REPORT OF THE AUDIT COMMITTEE No. 3, 2024/25

FULL COUNCIL 3 March 2024

Chair: Councillor Erdal Dogan Deputy Chair: Councillor Cathy Brennan

1. INTRODUCTION

1.1. The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.2. The CIPFA Code requires the Committee responsible for monitoring treasury management activities to formulate the Treasury Management Strategy Statement (TMSS). The TMSS is then subject to scrutiny before being approved by Full Council.

1.3. This report presents Council with the updated TMSS for 2025/26, subject to its scrutiny at the Overview and Scrutiny Committee at its meeting on 20 January 2025, and subject to consultation with the lead Cabinet Member for Finance and Corporate Services

TREASURY MANAGEMENT STRATEGY STATEMENT 2025/26

We considered the Treasury Management Strategy Statement 2025/26 and discussed the following:

- A query was raised regarding the figure outlined on Table 3 on page 11 of the agenda papers which stated an estimate raise of new borrowing from 79.9 to 399.9. In response, the meeting heard that it was driven by the capital financing requirements which was driven by the capital programme. The figure of 79.9 was capturing the last quarter of the financial year whereas the 399.9 was for the whole of the following year. The figures were basically one quarter against a whole year. It was both for the general fund and for the HRA.
- The increase of the new borrowing was to just to cover the capital expenditure that was projected for the coming years. The total was a cumulative total.
- The Council had applied for exceptional financial support on 13 December 2024, the draft budget report was published for the upcoming Overview and Scrutiny Committee. The report showed that in order to set a balanced budget or to recommend a balanced budget for 2025/26, the exceptional financial support was estimated at £37

million. When the Treasury Management Strategy statement was published for the Audit Committee, the estimate that could be seen in the report was £20 million (in Table 1 of the report). As a local authority, the Council were not currently allowed to borrow or use capital receipts for revenue spend which was a day to-day running cost. The exceptional financial support would, if approved, at the end of February 2024, would give the Council a special permission called a capitalisation direction. The Council's capital programme within the budget report included the figure of £37 million as exceptional financial support could be seen listed. This was not earmarked around particular services. The Council approached its budget by recognising all of the pressures it was facing particularly around social care, temporary accommodation and across every single service. It was important for the Council to set a budget that it felt was realistic. This would give the Council a budget gap position, then it would later identify any savings. The £37 million was similar to the Council identifying the budget gap that remained after the assumed savings. The figure was an outline of what the Council would need in order to deliver all of the services that it wanted to deliver in Haringey next year and still recognise all the spending pressures. The Council's income was £37 million short from where it needed to be. The Council may be setting a budget at this stage with an assumed £37 million of exceptional financial support. This did not mean that it needed to use £37 million worth of support. The work that the Council would continue to do into next year would be to reduce the amount that needed to be drawn down. Any increased reliance on borrowing with interest rates still high was challenging and was not sustainable. The Council had factored in some use of capital receipts, but the remainder would be through borrowing. Exceptional Financial Support was not a long-term solution. There was one amendment already to the treasury management strategy statement in that the exceptional financial support was now estimated at £37 million. The Council was not expecting any other significant changes. The Council could share with the Committee any changes before a recommendation was made to Full Council.

- The meeting agreed that Audit Committee would be updated before any recommendation was made to Council.
- The Committee noted how problematic some of the issues were and full transparency was necessary. Councillors would be asked in their local areas to explain to residents what was happening and what accountability they were taking.
- Although there was economic pressure, the labour market had been quite robust, so although unemployment was rising, it was at a fairly low level historically. In terms of borrowing costs, the main problem was going to be inflation and whether inflation came down to or stayed at an adequate level for the Bank of England to be able to cut interest rates. There were fears that some of President Trump's policies would

prove to be inflationary such as trade tariffs which could lead to higher inflation and higher borrowing costs across the globe. This had been factored into the borrowing forecast as part of the 5% borrowing assumption in the report. The country was in a low growth economy with higher interest rates.

- In terms of the funding of exceptional financial support, as reported in the budget report published in the prior week, it was £37 million and the working assumption for the budget was that £10 million of it that was funded by capital receipts and £27 million was funded through borrowing. The £10 million was based on capital receipts already received and those planned during 2025/26. The Council had a pipeline of already planned capital receipts. This was not because of the financial position, but capital receipts that were going to be generated anyway. The Council had taken a prudent view and only assumed £2 million from the capital receipts expected to come through in 2025/26. There was no assumption around immediate urgent sales. The Council had a duty of best value and therefore any sale of any asset needed to demonstrate best value. If the Council took the planned capital receipts in 2025/26, the estimated value would be more than £2 million. If generated, it was better to use it than to borrow, otherwise there would be a borrowing cost for a very long period of time. The Council would need to take a view if more capital receipts could be used. Setting the budget was a working assumption, but effective use of capital receipts was required. There was no assumption around emergency sales from any assets.
- Exceptional financial support should be a last resort. It was not a long-term solution. External support had been acquired to help the Council go through every single budget line to make sure that it was as efficient as it could be. The Council also had an exercise looking at its general financial resilience. That included reserve balances, the Council's levels of debt compared to others, governance arrangements, setting of budget and delivery of savings. It was important to get this right.
- There would be regular contact with the Ministry of Housing, Communities and Local Government (MHCLG) who was supporting the exceptional financial support process. The Council would want to demonstrate that it was doing everything it could to reduce the reliance on the £37 million.
- In terms of the treasury management strategy, the Council's approach to both investment and borrowing was largely in line with previous years. There was an option to expand or look at opportunities within commercial activity. The Council would not necessarily rule anything out and the strategy provided an opportunity to explore options if needed. Given the Council's financial position and its low levels of balances and reserves available for investment, it was highly likely that the Council would continue to take a very risk averse approach.

However, if an opportunity arose, expert opinion would be taken and reported through to the Committee. Income generation was equally as important as cost reductions for balancing the Council's budget.

- The Community Infrastructure Levy (CIL) was part of one of the Council's funding streams for the capital program. The full budget report also included a capital strategy which was a separate document and the draft was published for an upcoming Overview and Scrutiny Committee and it clearly set out some key funding streams that the Council would consider whether there were any appropriate schemes within the capital programme that met the requirements of the community infrastructure levy that the Council had received.
- A query was raised regarding whether CIL should be reviewed as the Council was undercharging for development in the west of the borough. This would be a query taken up outside of the meeting and explored.
- There were three options for exceptional financial support. One was the use of capital receipts, one was borrowing and one was to request the ability to increase council tax above the 4.99% threshold which was currently the referendum threshold. The Council had not put forward an option to increase council tax above the 4.99%. It was an option and could have been part of the application. However, it would require a very significant increase in council tax to address the £37 million shortfall.
- To set a realistic budget, the Council had to look at all of the pressures it would be facing next year and one of those pressures was the increase in National Insurance. The Council was expecting to get fully funded for direct employees, but was possibly expecting an increase in the cost of contracts, particularly within social care and children's services. The budget in terms of pressures amounted to £56 million. This included an assumption around increased costs as a result of the National Insurance increase. This was not the only driver for the £37 million shortfall, but was one of them.
- The CIL was very low on some developers and not only the west of the borough as more building was done in the east.
- The strategy set out the Council's approach to borrowing and investment. There would not be any change in terms of the strategy itself. There would be £37 million in exceptional financial support of which £10 million was from capital receipts and £27 million was from borrowing. The figures would be re-run, but the Council could not go over its borrowing limit.
- The £27 million would be borrowed from the Public Works Loans Board (PWLB) and would be at the PWLB rate. There would be no premium incurred. The Council would still only borrow at the point it needed to. Rates would be tracked to make sure that the borrowing would be done at the best rates possible.

- The PWLB had different loan margins. Different rates were applicable depending on the expenditure. This was the Government cost of borrowing plus 0.4% for housing expenditure, for general fund expenditure it was Government's cost of borrowing plus 0.8%.
- Treasury management investments basically covered all regular treasury management activities, but non treasury management investments would be things like commercial property, such as buying commercial assets for returns.

The Committee felt that it was not clear that the exceptional financial support did not imply exceeding the current capital receipts. This had not been written into the report. In response, the meeting heard that the update was probably more appropriate for the capital strategy which was a separate document that was part of the budget report, but efforts would be made to see if clarification for this could be made into the treasury management report which was about the borrowing aspect of the exceptional financial support as opposed to the capital receipts.

The meeting reconfirmed that any changes or updates would be subject to notification to members by email. The email would be sent in the coming week in case the Committee felt that an extraordinary meeting was required.

Clerk’s Note: The Committee were duly informed and no extraordinary meeting was held.

5. RECOMMENDATIONS

Full Council is recommended:

To agree the proposed updated Treasury Management Strategy Statement for 2025-26 as attached to agenda item 13, 2024-25 Budget and Medium-Term Financial Strategy 2024/28 at Annex 4.