FINANCE HEALTH CHECK

Blaby District Council

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1 Executive Summary

Blaby Council has a net revenue General Budget of £13.2m after planned use of reserves, and its net spend per head of population is on par with CIPFA nearest neighbours, having converged after previously being lower for a number of years. 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, and it also has a relatively high level of business rates. Business rates growth has been good, but there are some downside risks in relation to valuation, appeals and the system reset.

The Council has significant levels of external income, but benchmarking shows that the levels are lower than statistical neighbours. This could be an area for review if the Council needs to fill a budget gap.

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 being reviewed, and the Council intends to revert to a multi-year MTFS in 2022/23 after a single year approach in 2021/22. The update of the strategic financial plans should ensure that the Council's ambitions and priorities are captured with key financial frameworks.

Budget monitoring is risk assessed, and high-risk budgets are monitored monthly with services. Formal reporting is quarterly to Cabinet Executive, and there is scope for a more focussed view on services within the reports.

Historically, the Council has used reserves to balance the budget, and the out-turn position has been managed the to point where the use of those reserves was not needed. This has meant that the level of reserves has remined stable, although it is at a moderately low benchmark compared to nearest neighbours. The fact that the outturn is consistently lower than the planned budget may indicate that a base budget review is needed to ensure that spending remains aligned with budgets.

Using reserves in this way, and relatively high level of business rates, has meant that large scale savings programmes have not been needed. Given the number of future uncertainties, and the level of business rates risk, the Council may want to plan a number of scenarios as part of the revision to the MTFS.

Borrowing levels are stable, with most borrowing directed at fleet/equipment, with an asset life Minimum Revenue Provision ensuring that debt is repaid in a manner that does not see large rises in the underlying need to borrow.

The Commercial Strategy of the Council needs a refresh, and the Council needs to ensure that future plans in this area reflect current regulation and guidance, as well as detailed due diligence on the cost and administrative implications.

2 Robustness of Financial Plans

Budget Preparation Process and Budget Setting

At Officer level, the Council starts preparation on the major foundations of the budget and MTFS during late summer. At the start of September, work begins on:

- Establishment planning
- Guidance notes and initial meetings with budget managers
- Fees and charges
- Capital Bids

In parallel, the Finance Team work on the technical aspects of the budget, including:

- Capital Charges
- Finance and Operating Leases
- Pensions
- Minimum Revenue Provision
- Insurance
- Administration recharges, etc.

Capital bids are scored and prioritised by Asset Management Group (AMG) before formal submission to Cabinet Board, which considers the following in late October:

- Establishment Budgets
- Current Year budget review
- Revised Capital Programme
- Proposed Fees and Charges

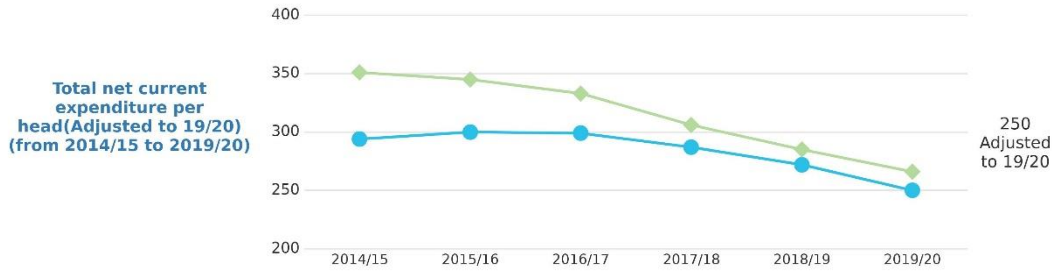
Scrutiny starts looking at the budget in early November, in particular the Establishment Budget and Proposed Capital bids. Work also starts on the underlying budget reports – Council Tax Base, etc., that are required to set a budget, and these are reported to Cabinet Executive in December/January.

Significant work is then undertaken in advance of three separate detailed Scrutiny sessions to be held in January. The full suite of documents for budget setting at Council are also developed during this time – Treasury Management Strategy, Capital Strategy etc., and all of this is brought together for Cabinet Executive in February, which will recommend a budget to full Council.

The latest budget and MTFS, for the year 2021/22 reported to Cabinet Executive in February 2021, proposed a net budget requirement for the General Fund of £13.21m.

The net revenue expenditure (NRE) per head of the population for Blaby is £125.71, which ranks the Council as 114th highest out of 191 District Councils. This places the Council in the third quartile.

Comparison to CIPFA nearest neighbours is as follows:



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

This shows that historically, Blaby has been spending at a level below its nearest neighbours, with alignment occurring post 2016/17 as nearest neighbour spending decreased on a trajectory greater than Blaby's.

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

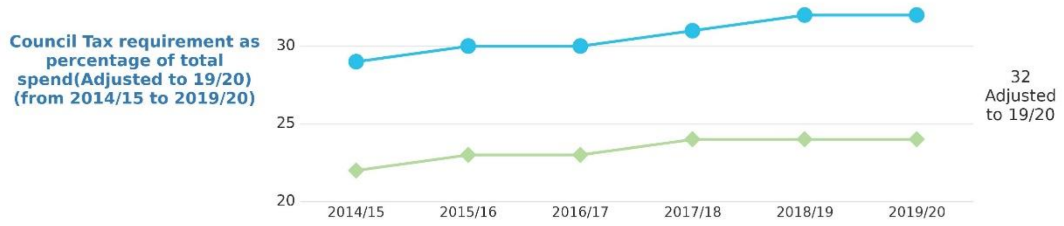
Funding	**£000**	**%**
Business Rates	3,477	24.57
Lower Tier Services Grant	786	5.55
Other Non-Ringfenced Government Grants*	1,058	7.48
Collection Fund Deficit	-73	-0.52
New Homes Bonus	1,607	11.36
Council Tax	5,889	41.62
Contributions from reserves	941	6.65
Covid 19 Grants	466	3.29
Total	****14,151**	**100.00**

*the grant is in relation to the Government refunding the Council for the cost of nationally mandated business rates reliefs and discounts via Section 31 grant.

**The reported net budget requirement is £13.21m – the difference is the contribution from reserves, which are shown as a reduction in the net budget requirement rather than a funding source.

Council Tax is the largest element of funding, representing nearly 42% of the resource base.

Benchmarking with CIPFA nearest neighbours shows that the Council Tax requirement as a percentage of total spend is high:



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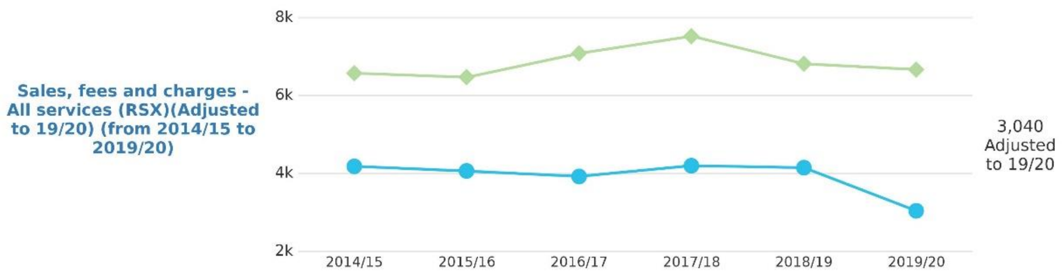
A reliance on Council Tax as the main funding source means that:

- 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 does not, it will be looking at budget reductions.
- The Council is highly incentivised to develop housing within the District.

Council Tax is the highest percentage source of funding, but that percentage has not increased as dramatically as some of its neighbours, mainly because of relative high levels of retained business rates coupled with maximum increases in Council Tax rises. The Council has seen high growth in business rates, with facilities such a Fosse Park coming on stream during the life of the retention scheme. However, there are a number of risks:

- Delays in the Valuation Office agreeing rateable values could see a drop in the yield.
- The potential for business rate appeals.
- Downward variation when the system is reset.

The budget papers for 2021/22 show that the Council generates £4.177m key income through fees and charges. Looking at benchmarking with CIPFA nearest neighbours:



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The Council shows a lower level of sales, fees and charges 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
- Staffing levels and a detailed establishment budget
- 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, or reserves are used to fill the gap.

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. This means that the work done by Scrutiny Commission and associated working groups is based on an internal set of Cabinet budget proposals rather than a formally approved position. The Scrutiny Commission recommendations are published with the budget, but the Cabinet response to the Scrutiny Commission is not formally published until March, one month after the budget is set. The Council is currently reviewing the approach to scrutiny of the budget and may want to consider an earlier formal publication of budget proposals, with formal Cabinet response to Scrutiny included in the February budget pack.

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 Covid19 has made predicting future financial parameters even more difficult. Section 5 looks at potential future challenges for the Council, and they are significant.

The Council's future projection of General Fund budget requirements is contained in the budget report to Cabinet, Appendix C. The report states:

"Under normal circumstances the MTFS document is updated annually to reflect the changes to funding and to provide a forecast of future funding. This year it has not been possible to generate a meaningful forecast of the financial picture given the short term nature of the funding streams that have been issued in the Settlement Statement for 2021/22.

This document therefore presents the Financial Risks associated with the future funding position of the Council and as more information is received officers will develop the MTFS forecast."

The Council therefore does not have a current published medium term financial forecast. Internally, a spreadsheet model exists and will be used as the basis for future projections. The fact the capital plan and prudential indicators are still being developed over a longer timeframe means that there is a disconnect between the published strategic plans. For example, it is not obvious how the "Ratio of financing costs to net revenue stream" affordability indicator has been assessed up until the end of 2023/24 with no formal medium term revenue projections presented to Cabinet and Council. They may have bene assessed against the internal model, but the next round of published documents need to be aligned.

The Capital Strategy is projected forward to 2025/26 as is required by regulation. The strategy identifies that there are a number of key pieces of outstanding work that need to be delivered in 2021/22:

- Asset Management Plan
- A longer-term plan for strategic parks and opens spaces

Prioritisation procedures are robust, and there is a Programme Board for Major Corporate Projects.

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 £9.1m over the 5-year period. Funding of the programme is also set out over the 5-year period, as is the additional revenue cost in relation to principal and interest payments for borrowing. By the final year, additional borrowing costs are projected to £552k, emphasising the need to ensure that strategic revenue planning is aligned with capital and treasury planning.

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

Funding	**£m**	**%**
Borrowing	4.3	47.3
Capital Receipts	1.7	18.7
Capital Grants	2.5	27.5

Revenue and Reserves	0.6	6.5
Total	**9.1**	**100.0**

Capital Grants relate to Disabled Facilities Grants (DFG), therefore borrowing represents 65% of discretionary funding.

The level of borrowing relates to fleet replacement (£3.5m). With interest rates at a historic low, this is a cost-effective solution when compared to other financial instruments such as leasing or rental. The remaining borrowing relates to long term asset management projects.

The Treasury Management Strategy is presented over a different timeframe to the Capital Programme, ending in 2023/24. The strategy fulfils statutory requirements and reflects future borrowing plans. The General Fund Capital Financing Requirement (CFR) starts at £14.185m in 2019/20 and is projected to fall to £14.058m in 2023/24 due to scheduled repayment via the Minimum Revenue Provision (MRP).

The MRP policy remains tight, with pre 2008 and supported debt being repaid by the regulatory method (4% of outstanding balance) and new capital expenditure being written off over the life of the asset. The majority of new capital expenditure funded by debt in Blaby is for short term assets (vehicles, investment in ICT) which means that the asset life method will have an impact on revenue, and also means that the CFR will remain at almost a constant level as new spend is funded at the same time that older purchases are written off via MRP.

Interviews with staff and members have revealed that the revised corporate strategy has produced a clear direction in terms of priorities. Key projects and their dependencies are clearly understood:

- the Green agenda and the Council’s commitment to zero carbon;
- addressing issues in the housing market in relation to the private rented sector;
- Future office accommodation and asset rationalisation/maintenance.
- Parks and open spaces strategy

The ambitions of the Council are not emphasised in financial strategies. It could be the case that these need to be worked up in further detail, but the next planning cycle for 2022/23 should start to demonstrate ‘markers’ for these key priorities.

Approach to transformation/efficiency

The council produces a suite of strategic financial plans, but the focus has been on agreeing a budget for the single year under consideration. The MTFS for 2021/22 was in narrative form only, and the Council will revert to a multiyear analysis in 2022/23.

The Council has not developed any savings or transformation plans for the last few years. An increasing resource base, mainly NNDR, and use of reserves to balance the budget has meant that large scale savings have not been required. This may not be the case in the future and is discussed further in sections 4 and 5.

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 the establishment budget and levels of key income. Formal reporting to Cabinet Executive occurs on a quarterly basis, with two separate reports in September and November, and an update as part of the budget setting report in February. The Cabinet reports set out the financial issues facing the Council, and the appendices contain a breakdown of service and Directorate variances.

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 highest levels of volatility seem to come from the two areas examined in detail in the budget report. For example, the Council underspent by £856k in 2019/20, £143k was due to increased key income, £235k due to establishment underspends and £257k for a revenue contribution to capital that was no longer required. A full analysis of all variances is reported at out-turn, in total but not at Directorate level.

The Council operates with a Strategic Management structure; directors will often get involved in cross cutting areas, and there is a reduced 'directorate feel' to the monitoring reports. The way in which the appendices reconcile to the main body of the report is not clear, as it is not easy to match the report narrative to the service overspends. The focus on establishment and income, rather than a service narrative, could ignore service impacts. For example, it may be that underspending on establishment in some areas could have an adverse impact on service delivery while at the same time producing a positive financial outcome.

The Budget Monitoring report is not discussed at the Senior Leadership Team. Before going to Cabinet Executive, the budget monitoring is discussed at Cabinet Board, a meeting where the Chief Executive, Directors and the Monitoring Officer go through the reports that will be going to Cabinet Executive. The Board meeting if focussed on the business of the Cabinet Executive and the Council may want to consider having budget monitoring as a quarterly item at SLT so that it can be considered as an item in its own right.

Any changes or mitigation required is dealt with at Officer level, with supplementary estimates being approved by Cabinet Executive. No key decisions have been required in regard to budget changes outside of Covid19.

Volatility and variance

2021/22 was an unusual year in regard to budget monitoring, as key budgets were all affected by Covid19. 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, with secondments from other sections to help deal with the workload.

The February Q3 Monitoring report identified that the Council was estimating a £360k contribution from balances in 2020/21. After government grants and mitigation by services, the 2020/21 outturn reported a £1.2m underspend. Given the proportion of the net budget that £1.2m represents, the Council has done an effective job of managing very difficult financial circumstances.

Looking at previous years, there is a pattern of:

- Setting budgets that rely on contributions from reserves to balance the position.
- Reporting minimum changes in quarter 1, with an increasingly positive position in Q2 and Q3.
- Reaching an outturn position that is underspent to the extent that contributions from reserves are no longer required.

This is not volatility in the traditional sense, but does raise some structural budget issues and the medium term position of reserves that are covered further in section 4.

Deliverability of savings

Recent budgets have not seen a requirement for large scale delivery of savings. Prior to this the Council had a widespread savings programme which involved a range of structural changes to reduce headcount as well as initiatives to scale back discretionary services. Examples of this include:

- Movement to alternative weekly waste collection from weekly: As a direct result of illustrating the costs of weekly collections and MTFS the Council moved to alternative weekly waste collection. This was Implemented in 2018 with full ongoing annual cost savings being reached in 2019/20 of £350k per annum.
- Legal & Governance resource: Implemented in Jan 2019 – inhouse legal resource invested in to reduce costs of external provision. £71k cost saving and additional £35k in income generated per annum.

- Homelessness: As a result of rising costs of Bed and Breakfast accommodation rose the Council developed an initiative to rent accommodation from housing provider as an alternative solution. Three properties produces an annual reduction in potential costs of £50k per annum.
- Delivery of a new Leisure Contract: The Council negotiated a new leisure contract to encompass both leisure centres which cost the council £137k to operate per annum. The new contract prior to covid delivered on average £340k saving per annum over the 10 year contract length.
- Car park strategy: In 2016/17 a new strategy was adopted with a view to bringing the service into a cost neutral position. Prior to this costs exceeded £100k per annum. The strategy has seen car park charges increase to a small extent and costs reduced as non-strategic car parks have been disposed of to parish councils or sold off for other purposes.

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	3.165
31 March 2019	3.165
31 March 2020	4.021
31 March 2021	5.215
31 March 2022 (est. Q1 2021/22)	3.406

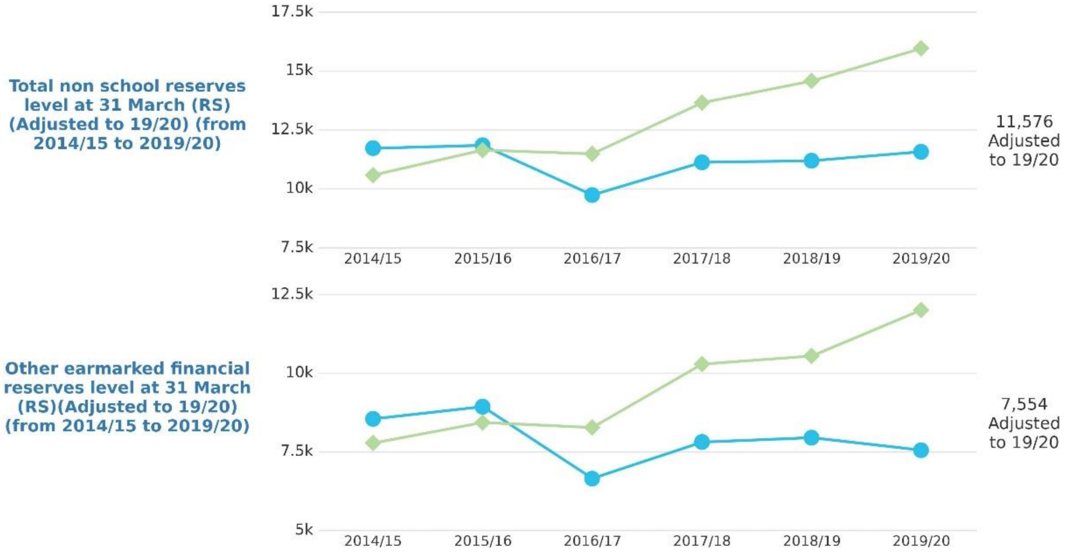
The Council has a net budget requirement of £13m, and a policy of an upper limit on the general reserve at 35%. The reserve position at the end of 2020/21 breached this policy, but 2020/21 was an unusual year due to Covid 19, and the Council took action to allocate some of the general fund balance into Covid recovery reserves. This leaves reserves at 30.9% of net budget, or 26% after planned contributions from earmarked reserves are taken into account.

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

Year	Balance £m
31 March 2018	7.451
31 March 2019	7.760
31 March 2020	7.575
31 March 2021	7.725

31 March 2022 (est. Q1 2021/22)	5.984

Interviews with members and staff show that the Council is aware that the overall level of reserves is low compared to benchmark. The comparison with CIPFA nearest neighbours is as follows:



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This report has already identified that the Council has a history of setting budgets predicated on the use of reserves, while consistently underspending and topping up reserves. Covid funding during the back end of 2019/20 and the whole of 2020/21 skewed the picture, especially in relation to Section 31 Grant for business rates discounts. Looking at the last pre-Covid budget of 2018/19, the council estimated a general reserve level of £3.6 at 31 March 2019 when the budget was set in February 2019. The actual level as at 31 March 2019 was £7.8m. The budget for 2021/22 relies on a contribution of £649k from the General Reserve.

Talking to Members and Officers of the Council, it is clear that the Council has a culture of not wanting to hold high levels of cash balances and reserves for no clear purpose. It is also clear that while the low level of reserves is understood, the consistent history of underspending and maintaining reserves is seen as a positive.

Consistently setting a budget that relies on reserves, and underspending without using those reserves, could be masking structural deficiencies, i.e. the budget being set may not be representative of the underlying spending patterns. The next section identifies a number of financial challenges for Local Government, and the Council might find itself in a position where it has to make savings after a few years of balancing the budget without doing so. The level of reserves gives the Council some headroom in order to develop plans to meet a potential gap, but it would also need some certainty that the underlying assumptions in the budget are accurate. As part of the MTFS refesh, the Council may want to develop some best/medium/worst case scenarios and review the base budget in order to ensure that it reflects spending intentions.

5 Other financial challenges

The future for Local Government Finance has never looked so uncertain. The current financial climate sees Blaby reliant on Business Rates to a great extent, and growth combined with maximum increases in Council Tax has seen a stable resource base for the past few years. However, the factors surrounding this are fickle, and the fact that the government backed off from negative RSG as a means of reducing the Settlement Funding Assessment at District level could not have been foreseen. Had it gone the other way, the Council along with many others would have been much worse off.

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 the winter.
- 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 Councils with large amounts of retained rates will be impacted is not clear.
- Changes to New Homes Bonus – the government intends to introduce a new funding regime to incentivise housing growth, but there are no details.
- Changes to the Prudential Code – CIPFA is consulting on changes to the Prudential Code which will limit the opportunity for commercial investment if implemented.
- 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 a commercial strategy that was agreed at Full Council in December 2018. The strategy runs up until 2021 and requires a refresh. Since the strategy was agreed, there have been a number of changes in relation to the regulation of commercial activities by Local Authorities.

Commercialisation in the form of large scale borrowing to purchase property assets has become increasingly controversial. Technically these are investments, and the Prudential Code states that Councils must take account of security, liquidity and yield – in that order.

Covid19 has shown that market risk and liquidity risk can become key issues, and a number of Councils which have recently sought support from DLUHC have been heavily invested in the property market, both residential and commercial. The pandemic has seen retail properties in particular lose value, leaving Councils with loans that are much greater than the value of the assets that they support. Councils dependent on retail property income have had to implement cuts or seek support from the Government and make provisions in the revenue budget to deal with impaired loans.

Councils and Councillors have a fiduciary duty – they are making decisions on money that is provided by the taxpayer, and there is a duty of care to act in the taxpayers' best interests. Both DLUHC and CIPFA have taken the view that borrowing for commercial yield is not in the best interests of the taxpayer. Using PWLB for purely commercial purposes was halted by DLUHC in November 2020, and CIPFA are consulting on changes to the Prudential Code that will be in place for the 22/23 budget cycle. The changes proposed by CIPFA include:

"Provisions within paragraph 45 of the Prudential Code to state clearly that borrowing for debt-for-yield investment is not permissible under the Prudential Code. While recognising that commercial activity is part of regeneration, it does not constitute the primary purpose of investment and unnecessary risk to public funds."

Commercial property purchase has been prevalent in the sector for the last few years, but there are strong national moves to restrict speculation. This type of activity can no longer be seen as a move to generate 'easy' income outside of existing regeneration plans. Setting up arm's length companies, as required by the Localism Act 2011, generates significant overhead in terms of board meetings and governance, and 100% wholly owned companies are still subject to public sector rules and regulations as they are funded by the taxpayer. Corporation Tax requires careful observance of debt to equity ratios in relation to transfer pricing, and any Corporation Tax payable is resource 'disappearing' from the system. There are opportunities for true commercialism in the Council's plans.

The Council still has commercial ambitions, and some of these are in the revenue generation and trading arena. However, some of these ambitions are in private sector property markets, and when refreshing the Commercial Strategy, the

Council needs to ensure that it will be complying with regulatory requirements and that it understands the administrative, cost and taxation implications of delivery in this area.

6 Other Issues

Interviews with staff and Members reveal that there is a high regard for the Finance function. The service has recently undergone review and restructure, and benchmarks well with staffing levels in other Leicestershire District Councils.

Recommendation 1: The Council needs to take a strategic long-term approach to Financial Planning:

Actions to achieve this recommendation:

- Revert to a published multi-year MTFS model.
- Ensure that the other strategies (Capital, Treasury, Commercial) are reflected in the revenue model.
- Ensure that the ambitions and priorities of the Council are reflected in key financial strategies.
- Develop scenarios on business rates in particular (Best/Medium/Worst case) and develop plans that could address each scenario.
- Review the base budget to ensure that budgets reflect historic spending patterns.

Recommendation 2: Minor improvements to reporting to Cabinet Executive.

Actions to achieve this recommendation:

- Develop a service narrative in budget monitoring reports outside of establishment and key income lines that is consistent with the appendices. The impact of financial variations on service outcomes needs to be considered.
- Continue with the review of Scrutiny in regard to the budget process and consider publishing Scrutiny recommendations and Cabinet response as part of the substantive budget papers.

Recommendation 3: Be clearer about future commercialisation plans.

Actions to achieve this recommendation:

- Revise the Commercialisation Strategy approved in 2018.
- Ensure that current government regulation and proposed changes to the Prudential Code are acknowledged in the revised strategy.
- Be clear about the cost, administrative and taxation implications.