

Financial position analysis 2014 – Technical Annex

This Annex sets out technical information about how the indicators were calculated and suggests how they could be interpreted. Specific workings for your council are available upon request at lgfinance@local.gov.uk.

Please note: we use 2014/15 net revenue expenditure in many indicators. This is our proxy for the relative size of authorities and is only used as a weighting factor. We do not suggest that net revenue expenditure is directly related to what the indicators are meant to illustrate.

Ref	Name	Definition	Data used	High rank/small area shows	Further commentary
PRESENT INDICATORS					
P1	Working capital	Level of working capital weighted according to total net revenue expenditure	Working capital – 2012/13 WGA submissions; Net revenue expenditure – 2014/15 RA returns	Relatively higher level of working capital	Authorities with a strongly positive indicator would have less difficulty liquidating sufficient assets to operate in the event of a short term debt problem
P2	Equity	Level of net assets (total assets less total liabilities) weighted according to total net revenue expenditure	Net assets – 2012/13 WGA submissions; Net revenue expenditure – 2014/15 RA returns	Relatively higher level of net assets	The indicator differentiates those authorities which over time have a relatively higher level of liabilities to fund and limited assets from which to do so, making additional financing costs likely in the years ahead.
P3	Unringfenced reserves	Level of unringfenced reserves (earmarked and other unallocated) weighted according to total net revenue expenditure	2014/15 RA returns	Relatively higher level of unringfenced reserves	Some reserves, of course, are set aside against risks which are difficult to measure. The indicator therefore has a limitation in cases where unringfenced reserves include reserves set aside against risks that have a high likelihood of crystallising.
P4	Net change in reserves over 4 years	Change in unringfenced reserves over a four year period weighted according to total net revenue expenditure	2011/12 RO returns; 2012/13 RO returns; 2013/14 RA returns; 2014/15 RA returns	Relatively higher level of contribution to reserves	If an authority has historically significantly contributed to reserves it is likely the case that the immediate years pose less of a challenge. At the same time any use of reserves or contribution to reserves is likely to be the result of local strategic decisions.

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FUTURE INDICATORS					
F1	Funding level 2019/20	% of expenditure estimated to be covered by funding by 2019/20	Future Funding Outlook 2014	Relatively more funding available for services in 2019/20	The purpose is to measure the medium-term prospects for authorities relative to each other based on a forecast of spending against a forecast of funding. Multiple authorities share the top ranked value of 100%.
F2	Welfare reform impact	% of all working age individuals that are in receipt of key out of work benefits	DWP data (as at February 2014) – extracted from NOMIS	Relatively lower number of working age individuals in receipt of benefit	This indicator assumes that authorities where benefit claimants live will see higher financial pressure related to providing services such as homelessness than those with fewer claimants. It is arguable that the impact of welfare reform will be to encourage claimants to move from current high density areas to low density areas. There is no easy way of modelling this.
F3	Business rates buoyancy	Change in business rate taxbase over a period of time	CIPFA revenue collection statistics for 1 April 2002 base; Valuation Office Agency statistics for 31 March 2014	Higher past growth in business rate tax base	This is a measure of relative economic growth in the recent past and the assumption is that this is a momentum indicator – growth is more likely to continue where it is already taking place. There is a risk that this indicator is affected by large one off developments or valuation appeals, especially in smaller authorities.
F4	Council tax buoyancy	Change in the council taxbase over a period of time	CLG statistics on 2009 and 2013 council tax base	Higher past growth in the council tax base	The principle and logic are similar to the business rate buoyancy indicator (F3).
RISK INDICATORS					
R1	Settlement funding assessment exposure	Settlement funding assessment as a share of total revenue spending power	2014/15 settlement	Lower exposure to grant funding	High settlement funding assessment figures indicate a larger reliance on government grant funding, leaving an authority more exposed to grant reductions.

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R2	Projected spending pressure	Projected change in expenditure required to meet current and future demand on a constant service offer by 2019/20	Future Funding Outlook. Time period covered is 2014/15 – 2019/20	Lower expected cost pressures over the rest of the decade	An extension of the analysis of the future funding outlook, focussing on demand and inflation trends.
R3	Projected change in funding	Projected change in funding assuming similar trends by 2019/20	Future funding outlook. Time period covered is 2014/15 – 2019/20	Lower expected reductions in total funding over the rest of the decade	An extension of the analysis of the future funding outlook, focussing on the funding reduction trends.
R4	Pension fund liability	Pension fund liability weighted according to total net revenue expenditure	Pension fund liability – 2012/13 WGA submissions; Net revenue expenditure – 2014/15 RA returns	Relatively lower pension fund liability	Pension fund liabilities may not be an immediate concern but will have an impact on council finances in the future – for example affecting employer contribution rates.
R5	Total debt	Short term and long term borrowing weighted according to total long term assets	2012/13 WGA submissions	Relatively lower total debt	Total debt can pose both short term liquidity risk and long term cash pressures.
R6	Other long term liabilities	Long term liabilities that are not borrowing or pensions weighted according to total net revenue expenditure	Liabilities – 2012/13 WGA submissions; Net revenue expenditure – 2014/15 RA returns	Relatively lower other long term liabilities	Other long term liabilities also represent future costs of borrowing. They include such elements as PFI liabilities, provisions and receipts in advance. Multiple authorities share the top ranked value of 0.
R7	Business rate appeals	Estimated business rate appeals as a share of total collectable business rates in an area	2014/15 NNDR1 returns	Relatively lower business rate appeal risk	Appeals are a source of council income uncertainty and higher exposure means that councils have to prudently budget for less income, potentially harming services. Multiple authorities share the top ranked value of 0.

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R8	Short term liability pressure	Short term liabilities as a share of total liabilities	2012/13 WGA submissions	Relatively lower exposure to short term liabilities	Short term liability poses an immediate pressure on liquidity. This indicator does not scale the overall level of total liabilities, but more information about liabilities can be found through indicators R4, R5 and R6.
OPPORTUNITY INDICATORS					
OP1	Investment property	Investment property value weighted according to total net revenue expenditure	Investment property – 2012/13 WGA submissions; Net revenue expenditure – 2014/15 RA returns	Relatively more investment property (by value)	A higher total value of investment property indicates more opportunity to raise income. However, return on investment can vary depending on the type of investment and an investment strategy. Multiple authorities share the lowest ranked value of 0.
OP2	Total investments	Short term investments, long term investments and investment property weighted according to total net revenue expenditure	Investments – 2012/13 WGA submissions; Net revenue expenditure – 2014/15 RA returns	Relatively more total investments	Similar logic to OP2 applies, but the indicator includes short term investments as well. Multiple authorities share the lowest ranked value of 0.
OP3	Assets held for sale	Assets held for sale weighted according to total net revenue expenditure	Assets held for sale – 2012/13 WGA submissions; Net revenue expenditure – 2014/15 RA returns	Relatively more assets held for sale	Assets held for sale represent an immediate opportunity for a cash injection which can be used for further capital investment. Multiple authorities share the lowest ranked value of 0.
OP4	General fund balance	General fund balance weighted according to total net revenue expenditure	General fund balance – 2012/13 WGA submissions; Net revenue expenditure – 2014/15 RA returns	Relatively bigger general fund balance	A higher general fund balance may indicate better preparedness for unexpected economic shocks. Alternatively, councils may make a decision to build up their general fund reserves in response to increased perceived risk. Multiple authorities share the lowest value of 0.

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OP5	Capital reserves	Capital grants unapplied and capital receipts reserves weighted according to total net revenue expenditure	Capital reserves – 2012/13 WGA submissions; Net revenue expenditure – 2014/15 RA returns	Relatively bigger capital reserves	Higher capital reserves provide more scope for investment that can save costs or generate income in the future. The definition is limited to two particular reserves due to data limitations.
OP6	New homes bonus	New homes bonus as a share of total revenue spending power	2014/15 settlement	Relatively bigger importance of new homes bonus funding	Higher new homes bonus provides a stable source of income for councils and is a signal of a lively house building market. However, this funding stream is government policy, meaning that there is always a risk of it ending. Many authorities use new homes bonus for further investment instead of funding services as a result.
OP7	Council tax collection rate	Council tax revenue as a share of total collectable council tax	2013/14 DCLG council tax business rate collection statistics	Relatively higher collection rate	A high collection rate of local taxes shows that an authority is close to maximising its income. A lower council tax collection rate could also represent an opportunity in its own regard as there is room to increase annual income through better collection practices. In some cases a low collection rate can be explained by socioeconomic characteristics of an area, such as reliance on council tax support.
OP8	Business rates collection rate	Business rates collected as a share of total collectable business rates	2013/14 DCLG council tax business rate collection statistics	Relatively higher collection rate	Similar logic to OP7 applies.