrowing are sustainable and repayment is properly provided then it is perfectly acceptable and may even lead to additional income yield following scheme development. It should also be noted that borrowing does not always mean external borrowing, many Councils internally borrow from their reserves which is why the Capital Financing Requirement (which measures the need to borrow) is widely used as a measure.

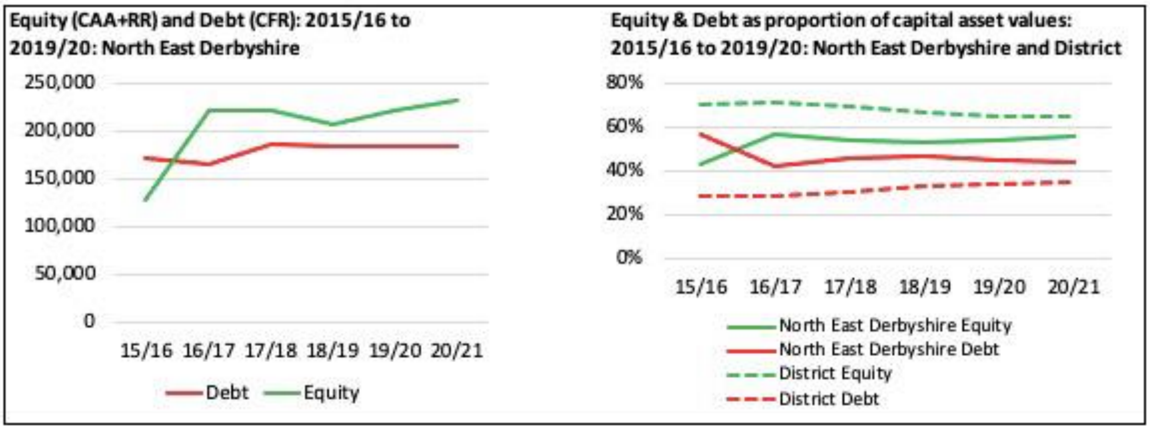
1.13 The measurement of capital health focuses on the relationship between levels of borrowing and asset values and trends over time. This also applies to equity and investments.

**Table 4 – Capital Financing Requirement (CFR) as a percentage of Asset Values**




1.14 Table 4 measures our requirement to borrow as a percentage of asset values. Our CFR is slightly higher than average, which is common in councils with HRA's. The gearing does decrease over time which is consistent with making a set aside for repayment of HRA debt in the 30 year business plan.

**Table 5 – Equity and Debt ratios**

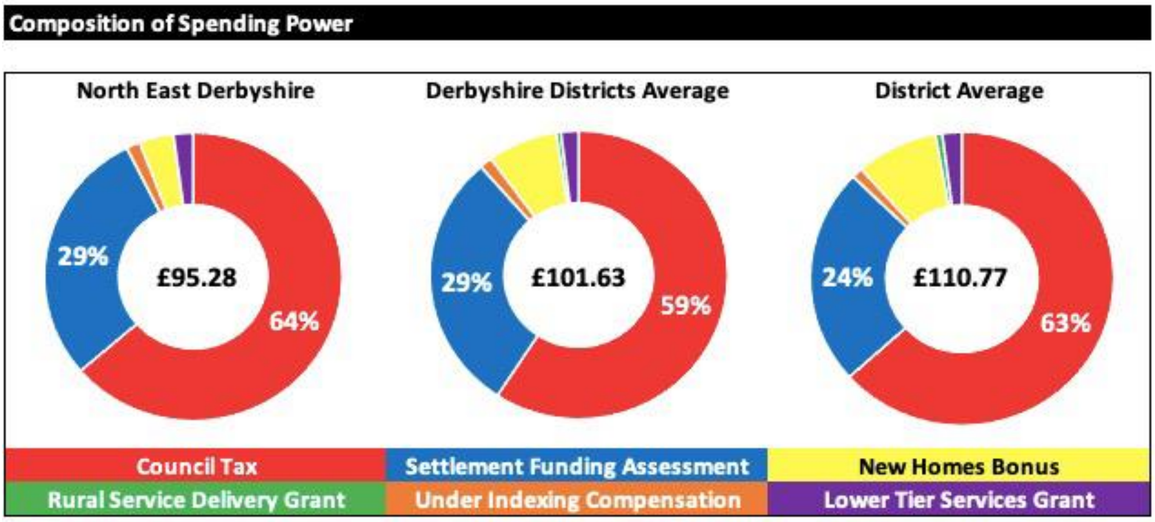



1.15 The purpose of the metrics in Table 5 is to show the relationship between asset values, equity and debt. Equity has increased over time and is reasonably stable which indicates that assets are being looked after and appropriate provision is being made for their repayment. The CFR decreases over time a set aside for repayment of HRA debt is made. Overall our position is healthy and improving.

Funding

1.16 Each year the Government sets out the amount of funding to be set aside for local government – the Spending Review. Through a series of complex formulae and assumptions the Government makes an assessment of the amount each local authority will need to spend in order to deliver its services known as "Core Spending Power". However, each Council's actual spending need can vary significantly from the formulae depending on local decisions taken such as setting of council tax. Table 6 below shows our position compared to other Derbyshire districts and nationally.

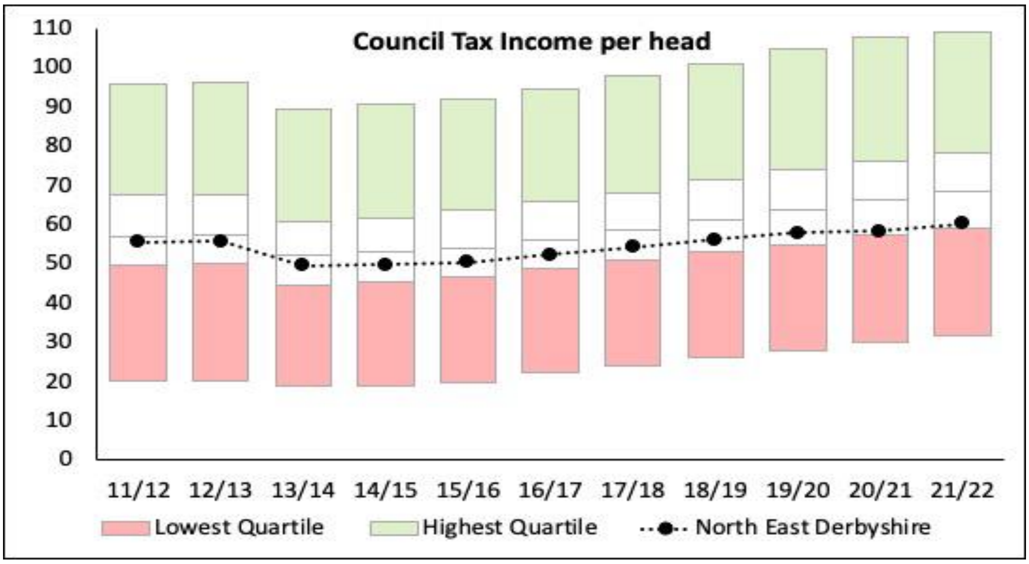
**Table 6 Comparison of Spending Power**




1.17 In Derbyshire the Government's assessment for spending power per head is lower than the national average and ours is lower still - we are ranked 157/181. Therefore, the current formula for calculating spending power presents a risk to our financial resilience position.

1.18 Council tax income accounts for 62% of spending power nationally (64% in North East Derbyshire) so is a fundamental measure of resilience. Variations in taxbase and Band D's across the country are significant and a low taxbase and/or a low band D average are financial resilience warning flags.

**Table 7 – Council Tax Income per head comparison**




1.19 Table 7 shows that overall our income from council tax is just above lowest quartile, this is largely due to our low taxbase (see Table 8 below) and presents a resilience risk as such a large proportion of our income is generated from council tax.

**Table 8 – Taxbase per head comparison**

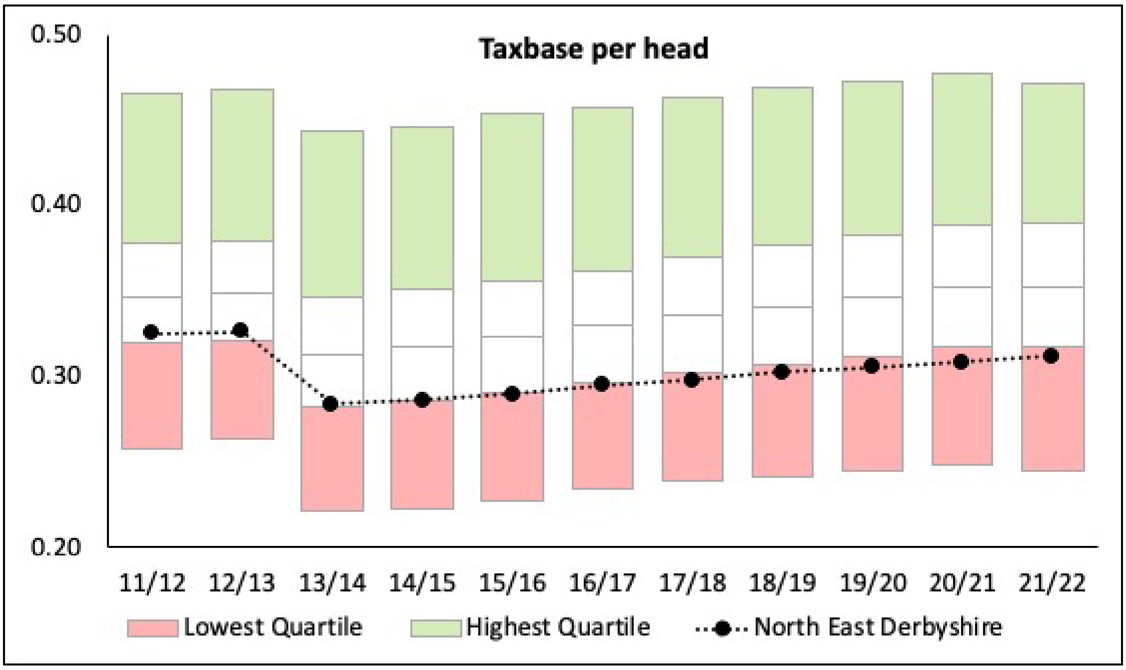
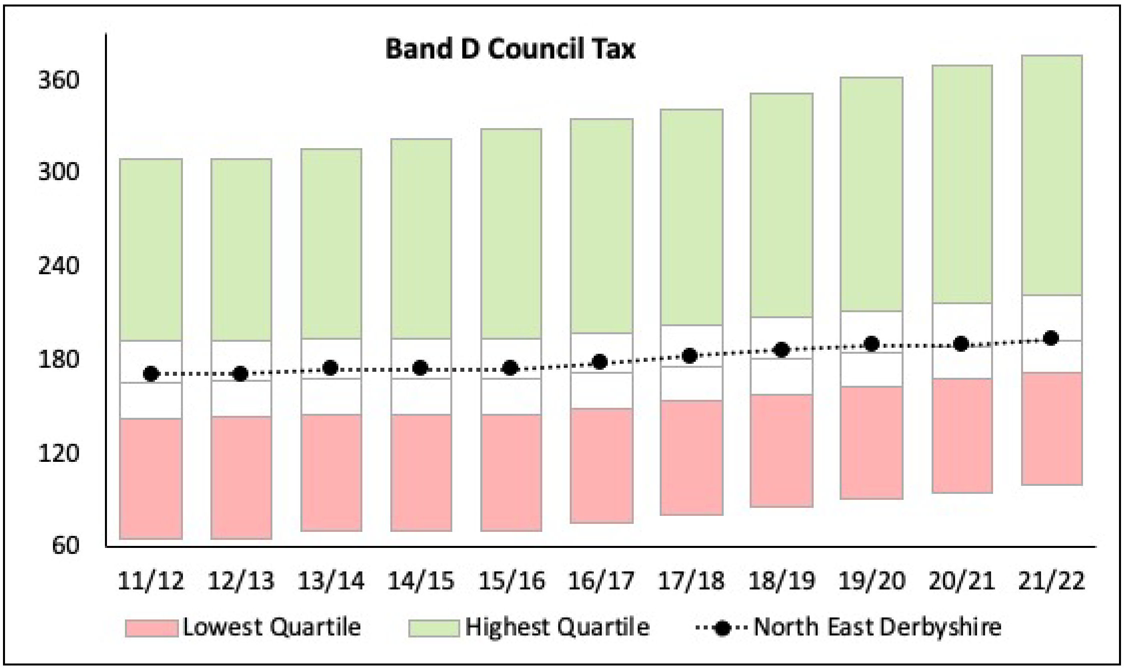


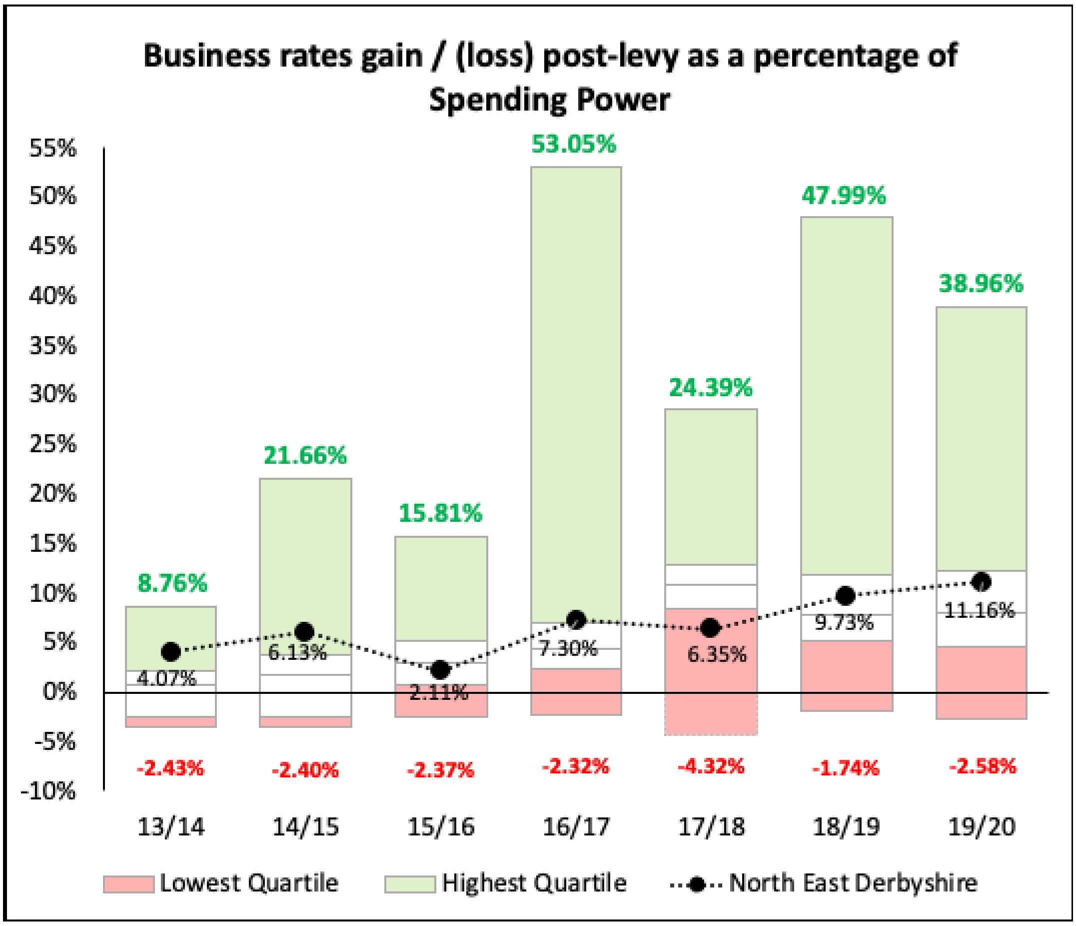

**Table 9 – Band D Council Tax Comparison**




1.20 The taxbase is the start point for calculating the council tax income each year and is based on the number of properties in the district by band then adjusted for council tax discounts. We have a high proportion of low band properties in our district and higher than average council tax discount awards which reduces our taxbase therefore reducing our ability to generate income from council tax. This is demonstrated in Tables 8 and 9 above. Our taxbase is ranked 156/181 and income generated per head is 130/181. This presents a risk to our financial resilience as it does for many other council's with low taxbase/Band D's.

1.21 A proportion of growth from business rates is retained by local authorities and this helps boosts the financial resilience of a number of councils including ourselves. It is difficult to establish a median as growth swings significantly but we have had steady growth over the recent years as demonstrated in Table 10 below.

**Table 10 – Business Rates Gain as a percentage of Spending Power**




1.22 The more concerning aspect in table 10 is that despite relatively healthy and consistent growth from business rates the net position as a percentage of spending power is negative putting real pressure on us to make year on year savings just to retain a balance position.

<u>Summary</u>

1.23 The benchmarking results show that our revenue and capital health is healthy and improving, with sufficient revenue reserves to cover our net expenditure requirements and a CFR that is in proportion to our asset values. The real risk to our financial resilience comes from the current national funding assessment, whilst business rates growth generates income to assist, our low taxbase limits our ability to generate additional income through council tax which is a major income source in the current funding regime.

## 2 Reasons for Recommendation

2.1 Benchmarking is a useful tool to help measure the Council's financial resilience.

## 4 Alternative Options and Reasons for Rejection

4.1 There are no alternative options for consideration.

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## DOCUMENT INFORMATION

<table>
<tr><th>Appendix No</th><th colspan="2">Title</th></tr>
<tr><td></td><td colspan="2"></td></tr>
<tr><td colspan="3">Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)</td></tr>
<tr><td colspan="3"></td></tr>
<tr><td colspan="2">Report Author</td><td>Contact Number</td></tr>
<tr><td colspan="2">Jayne Dethick – Assistant Director – Finance and Resources (S151 Officer)</td><td>01246 217078</td></tr>
</table>