APPENDIX 3

FINANCE HEALTH CHECK

Ashfield District Council

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1 Executive Summary

Ashfield Council has a net revenue General Budget of £13.1m after planned use of reserves. The Council is well managed financially and has consistently spent within its budget.

The Council's largest funding source as a percentage of its resource base is Council Tax. The Council has chosen not to maximise council tax increases, and as a result has foregone £2.7m income since 2014/15. The Council has previously generated significant income (£2m+) from commercial property investments, but further returns are not achievable due to changes in regulations. The tendency not to maximise council tax levels needs to be examined in the light of future budget gaps, the level of future uncertainty, and the inability to generate further commercial income.

The Council has significant levels of external income, but benchmarking shows that the levels in relation to car parking are lower than geographical neighbours. This could be an area for review if the Council needs to fill budget gaps.

The Council has robust budget setting and budget monitoring procedures and has managed well during the pandemic. The role of Scrutiny in budget setting is light touch and could be bolstered.

The Council has been very successful in attracting £70m for external funding, and this provides an opportunity to optimise the capital programme with a longer-term focus on delivering priorities.

Budget monitoring is risk assessed, and high-risk budgets are monitored monthly with services. There are regular formal reports to Cabinet, and the Council has a track record of delivering balanced budgets. The Council reviews base budget in the light of previous spending, which ensures that budgets remain aligned. The Council has a strategic approach to transformation and utilising invest to save. Savings delivery is monitored and has high success rates.

Historically, the Council has not used reserves to balance the budget, and earmarked reserves are used judiciously. Reserves have increased during the pandemic due to grant funding, and major S106 money has been received. The level of reserves as a proportion of next expenditure is within benchmark with CIPFA nearest neighbours. Given the level of volatility with Covid recovery and funding changes, the level of reserves is adequate, but needs to be maintained. Using reserves to balance the medium-term budget should not be an option.

Borrowing levels are stable, and the Minimum Revenue is applied on an annuity basis. This will see a reduction in the underlying need to borrow over the coming years as debt repayment increases but will have a downside effect of creating pressure in the revenue budget over the longer term.

2 Robustness of Financial Plans

Budget Preparation Process and Budget Setting

The Council starts preparation on the major foundations of the budget and MTFS during early summer with a Cabinet/CLT workshop. At the start of August, work begins on a base budget review, and from September to November there are further Cabinet/CLT workshops. Capital bids are subject to a CLT gateway review in August, where bids are scored before they are presented to Members.

In parallel, from October to November, detailed service budgets are co-ordinated by finance, and the technical aspects of the budget are also worked on (capital, MRP, Treasury etc.).

Further Cabinet/CLT workshops are held before and after the announcement of the provisional Local Government Finance Settlement, and the proposed budget is finalised in early February after the final Local Government Finance Settlement.

Scrutiny starts looking at the budget in early February. There are no formal reports to Scrutiny on the budget; the Section 151 Officer does a presentation on the budget and MTFS, and Scrutiny makes recommendations to February Cabinet based on this. The presentation did not occur for the 2021/22 budget, and the minutes show:

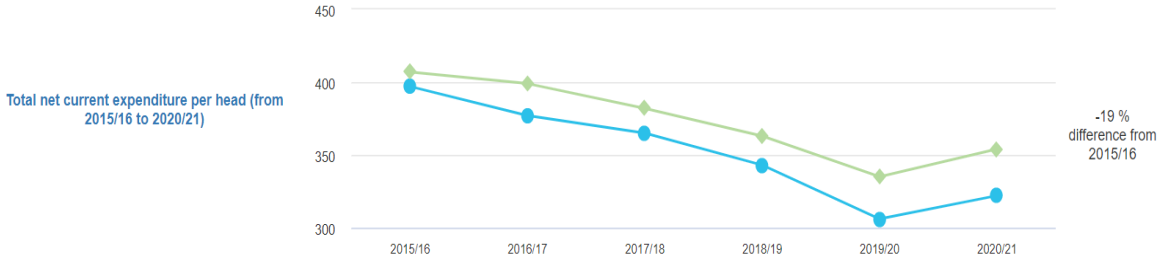
"Committee Members were advised that the Corporate Finance Manager (and Section 151 Officer) could not be in attendance at the meeting and the agenda item was therefore withdrawn. Members would be afforded the opportunity to comment on the content of the 2021/22 annual budget via alternative means."

It is not clear what alternative means were put in place, and the Cabinet minutes do not reflect any Scrutiny input.

The full set of budget proposals and supporting documents is considered by Council in early March.

The latest budget and MTFS, for the year 2021/22 reported to Cabinet in February 2021, proposed a net budget requirement for the General Fund of £13.1m.

Comparison to net revenue expenditure (NRE) per head of the population for Ashfield CIPFA nearest neighbours is as follows:



Ashfield is blue, figures adjusted to real terms using GDP Deflator

This shows that historically, Ashfield has been spending at a level near its nearest neighbours, but has been on a trajectory where is has been spending less in comparison.

The net budget requirement in 2021/22 was funded by:

Funding	**£000**	**%**
Business Rates	5,590	42.49
Revenue Support Grant	197	1.50
Collection Fund Deficit	-474	-3.60
New Homes Bonus	1,155	8.78
Council Tax	6,418	48.78
Contributions from reserves	270	2.05
Total	**13,156**	**100.00**

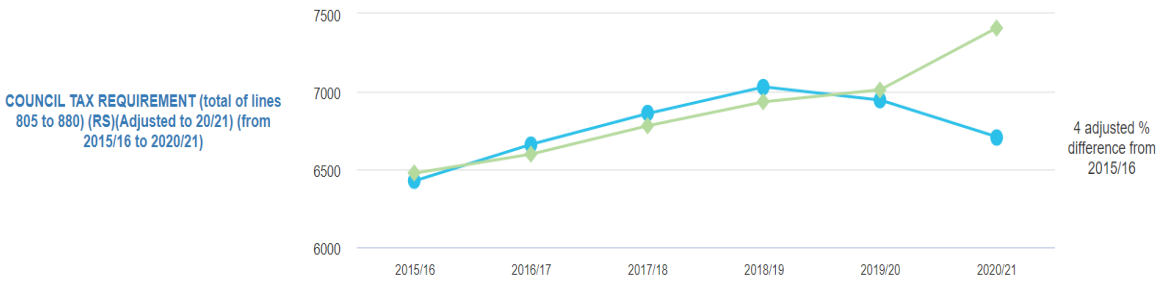
Council Tax is the largest element of funding, representing 48.78% of the resource base.

The final accounts for 2014/15 show the following totals for funding that were included in the 2014/15 budget:

Funding	**£000**	**%**
Business Rates	4,501	29.01
Government Grants	5,796	37.35
Council Tax	5,221	33.64
Total	**15,518**	**100.00**

As government grants have fallen, the Council has become increasingly reliant on Council Tax as a source of funding, increasing from 33.6% to 48.8%.

Benchmarking with CIPFA nearest neighbours shows that the Council tax requirement for Ashfield has been similar to nearest neighbours, but dropped during 2020/21:



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A reliance on Council Tax as the main funding source means that:

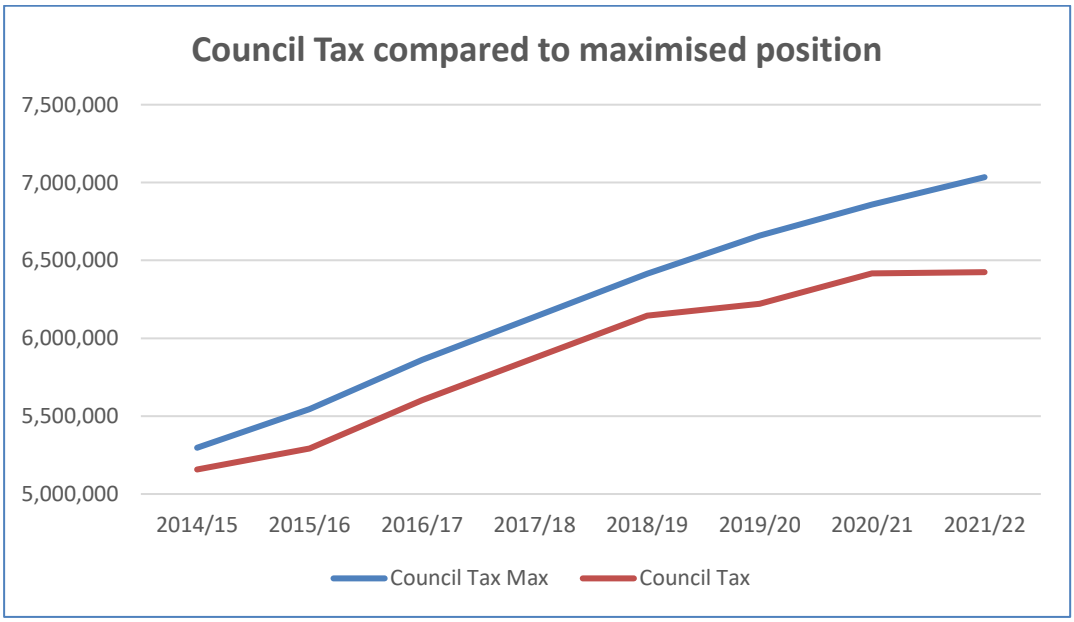
- The Council is sensitive to changes in Local Council Tax Support (LCTS) claimants. Covid 19 has shown that this can happen, although government support was made available.
- The Council has little option but to maximise Council Tax increases if it wants to minimise budget reductions.
- The Council is highly incentivised to develop housing within the Borough. Each new house will bring service demands and marginal cost, but these will be more than offset by Council Tax increases.

Council Tax is the highest percentage source of funding, but that percentage has not increased as dramatically as some of its neighbours, mainly because the Council has not increased Council Tax levels for the last few years.

The Council has used commercial income growth in previous years to manage the impact of not increasing Council Tax, but this is not an option going forward due to recent regulatory change.

Council Tax is major funding source for Councils, and part of the Government's calculation of 'core spending power'. Councils which have not taken the opportunity to maximise available core spending power will struggle to lobby the government for addition resources.

Not increasing Council Tax to maximum level also has a compound effect. The graph below shows the opportunity cost of Council tax decisions from 2014/15 onwards:



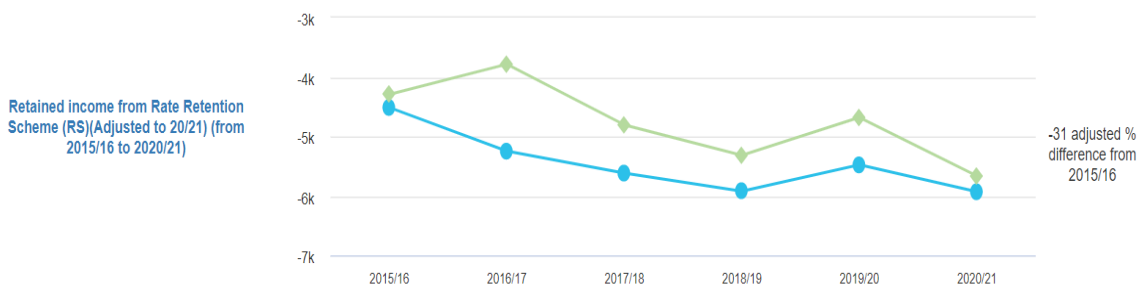
If the Council had chosen to maximise council tax in line with referendum limits, the resource generated by Council Tax would have been £610,000 higher in 2021/22.

Looking at the cumulative foregone revenue each year:

Year	£
2014-15	139,476
2015-16	251,212
2016-17	258,365
2017-18	262,974
2018-19	267,775
2019-20	438,401
2020-21	440,397
2021-22	609,869
Total	**2,668,470**

The Council has foregone £2.7m Council Tax revenue over the period by not maximising opportunities to increase to the maximum. It is up to an individual council to decide its Council Tax rate within the limits set by government. This report does not recommend Council Tax increases, rather that the Council needs to be explicitly aware and clear of the revenue forgone by not doing so and therefore the services and support to the community that also has to be foregone. It is clearly the council's decision as to whether that revenue and services foregone are worth more or less than the value of the lower household bills.

Income from business rates retention has not been high compared to nearest neighbours and has been decreasing in real terms. This can also be seen in the comparator tables between 2014/15 and the current year shown above.



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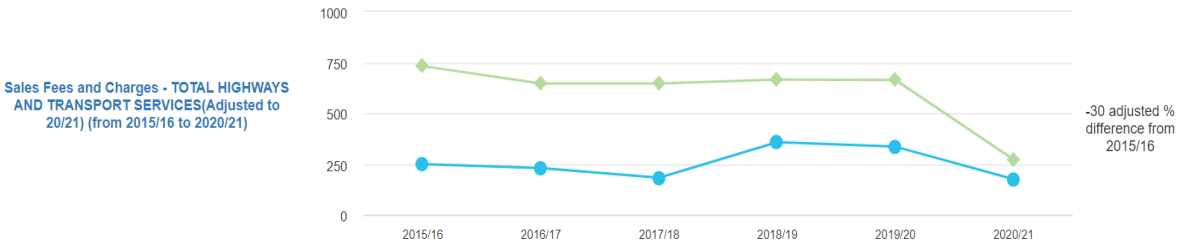
The figures show that nearest neighbours have has a historically higher level of retained business rates, although still decreasing. The 2020/21 figures reflect the impact of the Covid-19 pandemic, and Ashfield was not as adversely affected as its nearest neighbours.

The Council is perceived as charging less for car parking than other nearby Councils. Looking at benchmarking with geographical nearest neighbours:



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The Council shows a lower level of sales, fees and charges for Highways and Transport (allowing for the 2020/21 impact of the Covid-19 pandemic) than nearest neighbours, and this could be an area for future review if looking for potential budget savings or income generation plans.

Construction of the annual budget is robust, and takes into account a number of factors:

- Government and other external funding
- The level of Council Tax increase within government referendum limits
- Revenue impact of the approved capital programme
- Assessment of income streams
- Assessment of business rates
- Maintenance requirements of Council Assets
- Assumptions about inflation

The net budget requirement is then determined by taking investment and savings proposal into account. Savings are normally developed until a balanced budget is achieved.

The timing of the budget and publication of papers means that the first publication of a full suite of budget papers does not occur until February.

Medium term financial planning

Medium Term (or strategic) Financial Planning looks at the following:

- Medium Term Financial Strategy (MTFS)
- Capital Programme
- Capital Strategy
- Treasury Management Strategy

These should all be aligned; the capital strategy should be a key driver of the capital programme, the revenue impact of the capital programme should be in the MTFS, the Treasury Management Strategy should optimally fund the capital programme and maximise investment income/minimise borrowing costs for the MTFS etc. All of these key strategies should be aligned to the Corporate Strategy.

Strategic financial planning has become more difficult in recent years. Multiyear financial settlements have been replaced by annual settlements, revisions to funding (e.g., business rates baseline reset) have been delayed, funding reviews have been delayed, and on top of all this the impact of Covid-19 has made predicting future financial parameters even more difficult. Section 5 looks at potential future challenges for the Council, and they are significant.

The Councils future projection of General Fund budget requirements is contained in the budget report to Cabinet (Table 19). The report recognises the factor that make a three year prediction difficult, and estimates a cumulative funding gap of £3.018m by 2025/26.

The projections take a view that is reasonable and are backed up by robust external advice and challenge. Inflation and known impacts are built in, and changes in government policy are also recognised in the figures. The MTFS is expected to be updated after key events (e.g. closure of accounts) in line with best practice. However, the figures as stated do not allow for any increase or growth in Council Tax.

The Capital Strategy is projected forward to 2024/25 as is required by regulation. The strategy is robust, aligned with strategic priorities and recognises the significant external grant funding that has recently been awarded to the Council:

- Town Deal
- Future High Streets Fund

Prioritisation procedures are robust. The Capital Strategy includes detailed analysis of commercial investments and should be commended for fully complying with government regulation in relation to publication of key indicators in this area.

The capital programme is projected forward to 2024/25. The programme is linked to the priorities in the Corporate Strategy and provides for a total capital budget of £111.4m over the 5-year period, including the Housing Revenue Account. The General Fund capital programme is £41.3m, the HRA £68.5m.

The Capital Programme also contains a number of Area Schemes (£.15m) - self-financed schemes that enhance the local environment mainly funded by developers' contributions (S106) with additional grant funding wherever possible.

Funding of the programme is also set out over the 5-year period.

Borrowing is the main source of funding within the general fund capital programme:

Funding	**£m**	**%**
Borrowing	31.3	75.8
Developers' contributions	0.2	0.5
Capital Grants and contributions	9.6	23.2

Revenue	0.2	0.5
Total	**41.3**	**100.0**

The level of borrowing relates to investment in Leisure facilities in the main.

The capital programme recognises that significant external funding has been received, but that it is too early to amend the programme as final schemes have not been agreed in relation to the Future High Street Fund. The Programme will be amended when this has been finalised.

The Council's success in attracting these funding streams is an opportunity to pump prime investment in the area in regard to economic and regeneration priorities. The Councils strategic financing priorities are closely aligned with Council plan and delivery of the Administration manifesto. The cycle of District and County elections (every two years) means that there is a short-term approach to setting priorities. Some key plans such as investment in Leisure facilities are coming to a conclusion, and the prospect of £70m externa funding will mean that a longer-term focus may have to be adopted in order to maximise outcomes.

The Treasury Management Strategy is presented over the same timeframe as the capital strategy and capital programme. The strategy fulfils statutory requirements and reflects future borrowing plans. The Capital Financing Requirement (CFR) starts at £160.9 in 2020 and is projected to rise to £178.4m in 2025. The strategy envisages that the CFR will start to fall after 2024, as Minimum Revenue Provision (MRP) charges will exceed unfunded expenditure.

The MRP allows for an annuity method of repayment for pre 2008 borrowing, and new capital expenditure being written off over the life of the asset if less than 10 years, and annuity method if more than 10 years. Using the annuity method means that future year's costs will increase disproportionately – already reflected by the reducing CFR in 2025 as MRP charges increase. The MTFS contains provision for borrowing decisions made in the capital programme and reflected in the treasury management strategy.

Approach to transformation/efficiency

The council produces a suite of strategic financial plans, and in the past has used a mixed approach of annual savings, service reviews and a transformation programme linked to digital services.

The approach has been successful and has resulted in balanced budgets. The approach to filling the 2022/23 budget gap is set out as:

"Consideration will be given to options for additional income generation, the identification of efficiencies (service reviews, procurement savings, asset rationalisation, alternate service delivery models, etc.) and potential savings through Invest to Save – in particular via the Council's Digital Service Transformation Programme."

3 Delivering Financial Plans

Managing budgets and reporting

The Council's budget monitoring is mature and based on an analysis of service expenditure with a focus on key budgets and income streams. Formal reporting to Cabinet occurs on a regular basis, with reports in September, December and March. The Cabinet reports set out the financial issues facing the Council, and the appendices contain a breakdown of service and Directorate variances, revised reserves projections and capital programme variations.

At Officer level, budgets are monitored on a monthly basis. The Finance service will issue reports to budget managers and follow that up with a meeting to discuss variances and any remedial action required (virements etc). Budget monitoring is risk assessed - some budget meetings only take place quarterly in circumstances where the financial impact is small.

The Budget Monitoring report is discussed at Corporate Leadership Team before going to Cabinet. Any changes or mitigation required is dealt with at Officer level, with supplementary estimates being approved by Cabinet.

Volatility and variance

2021/22 was an unusual year in regard to budget monitoring, as key budgets were all affected by Covid-19. The Council identified all areas that were at risk and realised that the first tranche of funding did not resolve the issues that District Councils were facing at the time, especially in relation to Leisure services and income. Additional funding and changes to the allocation methodology resolved the majority of these issues, and the Council had a detailed grasp of where the financial impact was being felt. The Council also engaged fully with the Business Grants mandated by the Government, and like other Councils, found this to be a large call on limited resources.

The outturn position for 2020/21 was a £1.164m underspend, a variance of £1.19m from the original budget. £2.647m Covid-19 grant has been received during the year, and £1.761m had been utilised leaving £886k to be carried forward. The £1.164m underspend was transferred to the General reserve, increasing the balance to £7.877m.

Given the proportion of the net budget that £1.761m utilisation of Covid-19 grant represents, the Council has done an effective job of managing very difficult financial circumstances.

The current financial year (2021/22) forecasts a £660k positive variance, although this does not include the pay award which would bring it back into line with budget.

The Housing Revenue Account underspent by an additional £1.177m, mainly in relation to Covid-19 issues such as contractors not being able to carry out repairs and maintenance. This is a delayed cost rather than avoided cost, and the Council has carried the surplus forward via the HRA reserve,

Looking at previous years, there is a pattern of:

- Setting balanced budgets with minimum use of earmarked reserves (e.g. Local Plan reserve).
- Reporting minimum changes in quarter 1, with an increasingly positive position in Q2 and Q3.
- Reaching an outturn position that is underspent.

The Council actively manages variations that appear within the year, and reviews the base budget, which ensures that budgets reflect the spending patterns of the Council.

Deliverability of savings

The Council has a programme approach to savings and transformation. For example, in 2019/20, the last 'standard' year before the Covid-19 pandemic, the forecast outturn stated that.

"As previously reported in the September financial monitoring report considered by Cabinet on the 25th November 2019, the 2019/20 budget included proposed savings and efficiencies of £248k and all have been achieved with the exception of a £6k Lifeline Service saving, however alternative savings has been achieved to mitigate this. Delivery of these savings is included within the forecast outturn."

The July forecast for the current (2021/22) financial year states:

"£257k of .. £309k savings have been achieved, and £52k are anticipated to be achieved but actions are currently being reviewed to ensure they are fully achieved"

The Council has a good track record of delivery, and robust management processes.

4 Sustainability

Reserves

The Council has a general reserve and a number of earmarked reserves. The General Fund Balance over the last few years has been

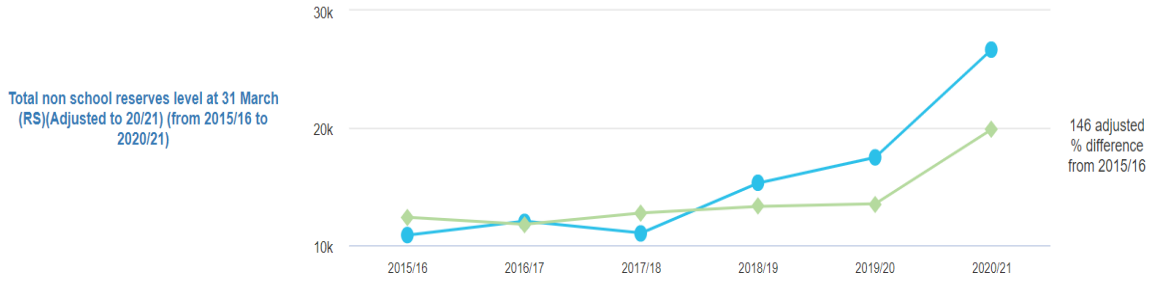
Year	Balance £m
31 March 2018	4.577
31 March 2019	6.061
31 March 2020	6.713
31 March 2021	7.877
31 March 2022 (est. Q1 2021/22)	7.877

The Council has a net budget requirement of £13.1m. The reserve position at the end of 2020/21 was high but 2020/21 was an unusual year due to Covid 19 and receipt of S106 grant.

The level of earmarked reserves over the same time period is as follows:

Year	Balance £m
31 March 2018	5.822
31 March 2019	7.895
31 March 2020	9.670
31 March 2021	14.265
31 March 2022 (est. Q1 2021/22)	12.982

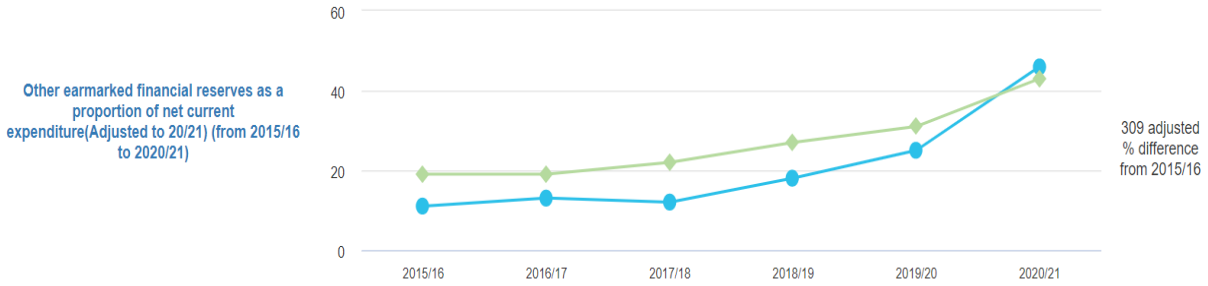
Interviews with members and staff show that the Council is aware that the overall level or reserves is relatively healthy. Benchmarking with CIPFA nearest neighbours shows:



Ashfield is blue, figures adjusted to real terms using GDP Deflator

Ashfield has a higher level of reserves than nearest neighbours, however a significant proportion of this is earmarked, e.g., S106, Covid Grant carried forward.

Looking at reserves as a proportion of net current expenditure:



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The Council has historically been below benchmark on this metric but is closer at the end of 2021. These figures will have been skewed by Covid and section 31 NNDR funding in relation to the 2019/20 and 20/21 increases.

The Council has a history of judicious use of reserves in balance the budget, for

example using earmarked reserves for invest to save on transformation. The next section details the general financial challenges facing the Council, and there are specific challenges of a lower council tax level and plateaued commercial income. Reserves are at an adequate level compared to benchmark, but this does not mean that they can be utilised to cover ongoing medium term budget challenges. Using reserves in this way would store up future problems, and lead to attrition in an environment that has a high level of risk.

5 Other financial challenges

The future for Local Government Finance has never looked so uncertain. The current financial climate sees Ashfield reliant on Council Tax to a great extent, and commercial income has seen a stable resource base for the past few years.

The local government funding system has not been changed since 2013. Changes that should have been carried out in the past few years have been delayed, and this means that the implementation of a revised system could produce significant changes if it 'puts right' anomalies that have accumulated. The following is a list of uncertainties that may affect the Councils position that have been identified through interviews with staff and elected members:

- Impact of Covid19 – government funding has ended, and the cost of recovery, both social and economic will have to be identified and funded.
- The translation of the 2021 spending review into the detailed Local Government Finance Settlement in December.
- Impact of Brexit – this may be largely neutral, but there are concerns about the availability of materials that could impact construction and capital projects, as well as the risk of inflationary pressures.
- Business rates reset – the system should have been reset in 2020, and the way in which resource will be reallocated is not clear.
- Changes to New Homes Bonus – the government intends to introduce a new funding regime to incentivise housing growth.
- Waste and waste collection – the government is planning changes which will impact food waste, green waste and potentially, regularity of collection. There is no indication as to how these changes might be funded, if at all.
- Planning reform – the government is changing the planning system, which will change the way it operates and may cause volatility on a key income stream for the Council.

Commercialisation

The Council has previously invested in commercial property backed by borrowing but has recognised that the regulatory environment has changed and that this is no longer appropriate.

The Council's external auditor, Mazars, examined the Council's commercial

property investment activity and concluded:

"We are satisfied that the Council's arrangement for the year ended 31 March 2020 are adequate. However ,the Council must take notice of new and emerging significant matters relating to commercial property relevant from 2020/21 onwards."

6 Other Issues

Interviews with staff and Members reveal that there is a high regard for the Finance function in Ashfield.

The Council received an unqualified opinion on its accounts and value for money judgement in its last Annual Audit Letter.

7 Recommendations

Recommendation 1: The Council needs to model long-term implications for its resource base:

Actions to achieve this recommendation:

- Project the compound effect of council tax decisions on future resource requirements, service provision and budget gaps.
- Identify how resources will be bolstered now that commercial revenue growth is flat.

Recommendation2: The Council needs to take a long term approach to financial planning and maximise opportunities from external funding.

Actions to achieve this recommendation:

- Develop and have a clear understanding of the potential synergies between the Councils revenue and capital budgets and the external funding streams.
- Take a longer view of capital and revenue investment in order to maximise outcomes and shape financial strategies.