Appendix G

Financial Health Indicators

1. Background and context

1.1. Against a backdrop of existing funding pressures, the financial costs of the pandemic and significant price increases, the financial challenges public services face currently feel unprecedented. Some Councils are better placed than others to weather this financial challenge. However, there is a need to maintain financial resilience against such significant pressures, new and emerging risks, and operating in an uncertain funding environment.

1.2. Financial resilience is the ability of public services to remain viable, stable, and effective in the medium to long term while facing pressures from growing demand, a tightening of funding and an increasingly complex and unpredictable financial environment.

1.3. These indicators have been created to form an opinion of the Council's financial resilience and are based on:

a) Revenue based indicators for financial sustainability in the public sector

b) Financial health indicators – based on traditional balance sheet indicators to inform the financial strategy

c) Capital based financial indicators as a key driver of the balance sheet health and resulting burden on revenue funding

1.4. A summary of the indictors is provided in the following table. Three indicators are classed as Red rated risk, four as Amber, and seven as Green.

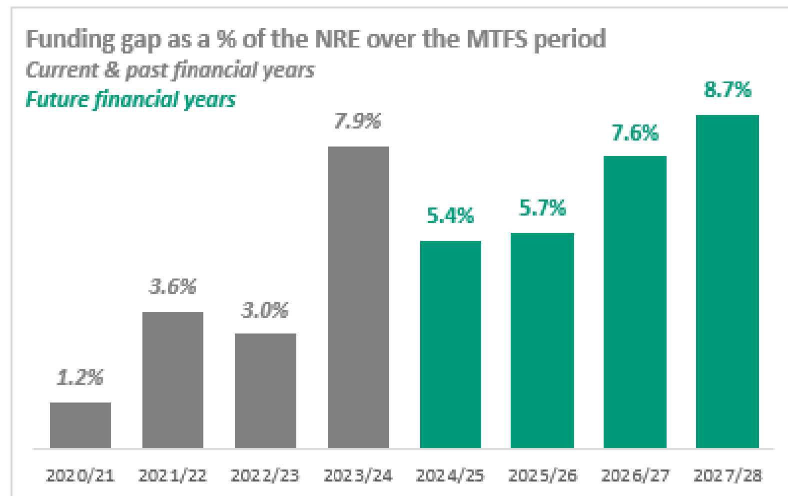
	Indicator	Indicator Trend	RAG
	Revenue based financial sustainability indicators		
1	The funding gap as a percentage of Net Revenue Expenditure (NRE) over the MTFS period	Increasing over the MTFS period	**R**
2	Savings delivered as a percentage of planned savings	Steady over the MTFS period	**A**
3	Over/underspend relative to net expenditure	Steady over the MTFS period	**A**
4	Useable reserves as a percentage of net revenue budget	Decreasing over the MTFS period	**R**
5	The cost of total borrowing as a percentage of NRE	Decreasing over the MTFS period	**G**
	Fiscal indicators		
6	Current assets to current liabilities	Above nearest neighbour average	**A**
7	Useable reserves to gross revenue expenditure	Above nearest neighbour average	**G**
8	Long term borrowing to tax revenue	Below nearest neighbour average	**G**
9	Long-term borrowing to long-term assets	Below nearest neighbour average	**R**
10	School balances to dedicated schools grant	Above nearest neighbour average	**A**
	Capital investment indicators		
11	The direction of travel for the Capital Financing Requirement as % of asset value	Decreasing over the MTFS period	**G**
12	CFR as % of its asset value is no greater than nearest neighbour	Below nearest neighbour average	**G**
13	Risk impacting on the cost of total borrowing as a % of NRE	Steady over the MTFS period	**G**
14	The cost of total borrowing as a percentage of NRE	Decreasing over the MTFS period	**G**

2. Revenue based financial sustainability indicators

Indicator 1 - The funding gap as a percentage of Net Revenue Expenditure (NRE) over the Medium-Term Financial Plan (MTFP) period

2.1. Councils should have a clear estimate of their funding gap as a percentage of net revenue expenditure (NRE) over the medium-term financial planning (MTFP) period, along with robust saving plans to meet the gap. Targets or aspirational savings rather than firm plans pose a risk to financial resilience.

2.2. The Chief Finance Officers Robustness (Section 25) Statement in the main Cabinet report considers the robustness of estimates. The majority of savings have been based on the 12 transformation workstreams that formed part of the Financial Sustainability Strategy. The savings have been RAG rated in terms of risk to delivery, with an enhanced monitoring of savings achievement being develop for implementation in the 2024/25 financial year.

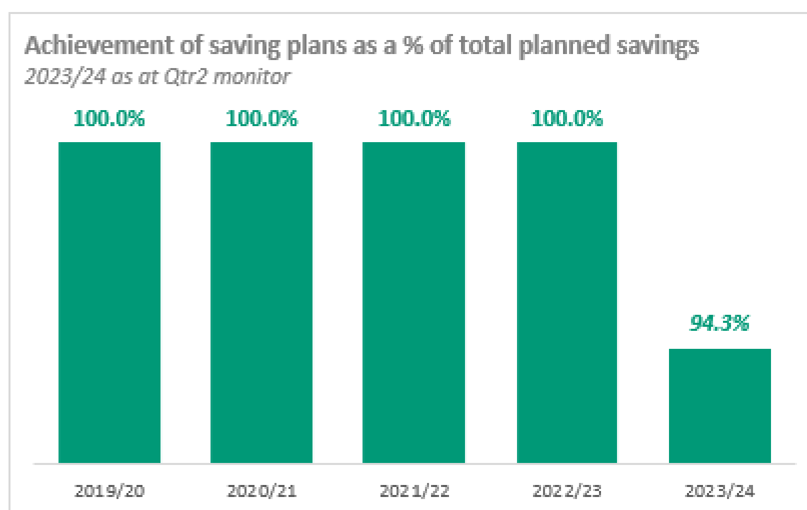


2.3. Whilst the Council has a balanced budget for each year across the MTFS period, savings and the use of reserves are required to achieve this position. The chart shows the level of savings and reserves required to balance the budget over the MTFS period is increasing compared to NRE.

2.4. **Indicator trend - Increasing over the MTFS period – Red risk**

Indicator 2 - Savings delivered as a percentage of planned savings

2.5. The ability to identify areas where specific financial savings can be made and to make those savings is a key aspect of ensuring ongoing financial sustainability against a backdrop of increasing financial pressures.



2.6. The chart shows that past performance for the achievement of savings plans. It has been assumed that the Council achieved all identified savings as planned as it was not reported otherwise. In the current financial year, the position as at Quarter 2 – September 2023 is shown, with one saving not proceeding as originally planned and three in services where there are other emerging pressures which puts achievement of the savings at risk.

2.7. CIPFA note that good practice is for bodies to have a single, consolidated, living document that tracks its savings plans. This should outline what has been agreed and how much progress has been made in implementation and links to both its budget and medium-term financial plan. The Corporate Leadership Team will adopt an enhanced approach to monitoring savings through 2024/25 alongside the corporate management of projects to ensure that the transformation agenda is being delivered through a series of Boards. Progress against savings achievement is reported as part of the regular financial performance reporting to Cabinet and Scrutiny, and Audit and Risk Committee through the Strategic Risk Register reporting framework.

2.8. **Indicator trend - Steady over the MTFS period – Amber risk**

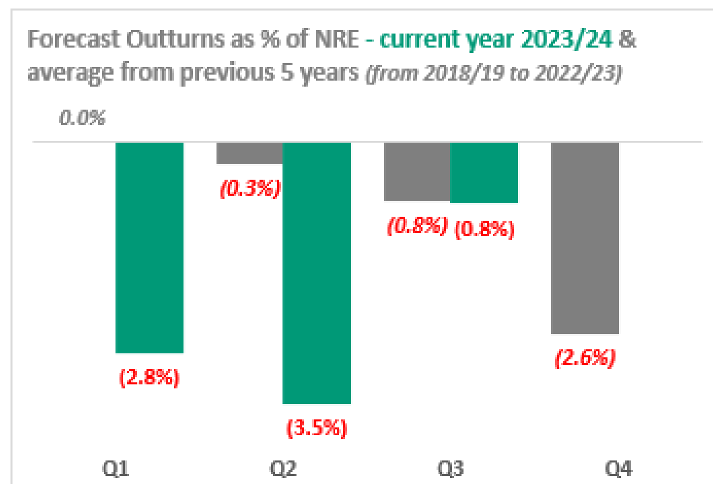
Indicator 3 - Over / underspend relative to net expenditure

2.9. It is important that overspending and underspending are kept under control and that actual expenditure is as close as possible to the levels planned. Inability to accurately forecast and plan expenditure risks creating unforeseen financial pressures and compromises the ability to set a balanced budget.

2.10. The quarterly revenue and capital forecast reports to Cabinet provide the narrative to for the reasons for the performance in year where budgets are forecast to under or overspend. The report details the planned use of reserves, unforeseen expenditure and mitigating actions by management to bring the forecast performance back to budget. Risks that are being management by the Corporate Leadership Team are also highlighted.

2.11. The 2023/24 forecast outturn performance is greater than the previous five years average performance. It should be noted that the current year has experienced increasing interest rates as the Bank of England puts in place measures to reduce inflation as experienced through increased costs in 2022/23. The Council also experienced exceptional financial challenges through the pandemic years of 2020/21 and 2021/22 where additional income was received that could not have been foreseen at the time of budget setting.

2.12. The following chart shows a general trend that the Council's financial position improves as the year progresses. The average trend indicates prudent estimates used in building the budget alongside sound financial management throughout the year which has enabled less budget to be used to provide services which deliver the corporate strategy.

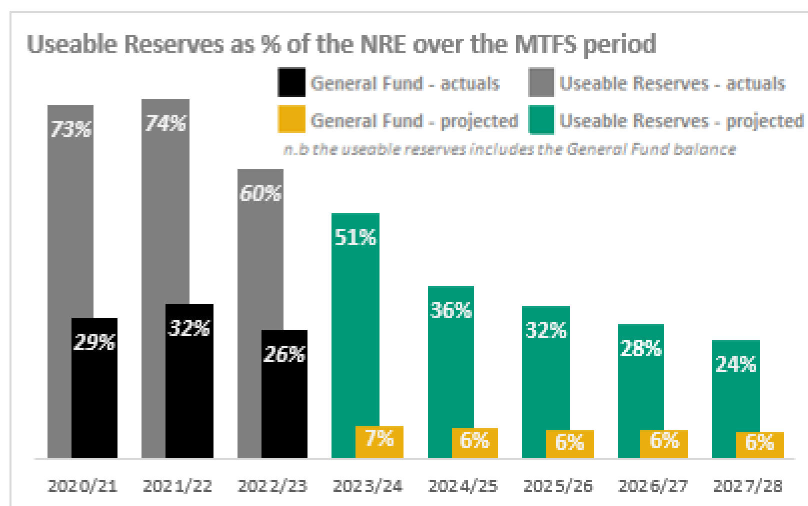


2.13. Indicator trend - Steady over the MTFS period – Amber risk

Indicator 4 - Useable reserves as a percentage of net revenue budget

2.14. Reserves allow financial uncertainty to be managed. Healthy levels of useable reserves are an important safety net to support financial sustainability. As well as being available to fund unexpected funding pressures, useable reserves can fund investments required to implement efficiency savings. The Council's strategic use of reserves is found in Appendix I.

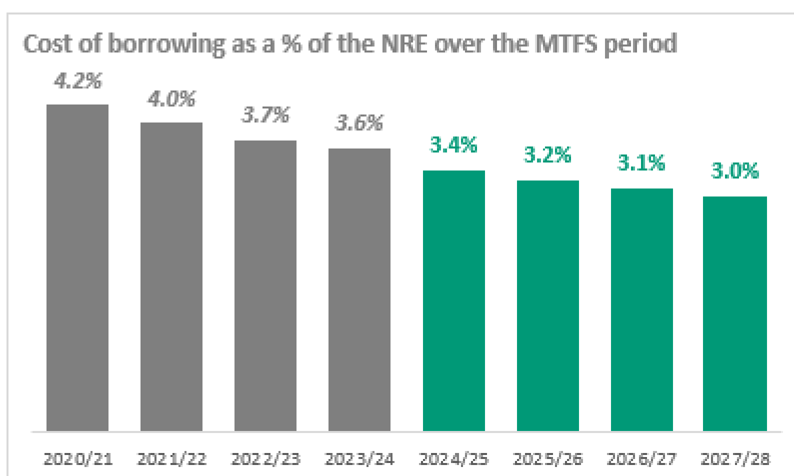
2.15. The chart shows useable reserves as a % of net revenue expenditure in recent years and over the MTFS period and is line with the Reserves Strategy as the reduction in reserves is primarily due to the investment being made in order for the Council to become financially sustainable, with reserves expected to underpin the budget in 2024/25 only at £0.9m.



2.16. **Indicator trend - Decreasing over the MTFS period – Red risk**

Indicator 5 - The cost of total borrowing as a percentage of net revenue expenditure

2.17. Borrowing can be a valuable source of funding eg to fund large-scale capital projects. However, the cost of repaying borrowing, including interest costs, is ultimately funded from ongoing revenue budgets and can create a long-term commitment. The following chart shows the cost of borrowing as a % of the net revenue expenditure in recent years and over the MTFS period. The Council currently has no plans to fund capital expenditure via borrowing and which shows through a decreasing proportion spent on servicing the Council's debt compared to all Council expenditure.



2.18. **Indicator trend - Decreasing over the MTFS period – Green risk**

3. Fiscal Indicators

3.1. These fiscal indicators are based on the Statement of Accounts (SoA) information and provide valuable insight into the historical financial performance of Councils. When used to examine trends over time they become increasingly powerful tools to scrutinise the financial decisions of Councils, and to assist this Council in evaluating options for the future.

3.2. These traditional accounting indicators are based on five indicators that the Audit Commission identified in 2009 that put aspects of a Council's finances – such as income, assets, debt and reserves – into context. These ratios, they suggested, could be used be elected members, taxpayers and auditors to scrutinise and challenge Councils' financial management decisions, based on the data in their accounts.

3.3. The following indicators show the Council's performance compared to a set of Councils that form Rutland's nearest neighbours according to CIPFA. The 'Nearest Neighbour' model was developed to aid local authorities in comparative and benchmarking exercises, the models provide a wide range of Standard Spending Assessment (SSA) based socio-economic indicators upon which the specific family group is calculated.

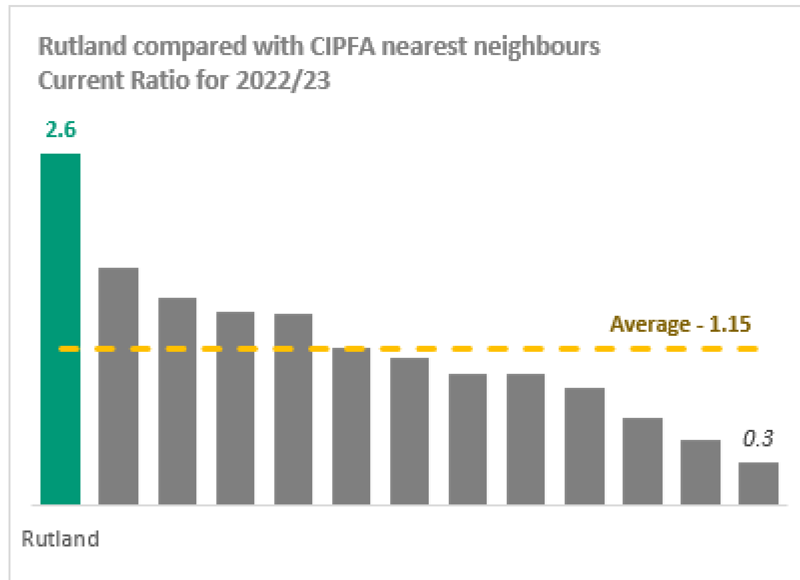
3.4. For this report, the associated Councils are:

- Bath and North East Sommerset
- Bedford Borough
- Central Bedfordshire
- Cheshire East
- Dorset
- East Riding of Yorkshire
- Herefordshire
- North Sommerset
- Shropshire
- Solihull
- South Gloucestershire
- West Berkshire
- Wiltshire

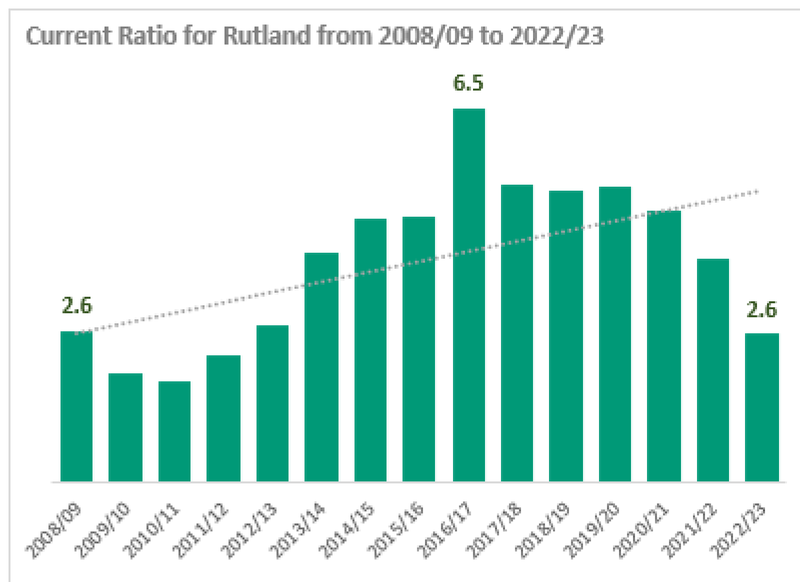
- Cheshire West & Chester
- **Rutland**

Indicator 6 – Current assets to current liabilities

3.5. This ratio measures the relationship between a Council's current assets and its current liabilities. While it is commonly used to examine whether organisations are able to pay their debts in the short term, this is unlikely to be a risk for Councils given their ability to take short-term borrowing.



3.6. A current ratio that is in line with the industry average, in this case CIPFA nearest neighbour, or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average may indicate a higher risk of distress or default. Similarly, if a company has a very high current ratio compared with its peer group, it indicates that management may not be using its assets efficiently.



3.7. For the Council the current ratio was 2.6 in 2008/09 and 2.6 in 2022/23. This compares with CIPFA nearest neighbours group of 1.9 for 2008/09 and 1.0 for 2022/23. For Rutland this ratio has increased over time from 2008/09 to a peak of 6.5 in 2016/17 and

is linked to an increase in current assets through an increasing cash balance as reserve balances have increased in order to mitigate the risk of the uncertain Local Government funding environment. Liabilities have increased each year since 2016/17 linked to income received in advance of activity being undertaken such as grants and contributions for capital investment.

3.8. Problems paying creditors, however unlikely, presents a significant reputational risk for Councils. If the ratio is below 1 the Council needs to satisfy itself that arrangements are in place to meet the liabilities. There may be additional costs for Councils that rely on short-term borrowing to pay debts.

3.9. Conversely, Councils with very high ratios should consider whether they are managing their current assets in the most effective way. For example, review their short-term investments and the adequacy of their debt collection arrangements, alongside other aspects of their financial management such as housekeeping and ensure only valid debtor balances remain on the balance sheet or have adequate provisions for bad debts.

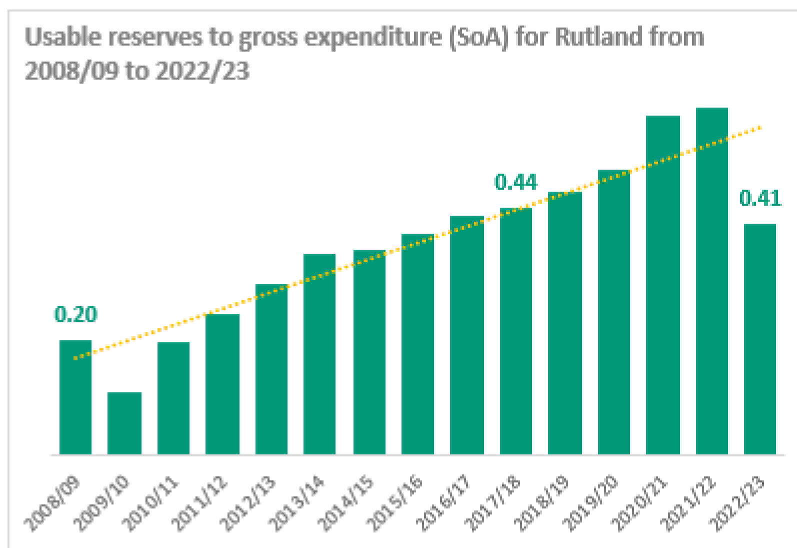
3.10. For Rutland the main driver is linked to the cash balances which is linked to the value of reserve balances and having long dated maturity profile of debt which was transferred from Leicestershire County Council on the creation of the Unitary Council. Until this financial year it has remained prohibitive to refinance debt due to the premiums that would be charge through early redemption. However, due to the change in interest rates experienced during 2023/24 opportunities are being explored to redeem debt and with the knowledge of the Council's latest forecast capital programme expenditure and funding plans outlined in the Capital and Treasury Management Strategies.

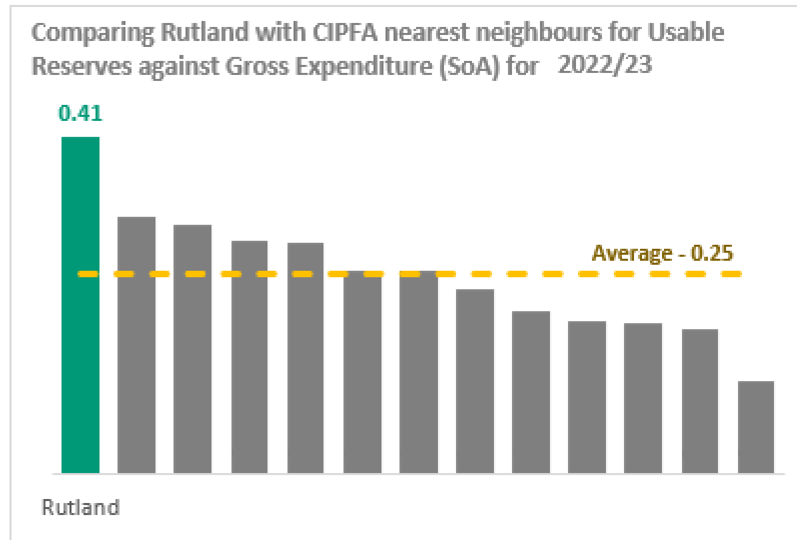
3.11. **Indicator trend - Above nearest neighbour average – Amber risk**

Indicator 7 – Useable reserves to gross revenue expenditure

3.12. This ratio measures the relationship between a Council's useable reserves - the money it is retaining to fund future spending commitments and to meet unpredictable variations in spending - and its annual gross revenue expenditure (per the SoA).

3.13. For the Council the usable reserves to gross expenditure has risen from 0.2 in 2008/09 to 0.4 in 2022/23. This compares with CIPFA nearest neighbours' group of 0.2 for 2015/16 and 0.2 for 2022/23.





3.14. For Rutland this increase in ratio is linked to an increase in usable reserves balances over the period, whilst the increase in gross expenditure has increased at reduce pace in comparison. These values are taken from the Statement of Accounts, and therefore provides an overview trend position so whilst the Gross Expenditure contains capital related expenditure it does provide an indication of consumption of all resources regardless of budgeting requirements between capital and revenue, as capital financing is only a timing issue and mitigations of this on council tax.

3.15. Councils face ongoing financial challenges as they adapt to deliver services at lower cost in response to rising demand and funding reductions. The cost and risks associated with service transformation and uncertainty about future funding, have resulted in some Councils increasing reserves, while others have been using reserves to make up shortfalls between their funding and spending plans.

3.16. **Indicator trend - Above nearest neighbour average – Green risk**

Indicator 8 – Long term borrowing to tax revenue

3.17. This ratio measures the relationship between a Council's long term borrowing and its tax revenue. When interpreting this ratio, consideration should be given to the reasons for long-term borrowing.

3.18. Councils enter into long-term borrowing to finance large-scale investment in the buildings and equipment they need to deliver high-quality services. The long-term borrowing considered in this ratio includes long-term liabilities related to Private Finance Initiative (PFI) schemes and finance leases.

3.19. Tax revenue in this analysis includes:

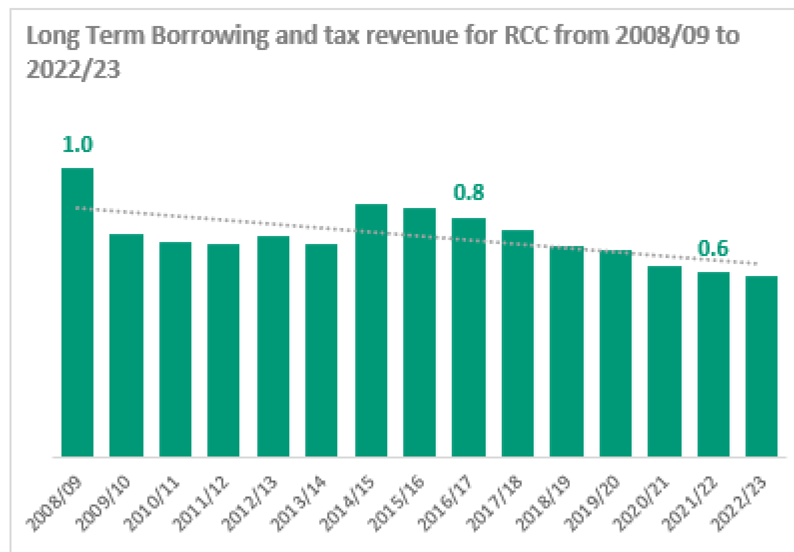
- revenue support grant
- council tax income
- business rates income

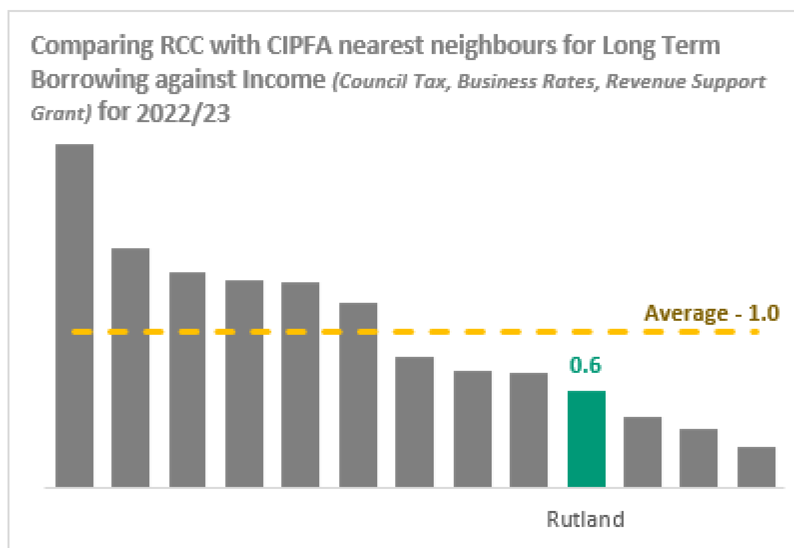
3.20. A number of factors have influenced the level of borrowing by Councils over the period, including:

- the freedom to enter into borrowing where this is deemed affordable (Prudential Code)
- reductions in the funding provided by central government for capital investment

- the historically low rates of interest which have made borrowing more affordable than at other times

3.21. For the Council the long term borrowing to taxable income has declined from 1.0 in 2008/09 to 0.6 in 2021/22. For Rutland long term borrowing has decreased over the period whilst taxable income has increased over the same period. This compares with CIPFA nearest neighbours' group of 0.9 for 2008/09 and 1.0 for 2022/23.





3.22. Councils need to ensure that their medium term financial strategies take sufficient account of the level of debt repayments to minimise any impact these may have on future spending plans. During most of the period of the analysis undertaken interest rates have been at historically low level, making borrowing more affordable. With interest rates set to rise in the years head future borrowing will be less so.

3.23. All Councils, but especially those with high ratios need to consider the affordability of their borrowing in the light of likely levels of tax revenue. Councils have already experienced reductions in support grant from government with further reductions expected. The retention of business rates created an incentive for Councils to increase income from this source but it has also increased exposure to risks of volatility in business rates yield.

3.24. **Indicator trend - Below nearest neighbour average – Green ris**

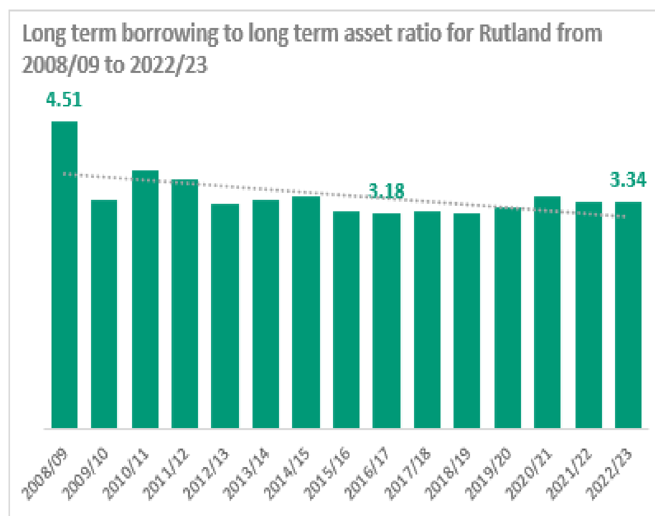
Indicator 9 – Long term borrowing to long term assets

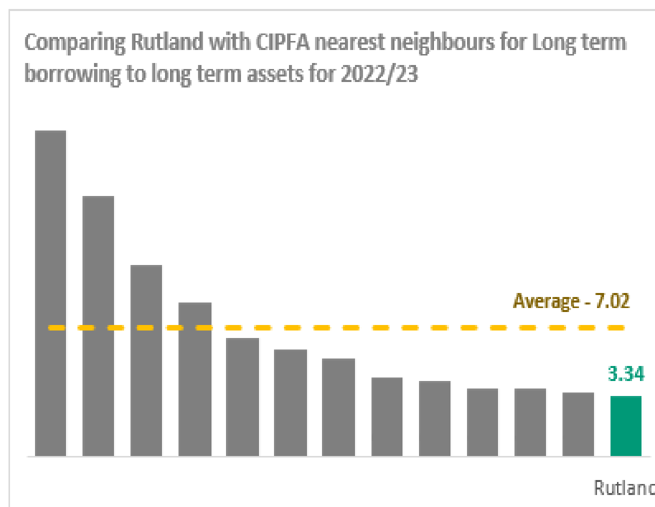
3.25. This ratio measures the relationship between a Council's long-term borrowing (as per SoA) and long-term assets which include:

- fixed assets
- long-term investments
- long-term debts owed to the Council

3.26. The ratio provides insight into what borrowing has funded and the potential need for future borrowing. This is a traditional accounting ratio based on the Council's balance sheet, and for local government comparison to the Capital Financing Requirement (CFR) is suggested as a better test of assets to borrowing requirement, with the difference between the two reflecting the internal borrowing to fund asset investment.

3.27. For the Council the long term borrowing to long term assets has increased from 4.51 in 2008/09 to 3.34 in 2022/23. For Rutland both long term borrowing and the value of long term assets remained stable over the period. This is linked to the fact that over 56% of long term assets are infrastructure based ie roads, which do not appreciate in value. This compares with CIPFA nearest neighbours group of 6.8 for 2008/09 and 7.3 for 2022/23. Rutland's performance could be improved by a reduction in long term borrowing, per point 3.10, and until recently this option has been prohibitive due to the cost of premiums required to be paid on the early redemption of debt.





3.28. The level of existing long-term borrowing and the value of long-term assets should both influence a Council's decisions about how to finance its future investment in delivering its services.

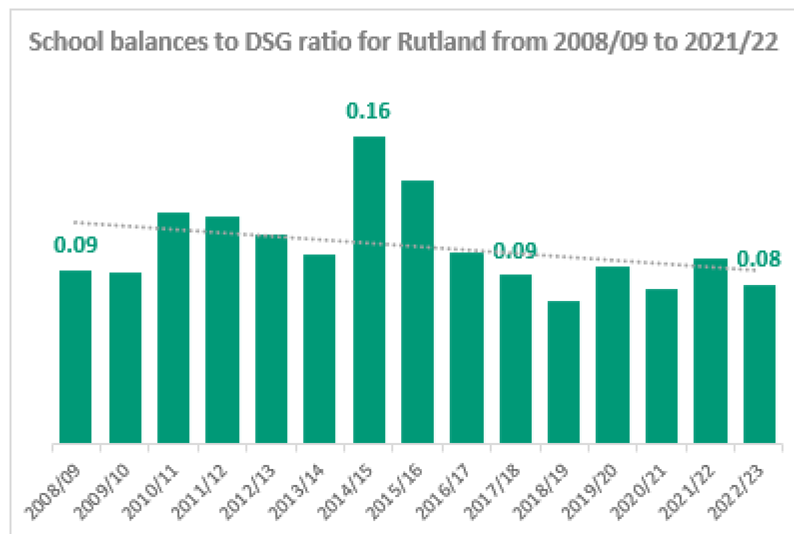
3.29. **Indicator trend - Below nearest neighbour average – Red risk**

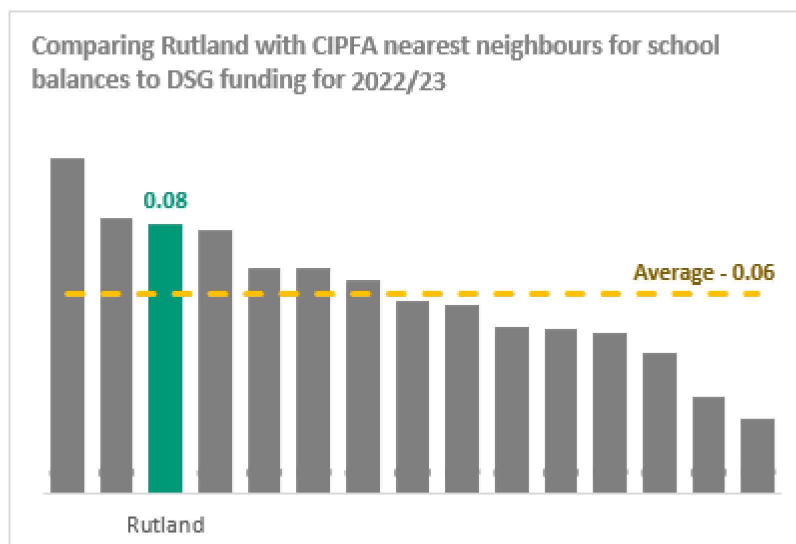
Indicator 10 – School balances to dedicated schools grant

3.30. This ratio measures the relationship between the total - positive and negative - balances held by the maintained schools in the Council's area and the level of dedicated schools grant funding received from central government.

3.31. As with the ratio on useable reserves to gross revenue expenditure discussed earlier, this ratio highlights if there is a particularly high or low level of school balances relative to the money provided for spending on education.

3.32. For the Council the school balances to dedicated schools grant has reduced from 0.09 in 2008/09 to 0.08 in 2022/23. However, whilst this appears to be a relatively stable position school balances rose and peaked in 2014/15 and have generally declined in the years since. For Rutland as the DSG funding reduced school balances also decreased over the same period. This does not factor in the DSG deficit balance held on the Council's balance sheet.





3.33. Generally, a Council should consider whether there are specific reasons why schools are retaining particularly high balances and whether there is more that can be done to help schools manage their budget effectively, especially if General Fund is being used to support school related services. Through local schemes for financing schools the Council may introduce mechanisms to recover excessive uncommitted balances ' where some level of redistribution would support improved provision across a local area'. These are options that will be investigated through 2024/25.

3.34. **Indicator trend - Above nearest neighbour average – Amber risk**

4. Capital Investment Indicators

4.1. A well-managed capital programme is a critical contributor to the overall financial position of the Council and in the delivery of excellent services to the residents and businesses of Rutland. As such the capital programme is a key factor to the achievement of a sustainable Council in the longer term. An effective Capital Strategy and a strengthened governance and control framework supports the Council in achieving this.

4.2. Depending upon the funding an investment in capital assets can creates a long-term burden on revenue budgets through capital financing or the net treasury management expenditure. The revenue budget is therefore based on:

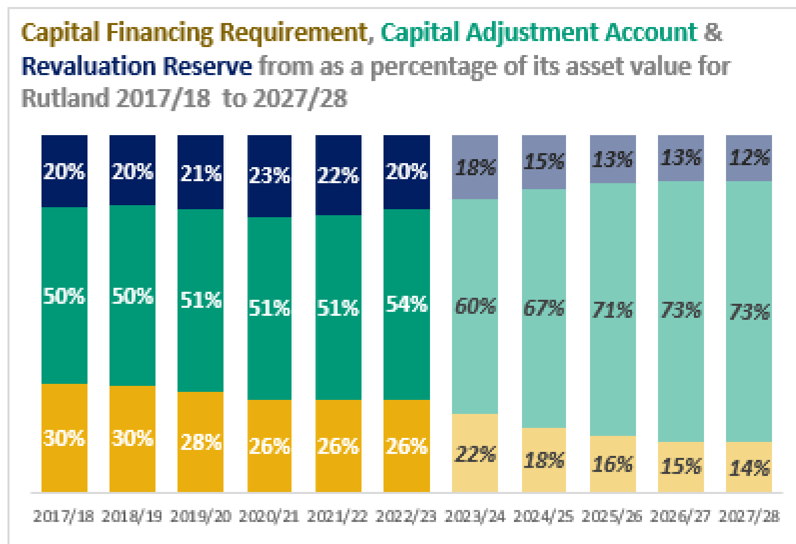
- interest charges – existing borrowing
- MRP - (minimum revenue provision – repayment of debt principal)
- interest charges – new borrowing
- interest receipts – from cash flow surplus's

4.3. The Council is required to produce Prudential Indicators for both capital and treasury strategies. The prudential indicators consider the affordability and impact of capital expenditure plans and set out the Council's overall capital framework. Each prudential indicator either summarises the expected activity or introduces limits upon the activity and reflects the underlying capital programme. However, it is also note worthy that those Council's that have issued S114s all had prudential indicators, and therefore having Prudential Indicators alone do not create financial sustainability, but form a basket of indicators, as included in this Appendix, which will provide an overview of all financial trends.

Indicator 11 – The direction of travel for the Capital Financing Requirement (CFR) as a percentage of its asset value over the medium-term period

4.4. The Capital Financing Requirement (CFR) measures a vital component of an authority's capital strategy, the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for a capital purpose, although this borrowing may not necessarily take place externally. Therefore, it indicates a Councils debt position.

4.5. The following chart shows the direction of travel for the Council since 2017/18 and projected up to 2027/28 based on this MTFS and an assumption on appreciation rates based on recent performance of Long-Term Assets on the balance sheet. It shows that the CFR is projected to decrease over a ten-year period from 2017/18 to 2027/28 from 30% to 14%, and therefore the debt position for the Council is also likely to decrease leading to a lesser burden on revenue budgets to finance this debt (interest and MRP). However, as noted in 3.10 and 3.27, this would be dependent upon refinancing the Council's debt due to the long date maturity that is attached to the existing loans.



4.6. It also shows that appreciation for the assets on the Council balance sheet is likely to decrease from 20% to 12%. This is based on trends only and has not been modelled using factors from expert valuers. However, it may which suggest that the capital investments that are made are unlikely to appreciate over the same period based on historic performance as expenditure is incurred on assets do not appreciate.

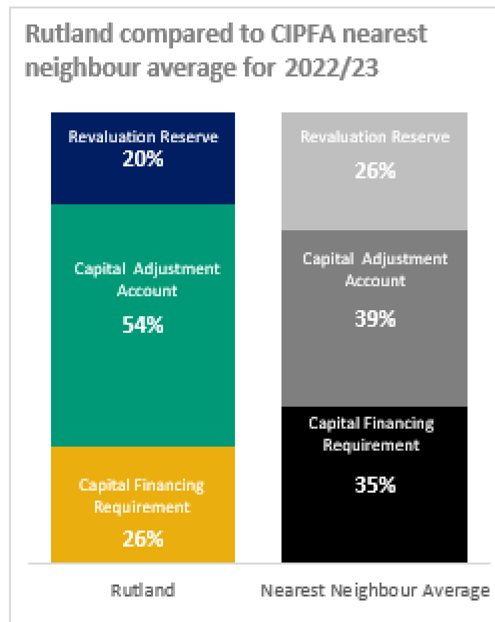
4.7. Finally the chart shows that the amount of alternative funding of the capital programme from grants, third party contributions and capital receipts is to increase from 50% in 2017/18 to 73% in 2027/28. This estimate is based on the Council undertaking investment in its assets using third party funds or capital receipts and is subject to assets being actively managed as part of the Asset Management Strategies and Plans.

4.8. **Indicator trend - Decreasing over the MTFS period – Green risk**

Indicator 12 - The Capital Financing Requirement (CFR) as a percentage of its asset value is no greater than the nearest neighbour average

4.9. A comparison of the Council's CFR position with nearest neighbours would indicate whether capital investment is in line with service provision delivered by Councils of a similar size and service mix. If the CFR is greater than the average, then a review as to what is driving this difference should be undertaken and whether it is affordable in the longer term and confirmation on delivering a return on the investment assessed.

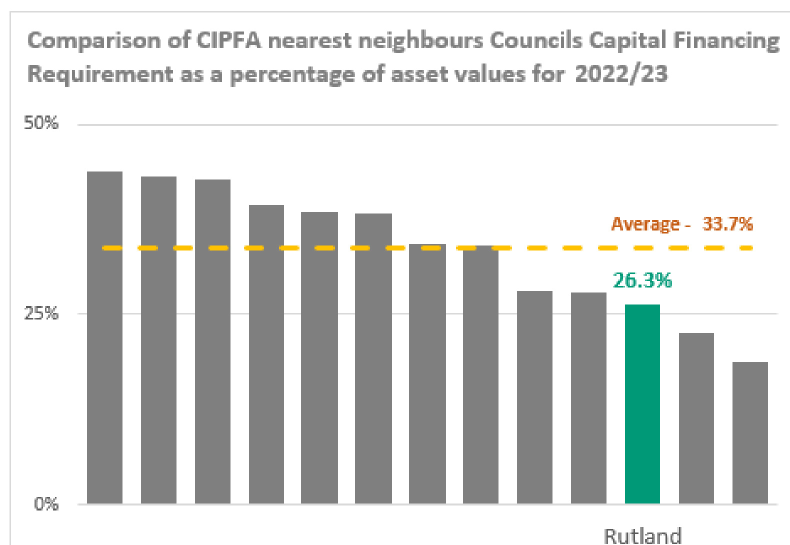
4.10. The Council, for 2022/23 has performed better than its nearest neighbour counterparts as to the impact of the capital investment on its balance sheet, as shown in the following chart.



4.11. A Council can only capitalise expenditure that meets the definition of an asset under proper accounting practice, that is expenditure on an asset that will provide the authority with control of the resulting economic benefit or service potential and has a measurable cost.

4.12. However, for Local Authorities, under the Local Government Act 2003, a Council can fund particular items of revenue expenditure from capital under statute if the expenditure is capital in nature such as enhancing an asset but the asset is not owned by the Council ie a Community Centre, or a school that has converted to an academy, or if approve d by the Secretary of State a Capitalisation Direction ie equal pay compensation, or funding of transformational change. Therefore, it is possible for a Council to incur debt (a liability) without an associated asset on the balance sheet.

4.13. The chart shows the Council's debt position as a percentage of the value of assets 26.3%, and how this is below the average 33.7% for its group of nearest neighbour Councils as at 2022/23.



4.14. **Indicator trend - Below nearest neighbour average – Green risk**

Indicator 13 – Risks impacting on the cost of total borrowing as a percentage of Net Revenue Budget

4.15. This indicator looks in more detail at the risks inherent in the capital programme over the MTFS period. The direction of travel for these inherent risks of the capital programme compared to the year before are considered. Mitigation and management action can be put in place to help manage these risks and therefore impact on revenue budgets through increased governance and control measures and the Council does this through the Capital Programme Board which will commence in 2024/25 following the combination of the two previous asset management boards.

4.16. Based on the analysis of the following risks the trend suggests there is an increased risk of the capital programme impacting on revenue budgets over the MTFS period.

Direction of travel (DoT) based on comparison of values from the previous year									
IBP & MTFS Year	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**Total ↑**	**Total ↓**	**Total ↔**	**Risk Basis**
DoT - Capital Programme	↑	↑	↓	↓	↓	2	3	0	increasing capital expenditure = greater risk exposure based on value
DoT - Capital Receipts	↑	↑	↓	↔	↓	2	2	1	capital receipt target not achieved = no or reduced capital scheme OR increased borrowing
DoT - Grants & Contributions	↑	↑	↓	↓	↔	2	2	1	decreasing external funding may lead to additional borrowing however this is not the strategy
DoT - Borrowing	↔	↔	↔	↔	↔	0	0	5	there is no reliance on borrowing built into the capital programme or MTFS
Increased risk	**2**	**2**	**1**	**1**	**0**				

4.17. **Indicator trend - Steady over the MTFS period – Green risk**

Indicator 14 - The cost of total borrowing as a percentage of net revenue expenditure

4.18. Reference to this indicator has been included here as it relates to capital financing, however it was previously included as Indicator 5 as part of the financial sustainability indicators, 2.17. This shows the cost of borrowing forecast to reduce from 3.65% of net revenue expenditure as per the current financial year 2023/24 to 3.0% in 2027/28.

4.19. **Indicator trend - Decreasing over the MTFS period – Green risk**

5. Conclusion

5.1. Following the advice of their S151 Officer, Councils make local decisions in response to their local circumstances and plans. All elected members, regardless of political party and role within the Council, are responsible for ensuring that the Council budget balances and investment and expenditure decisions are appropriate for local circumstances.

5.2. These financial health indicators demonstrate the decisions of past Council members, with the resulting financial performance providing the foundations for decisions made

today. All members are accountable to taxpayers for the decisions they make, both today and in the future through achievement of financial sustainability over the period.

5.3. In summary the 14 indicators of financial health for Rutland for the MTFS period suggest that the Council is taking appropriate measures to deliver a financially sustainable position.

5.4. There are indicators where improvements can be made such as the level of debt with the proactive management of current assets, and opportunities will be investigated in more detail during 2024/25.

5.5. Risks remain for the level of savings that are required over the MTFS. However, as outlined in this MTFS the Council has incorporated a transformation agenda in order to provide services within the funding envelope forecast. Whilst the immediate future year relies on reserves to underpin the position, the future years do not. Investment from reserves is being used to fund activity that creates financial sustainability or to effectively manage risks that are inherent in the activities of the Council and its financial operating environment.

5.6. The assumptions being used in the capital programme and associated capital and treasury related strategies provide a financial position that does not create additional revenue burdens.