

## Report of the Interim Deputy Chief Executive

**REVIEW OF COUNCIL FINANCES**1. Purpose of report

To provide responses to suggestions made by the Local Government Association (LGA) following a review of the Council's financial position.

2. Background

The Finance and Resources Committee on 26 April 2018 received a report undertaken by the LGA following a brief desktop review of the Council's financial position. The report assessed the Council's financial situation and suggested areas for further review to assist the Council in addressing the challenging financial environment that it faces. The review focused upon the General Fund as the Housing Revenue is considered to be in a reasonably healthy position.

The LGA's report identified seven specific areas that the Council could examine further in an attempt to strengthen its financial position by reducing its net expenditure, in either the short term or long term, through making savings on expenditure or increasing income. The LGA report emphasised that in all cases the Council should satisfy itself of the legality of any actions taken and seek agreement with their external auditor where appropriate.

The appendix sets out in full the seven suggested areas for review in the LGA report along with responses setting out steps that the Council has already taken in response to these and additional measures that the Council will be looking to take. Further details in respect of each of these areas will be reported to the Committee in due course.

One established measure implemented by the Council to help address its financial challenge is the development of a Business Strategy setting out initiatives that will be pursued to either reduce costs or generate additional income. Many of these initiatives were incorporated within the 2018/19 General Fund revenue budget approved by the Finance and Resources Committee on 15 February 2018. An updated Business Strategy along with a revised Medium Term Financial Strategy will be presented to the Finance and Resources Committee on the 11 October 2018.

**Recommendation**

**The Committee is asked to NOTE the responses to the LGA review of the Council's financial position as set out in the appendix.**

Background papers

Nil

**APPENDIX****Suggested Areas for review:****1. Minimum Revenue Provision (MRP)****LGA Suggestion**

The Council has opted for a 4% MRP charge in respect of pre 2007/08 debt. This was implemented in 2008/09. The Council could now consider reviewing their MRP policy and adopt an asset life based annuity approach which whilst not affecting the total amount of MRP charged over the life of the assets, should generate annual savings for a number of years to come. One of the main arguments in favour of an annuity based approach is that the annual charge to the accounts takes account of inflation and may be considered therefore to be more appropriate.

Furthermore, the Council could consider backdating this approach to commence in 2008/09. By calculating what would have been charged from 2008/09 compared to what the actual charge has been, an overprovision can be established. This overprovision can then be brought back into the accounts over a period of time to be determined, and may be a material amount. It should be noted however that Government have issued new guidelines which prevents this backdating approach from the 2018/19 financial year and therefore should the Council wish to consider it, it would need to be effected in the 2017/18 accounts.

The Council has already taken steps to consult with their external advisers in order to look at different options, to evaluate the impact and consider a way forward. As referred to above, it is also recommended that the Council consults with their external auditor on this matter.

**Council Response**

MRP is the means by which capital expenditure which is financed by borrowing is paid for by council tax payers. Local Authorities are required each year to set aside some of their revenues as provision for this debt. The MRP Policy is approved annually by this Committee and subsequently endorsed by full Council.

The Council engaged its treasury management advisors (Arlingclose) in March 2018 to undertake a review of its MRP Policy to ensure it was aligned with the Council's objectives and to determine if there were any opportunities for savings and other benefits from by adopting alternative approaches.

The Arlingclose analysis found that a significant overprovision of £0.934m for MRP had been made from 2008/09 to 2016/17 in respect of borrowing for capital expenditure incurred prior to the introduction of new regulations from 2008/09 due to not applying a reducing balance approach to 4% MRP charge in respect of pre 2007/08 borrowing. The correction of this has contributed to a significant underspend on the MRP budget in 2017/18 of £1.085m.

The Arlingclose analysis also supported the suggestion by the LGA that the Council adopt an annuity based as opposed to equal instalment approach under the asset life method of calculating MRP in respect of borrowing undertaken since April 2008. The Council has implemented this in its 2017/18 accounts to more accurately reflect the time value of money and this has produced a lower MRP charge than would have been the case under the previous approach.

The measures taken by the Council in response to the Arlingclose analysis have been shared with the external auditors. They have confirmed that they were familiar with the approach recommended by both the LGA and Arlingclose and that a number of other authorities, including Nottinghamshire County Council, Nottinghamshire Police and various local authorities in the West Midlands, have adopted similar approaches. The external auditors had no initial concerns with the approach taken by Broxtowe in 2017/18 and will formally seek to confirm as part of their audit of the Council's 2017/18 accounts.

## **2. HRA/General Fund review**

### LGA Suggestion

It is good practice to regularly review the split of costs between the Housing Revenue Account and General Fund, making sure that apportionments are at an appropriate level and recover full costs. In addition, there are some activities which may be suitable to charge to the HRA, e.g. anti-social behaviour services, housing advice, environmental cleaning and grass cutting, etc. It is recommended that the Council undertakes a full review of the split of costs between HRA and the General Fund. Any changes could be effected from 2018/19.

### Council Response

The Council is continually reviewing the split of costs between the Housing Revenue Account (HRA) and the General Fund to ensure that they are appropriate and fully in accordance with both statutory and regulatory requirements.

The production of the 2017/18 saw such a review undertaken based upon analysis of activities provided by departments. This resulted in a greater share of costs being allocated to the HRA in 2017/18 in respect of activities such as grounds maintenance and CCTV than in previous years. This was partly offset by additional income attributed to the HRA for interest earned on the Council's investments in accordance with the application of the latest guidance received from CIPFA.

This is an area that will be kept under regular review in 2018/19 with particular attention paid during the production of the 2018/19 accounts and preparation of the 2019/20 budget.

### **3. Review of charges/new charges**

#### LGA Suggestion

The Council should be reviewing fees and charges on a regular basis, at least annually. Broxtowe should satisfy itself that fees and charges are set at levels which recover full cost, unless there are good reasons not to do so. In which case the Council should look to ensure that publicly funded subsidies are transparently set at an appropriate level to reflect the outcomes which the Council is seeking.

In this review the Council should also consider any areas where it may be appropriate to introduce a charge for services where one does not exist currently. As a matter of principle Council Tax should fund services which are provided to the community as a whole rather than confer individual benefit. Where services give individual benefit these may be suitable for charging.

#### Council Response

The levels of fees and charges set by the Council are reviewed and approved by Members on an annual basis as part of the budget setting process to ensure that they are consistent with the Council's priorities as set out in the Corporate Plan..

In recent years the Council has introduced charges for the provision of services such as car parking, garden waste collection pre planning application advice.

The Council has commissioned LG Futures to undertake a review of the Council's charging activity, particularly in relation to other local authorities, and the results will be reported to Members in due course.

### **4. Capital Receipts**

#### LGA Suggestion

The Council has little opportunity to generate significant capital receipts, but where receipts are generated the Council could consider a more flexible use of receipts than simply using to fund new capital expenditure. There are two main ways in which capital receipts can be used more flexibly. Firstly, Government have given authorities the discretion to use capital receipts to fund "transformation" expenditure which lead to savings; and secondly there is a legitimate way in which capital receipts may be used to fund MRP. In either case these are only short term measures and do not remove the need for longer term sustainable savings.

Council Response

The Council has always been aware of the potential to seek Government approval to use capital receipts to fund “transformation” projects that may lead to savings at a future date. However, as the LGA have stated, this depends upon both the availability of such capital receipts and having suitable projects that the Council wishes to progress. The potential offered by this discretion will continue to be considered, particularly in view of the development of the Business Strategy.

The Council may, as suggested, use capital receipts to fund MRP. However, this depends not only on the availability of such receipts but the other alternative uses to which capital receipts may be put. The Council will keep this possibility under review, particularly in light of the work undertaken on MRP referred to above.

**5. Council Tax**LGA Suggestion

The Council has chosen to freeze its Council Tax for the past eight years; this is a political decision which the Council is entitled to make. However, the Council should be aware that the continuation of this approach has a detrimental effect on the Council’s income base which is now falling well behind its spending needs. In 2018/19 Shire Districts in England as a whole increased their Council Tax by an average of 2.8% and Broxtowe is one of only 13 district councils out of 201 who did not increase their Council Tax at all. A 2.8% increase for Broxtowe would generate income annually of approximately £150k for the Council.

The Council are planning to freeze their Council Tax once again in 2019/20. Given the difficult financial position that Broxtowe faces in that year it may be appropriate for the Council to review this decision.

Council Response

Any decision with regards to the level of Council Tax in 2019/20 and subsequent years will be made by Members and will take account of all available information concerning factors such as the Council’s financial position, the demands for Council services and the impact upon Council Tax payers.

**6. Collaboration**LGA Suggestion

The Council has shown a willingness to collaborate with other councils in the area with a number of good examples already in place, for example sharing ICT services and Revenues and Benefits. This should be encouraged and where possible further opportunities should be identified and explored. In particular Broxtowe should consider services which are largely regulatory and/

or administrative which might reasonably be undertaken by one authority on behalf of others.

#### Council Response

The Council has a Shared Services Board chaired by the Chief Executive that keeps its shared service activities under review to ensure that they are continuing to meet their objectives.

The will investigate further any opportunities for collaborative working that may arise and will actively seek to promote these where possible.

### **7. Benchmarking**

#### LGA Suggestion

In order to ensure that it is operating efficiently there would be merit in the Council undertaking some benchmarking making comparisons with other district councils to satisfy itself that it is not missing opportunities. For example, the Council might look at income from fees and charges as a percentage of gross expenditure, or look at full time equivalent staff numbers per £100k of net or gross expenditure. This benchmarking work could be done locally initially using existing county wide finance networks.

#### Council Response

The Council participates in a number of benchmarking groups designed to identify where cost reductions or service improvements can be achieved by following best practice.

The Housing Department participate in the annual Housemark benchmarking exercise and both the Environment Department and Liberty Leisure are active within such activity led by the Association of Public Service Excellence (APSE).

The Council's treasury management activity is benchmarked against its peers on a quarterly basis by our treasury management advisors. This can help to identify, for example, investment opportunities or measures to mitigate against risk.

Where opportunities are presented for further benchmarking then, assuming the expected benefits of participating exceed the costs incurred, the Council will active seek to progress these further.