

Report of the Interim Deputy Chief Executive

REVIEW OF COUNCIL FINANCES1. Purpose of report

To set out the findings of a recent desktop review of the Council's financial position, including areas identified for further potential examination, as a response to the Council's financial position.

2. Background

As part of the preparation of the Council's 2018/19 budget, the Local Government Association were asked to undertake a brief desktop review of the Council's financial position in order to assess the situation and suggest 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 review was undertaken by Alan Gay OBE. Alan has almost 40 years of experience in local government and was the Finance Director (and Section 151 Officer) at Leeds City Council from 1999 to 2017. His responsibilities covered Human Resources, ICT, Procurement, Finance, Corporate Strategy and a range of other principally business support activities. From 2009 he also held the position of Deputy Chief Executive at the Council.

The review is shown in full in the appendix. It identifies seven specific areas that the Council could examine further in an attempt to strengthen its financial position. Members will already be aware of measures that have already been taken and continue to be progressed with regards to many of these areas. These will inform updates of the Council's Business Strategy and Medium Term Financial Strategy that will be presented to Members on a regular basis.

The first suggested area for review in the appendix concerns minimum revenue provision (MRP). This 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's treasury management advisors (Arlingclose) have been commissioned to assess the current MRP Policy and determine whether there may be an advantage in adopting a different approach to that currently followed. The results of this exercise will be presented to Members in due course.

Recommendation

The Committee is asked to CONSIDER the report and RESOLVE accordingly.

Background papers

Nil

APPENDIX**Review of the Council's Finances**

Broxtowe District Council requested that the Local Government Association undertake a brief desk-top review of the Council's financial position. This brief overview has been carried out with reference to the Council's annual accounts and budget reports. Discussions and meetings have been held with the Council's Chief Executive, Interim Deputy Chief Executive and Head of Finance, who have supplied relevant reports and documents in support of this review.

Summary Comments

Overall the Council has managed reductions in funding well over the past seven years. Like all councils Broxtowe has seen its Revenue Support grant reduce significantly over the period since 2010. In addition, Broxtowe has chosen not to increase its Council Tax over this period. Together this has meant a significant reduction in the Council's financial resources and has therefore required major savings and efficiencies to be implemented in order to compensate. It would appear that this has been achieved largely without reductions in the levels of service provided by the Council, and nor has it required large scale staff redundancies. Broxtowe at this time holds prudent levels of reserves, both general and earmarked, which in total represent around 30% of the Council's net annual general fund budget. However, the continued reduction in the Council's income and a further planned Council Tax freeze means that Broxtowe is now beginning to use reserves at a significant rate and must achieve recurring savings of £1m per annum by 2019/20 in order to remain financially stable. This is a big challenge for a Council of this scale, and it is hard to imagine how this can be achieved without a real impact on service delivery.

Suggested Areas for review:

Below is a list of potential areas where net expenditure reductions could be achieved, either short term or long term, through savings or income. In all cases the Council should satisfy itself of the legality of these actions and seek agreement with their external auditor where appropriate.

1. Minimum Revenue Provision (MRP)

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.

2. HRA/ General Fund review

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.

3. Review of charges/ new charges

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.

4. Capital Receipts

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.

5. Council Tax

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 £150,000 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.

6. Collaboration

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.

7. Benchmarking

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.

Alan T Gay OBE,
April 2018