RESOURCES AND TRANSFORMATION OVERVIEW AND SCRUTINY PANEL - 16 NOVEMBER 2023

FINANCIAL STRATEGY TASK AND FINISH GROUP 2023 – OUTCOME REPORT

1. RECOMMENDATIONS

1.1 That the Overview and Scrutiny Panel note the contents of the report and endorse the Group conclusions set out in paragraph 7.1 below.

2. PURPOSE

2.1 This report sets out the work of the Financial Strategy Task and Finish Group and presents a set of conclusions. The Group met 4 times over September and October 2023.

3. TERMS OF REFERENCE AND MEMBERSHIP

3.1 The **Terms of Reference** for the Financial Strategy Task and Finish Group 2023 were:

- To provide detailed scrutiny on the budget assumptions made within the latest Medium Term Financial Plan.
- To consider an alternative format for high-level budget adoption.
- To overview the reserve balances held by the Council, in light of the planned reduction here, and potential for borrowing moving forward.

3.2 **Membership of Group:**

- Cllr Keith Craze (Chairman)
- Kate Crisell
- Cllr Jack Davies
- Cllr Philip Dowd
- Cllr Joe Reilly
- Cllr Steve Rippon-Swaine
- Cllr John Sleep

4. SESSION 1: MTFP OVERVIEW AND ASSUMPTIONS

4.1 The Group received an overview of the Council's financial position, including Medium Term Financial Plan and Annual Budget, for both the General Fund and Housing Revenue Account. The Group were reminded that in setting the MTFP and Annual Budget, members had a responsibility to consider the longer-term effect of decisions taken.

4.2 The first part of the session covered the General Fund and included:

- The MTFP Cycle / Overviews and Assumptions
- Cumulative Budget Deficit to 2027/28
- Funding Summary
- Tax base Growth and Council Tax increase assumptions to 2027/28

4.3 The Group noted a number of unquantified budget impacts at present, which included:

- Business rate changes
- Fair funding review
- Extended Producer Responsibility
- Capital programme financing
- New Burden Funding
- New Homes Bonus

4.4 Members then received a wide range of information on budget pressures, including pay and price growth, homelessness costs, waste investment, and the effects of cost of living pressures. To conclude the General Fund part of the session, members were guided through the options that had been identified to close the forecast budget deficit, and the potential these options had to create a degree of short-term headroom in the budget, should items come forward early, for investment in corporate plan priorities, or in tackling other budget pressures, including the financing of a large Capital Programme.

4.5 The second part of the session focused on the Housing Revenue Account and members were advised of the relative security of income. Assumptions had been made on income growth over the MTFP period, but it was unknown how Central Government policy may affect allowable rent increases over the period. It was noted that the Government had stepped in with a revised maximum threshold for 2023/24.

4.6 Members were advised that the Council had been meeting its principal loan repayment obligations since re-payments commenced in 2017 but noted that due to pressures within expenditure budgets for 2023/24, the original budget had assumed a degree of re-financing for the principal element due for repayment in March 2024.

4.7 Further unquantified impacts and mitigations were identified that had the potential to worsen or improve the forecast budget deficit within the HRA to 2027/28. It was of particular note that the Greener Housing Strategy had the potential to add significant expenditure to the Capital Programme over the coming years.

5 SESSION 2: ALTERNATIVE BUDGET FORMAT

5.1 The Group was asked to review alternative formats for high level budget reporting for the General Fund and Housing Revenue Accounts.

5.2 Members were reminded that at NFDC, the current budget layout shown in committee reports was aligned to portfolios. Disadvantages to this were that if portfolios were reorganised, this necessitated a change in budget presentation and a restatement of the previous year's financial statements. This created extra work for the external auditor, which in turn meant higher audit fees.

5.3 The current approach also presented a lack of transparency in the way corporate resources were shown as a collective cost, as corporate costs were distributed across all services.

5.4 The Group were shown examples from other authorities and the way their budgets were presented, which varied widely. Some appeared to present their finances under corporate plan headings, whilst others showed their costs to chief officer responsibilities, and others used portfolios like NFDC. It was commented that some corporate plan headings were wide ranging, could be ambiguous and not very informative to the public.

5.5 It was acknowledged that there was a balance to be struck between internal control and providing an appropriate and digestible level of information for elected members and the public.

6 SESSION 3: RESERVE BALANCES

6.1 The Group received a detailed overview of reserve balances held by the Council for the General Fund and HRA, and potential for borrowing moving forward. It also received a summary of projected Cash and Internal borrowing.

6.2 The Group were reminded of the requirement under Section 25 of the Local Government Act 2003 to ensure local authorities had adequate reserves.

6.3 The Group noted the Council's reserves held for various purposes, including supporting committed projects, statutory requirements, Government grants, and the required budget reserves to support both the General Fund and HRA. The General Fund Reserve of £3M supported an overall spend of £75M. There was also a £2.699m budget equalisation reserve to support the delivery of the MTFP.

6.4 It was explained to the Group that balances held in reserves had been utilised to provide the required financing for the Capital Programme, through internal borrowing. Internal borrowing in this way reduced the cost of external finance (interest charges) and so was a sound practice aligning to the Council's Treasury Management Strategy. It was further explained that where internal borrowing was in use, the revenue budget then re-paid the amount borrowed over the life of the asset it had been used to finance. The example of a refuse vehicle costing £140,000, with a 7 year life was used, whereby the General Fund then repaid £20,000 per annum over 7 years to replenish the cash back into reserves. It was therefore noted that internal borrowing still put pressure on the revenue fund budget, albeit at no cost above the principal amount 'borrowed'.

6.5 Reserve balances were always being put to use, either to support services through internal borrowing, or invested in line with the adopted Treasury Management Strategy. The Group noted that the Audit Committee received quarterly Treasury Management reports. It was confirmed that as a result of the reserve balances held over time, the Council had now fully invested the initial £30M aligned to the Asset Investment Strategy, all funded with internal cash balances.

6.6 Other Capital schemes such as Hardley Depot (£7.5m) were to be funded with a blend of capital receipt and capital programme reserves. It was also noted that significant expenditure was forecast over the next 2-4 years as the Council looked to roll-out the new Waste Strategy. This would lead to a significant reduction in reserve balances over the period. It was acknowledged that reserves could of course be only used once.

6.7 Reference was made to rising CIL and Developer Contributions monies held and the need to prioritise larger strategic infrastructure schemes which had greatest impact. It was commented that it was not therefore surprising to see rising reserve balances in this area. Examples of major schemes included high value coastal works, where it was important to obtain strategic partner funding, and the Council always maximised this wherever it could.

6.8 The Group were reminded of the October 2023 Cabinet report where it was agreed to establish a Task and Finish Group to review £1m in proposed CIL allocations to local infrastructure projects so that they may directly advise the Portfolio Holder for Planning and Economy.

6.9 To date, no external borrowing had been done, and this would only be done when cash reserves were at the minimum requirement. It was noted that at least £10m was required to retain the Authority's Professional Investor Status. This was important to maintain as certain investment products and services were only available to organisations holding this status level.

6.10 The Group noted the reserves held for HRA spending and investment. A £1m reserve was held on a £20m budget. HRA Capital Programme reserves had reduced following significant housing delivery over the last 3-4 years. Reference was made to recent increases in borrowing rates from a history ranging from 0.5% in the last few years to current rates in excess of 5%.

6.11 Like with General Fund schemes, the Council was very proactive in obtaining funding from Homes England to support the Council's housing strategy delivery, or from DLUHC to support Greener Housing in association with the HRA.

7. CONCLUSIONS AND GROUP FEEDBACK

7.1 The Group felt that the Council was in a good position despite the various financial pressures that the Authority faced. It was aware of the future options for the use of reserves and the limits under which they could be employed to support the Council's service provision. The following is a list of concluding points agreed by the Group:

(a) That the budget assumptions in the main appeared sound, with an MTFP for both the General Fund and HRA prepared on the basis of the most likely scenario over the next 4 years.

(b) That close monitoring of the Homelessness budget continue, being mindful of the MTFP expectation of the removal over the next 3 years of the additional £1m put into the 2023/24 budget.

(c) That members were content with the current budget format, but that officers could, where appropriate, re-name certain key service lines to make their descriptions clearer, and add weblinks to further information in some areas when e-budget books were published online.

(d) That the approach to the use of current reserves for investment and to support Council services as set out above, be endorsed, including operational use of earmarked reserves down to statutory limits and in line with government guidance and as recommended by the Section 151 Officer.

(e) In light of significant interest rates at the current time, that due consideration is given to the size of the capital programme, given the likely need for external loan finance to fund the programme in the near term.

(f) The Group appreciated working to the terms of reference for this year's task, but were keen to see a return to a more Portfolio - themed approach in next year's Task & Finish process.

Further Information:
Financial Strategy Task and Finish Group

Background Papers:
Financial Strategy Task and Finish Group working papers

Published documents

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