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The Rt Hon Michael Gove MP
Secretary of State for Levelling Up, Housing and Communities
House of Commons
London SW1A 0AA

10th August 2023

Dear Mr Gove

I refer to your letter of the 4th July 2023 regarding the Office for Local Government publishing data on the performance of Local Government.

I note from this letter that Oflog "will *improve the transparency of local government performance by publishing data in a clear and accessible way on the new Local Authority Data Explorer." "By collating, analysing, and publishing existing data about the relative performance of councils, Oflog will help councillors and the public to have the information they need to scrutinise more effectively local decisions. It will also ensure council leaders can compare themselves against their peers and find examples of good practice to learn from."*

We welcome this new initiative, however, need to point out that two of the metrics that have been published are fundamentally flawed and need to be revised immediately. These two metrics are debt servicing as a percentage of core spending power, and total debt as a percentage of core spending power. The reason why these metrics are seriously flawed is that General Fund (GF) data is being added with Housing Revenue Account (HRA) data and this total is then compared with Core Spending Power (CSP) which only funds the GF and not the HRA. This methodology is inflating the debt servicing and total debt metrics for all Councils that also having a housing stock and an HRA. Therefore, when compared with median ratios of authorities and other CIPFA neighbours that are not Housing Authorities, the results are misleading and meaningless in terms of comparison – hence not achieving the benchmarking outcomes quoted in your letter.

We provide below further detail as to why the methodology in calculating these two metrics need revision and all published ratios based on the flawed methodology need to be re-called.

Having reviewed the detail regarding the calculation of these numbers and calculated them locally we have realised that the debt ratios are completely misleading as shown in the attached Appendix. Interest costs levied against the HRA **should not be and cannot be** included in a calculation to compare against CSP, neither should the total HRA debt be included in a similar calculation. The HRA is a ring-fenced landlord account (funded by rents from tenants) and should not be consolidated with any GF measures; doing so goes against the fundamental ring-fenced principle.

The computation problem stems from the guidance on the completion of DLUHC's revenue outturn return and the specific lines that are then required to be used from this return in calculating the debt as a percentage of CSP, and the fact that the whole of the Council's Capital Financing Requirement (CFR) has been used (rather than that just of the GF) to calculate the Total debt as a percentage of CSP.

The definition for Debt servicing as a percentage of core spending power, as quoted on your website, states:

*This metric shows a local authority's costs of servicing debt relative to Core Spending Power, which is a measure of a local authority's financial resources. Debt servicing costs comprise the interest costs and revenue costs which local authorities incur by holding debt, this is calculated by taking the sum of spending lines 773, 776, **781** and 788 in DLUHC's revenue outturn summary (RS) statistics. These costs must be met each year from a council's budget and therefore represent a cost pressure that must be met from a local authority's income. It should be the case that local authorities with higher levels of debt have greater debt servicing costs, and high levels of debt can therefore present an inherent risk to local authority finances. This metric provides an indicator of how affordable a local authority's debt is.*

Having reviewed the guidance regarding the specific cells on the Revenue Outturn form, **Line 781 Interest payable and similar charges explicitly includes** interest payable by the authority on all external borrowings, including external interest payments in respect of the HRA and Trading Accounts.

The definition for Total debt as a percentage of core spending power, as quoted on your website, states:

This metric uses Capital Finance Requirement (CFR) as of 31st March 2022 as the measure of total debt and expresses this as a percentage of Core Spending Power for 2022-23, which is used to represent local authorities' relative size. CFR is the total capital expenditure that has been incurred by a local authority in excess of its available capital resources and is financed by either external borrowing or the local authority's surplus cash (known as internal borrowing). The metric expresses CFR as a proportion of CSP to reflect the differing financial resources of authorities and to give a comparable level of debt for each authority relative to size. The CFR, however, includes debt on HRA properties and therefore it is not meaningful in expressing this debt as a percentage of Core Spending Power which funds the GF.

We, by way of illustration, have reconciled the published OFLOG data against our own Revenue Outturn and Capital Outturn Return, and these have been set out in the attached Appendix. This Appendix shows the reconciled data which has been published by OFLOG, together with what we consider to be the correct position where only the GF information has been utilised.
The appendix shows each of the five housing authorities within Nottinghamshire and the impact of the current published OFLOG data compared with what we feel is the correct data.

Therefore, we urge you to:

- immediately un-publish all of the data, to ensure that should any local press access the data, that there are no published articles relating to these metrics; as this would be embarrassing for local authorities with housing stock and Oflog, in having to explain that these measures cannot be used for the intended purpose.
- revise the methodology for calculating the two metrics as set out in this letter and liaise with the Local Government sector to ensure that these metrics are legitimate and meaningful.
- re-publish the data.

We reiterate that we welcome the work that you and your colleagues are undertaking to *improve the transparency of local government performance by publishing data in a clear and accessible way and we would* be happy to assist you in this endeavour.

Yours sincerely

Sanjiv Kohli
Deputy Chief Executive, Director of Resources and Section 151 Officer
Newark and Sherwood District Council

On behalf of:

Peter Hudson ACMA, CGHMA, Corporate Resources Director, Ashfield District Council
Mick Wildman, Director of Corporate Resources and Chief Finance Officer (s.151 Officer), Bassetlaw District Council
Zulfiqar Darr, Deputy Chief Executive and Section 151 Officer, Broxtowe Borough Council
Dawn Edwards, Head of Finance and Section 151 Officer, Mansfield District Council

Appendix 1

Debt Servicing as a percentage of Core Spending Power

		Newark and Sherwood		Bassetlaw		Broxtowe		Mansfield		Ashfield	
			GF only		GF only		GF only		GF only		GF only
RO form line number	773	854	854	637	637	1,125	1,125	447	447	2,294	2,294
RO form line number	776	-	-	-							
RO form line number	781	4,111	256	4,077	578	2,887	370	2,891	467	3,570	23
RO form line number	788	-	-	-							
		4,965	1,110	4,714	1,215	4,012	1,495	3,338	914	5,864	2,317
Core Spending Power 21/22		12,811	12,811	12,271	12,271	9,223	9,223	10,494	10,494	11,736	11,736
Percentage		38.8%	8.66%	38.41%	9.90%	43.50%	16.21%	31.81%	8.71%	49.96%	19.74%

Total Debt as a percentage of Core Spending Power

	Newark and Sherwood		Bassetlaw		Broxtowe		Mansfield		Ashfield	
CFR	137,540	26,408	124,751	28,278	110,581	26,793	138,692	65,936	166,684	86,623
Core Spending Power 22/23	13,954	13,954	13,622	13,622	10,130	10,130	11,543	11,543	12,246	12,246
Percentage	985.7%	189.3%	915.8%	207.6%	1091.6%	264.5%	1201.5%	571.2%	1361.2%	707.4%