

Newcastle-under-Lyme Borough Council

Report by the Labour Group to the Finance, assets and Performance Scrutiny Committee

Strategic amendments to the;

- Revenue and Capital Budgets and Strategies 2023/24
- 5 year Medium Term Financial Strategy for 2023/24 to 2027/28
- Flexible Use of Capital Receipts Strategy (updated for 2023/24), the Capital Strategy for 2023/33
- Treasury Management Strategy for 2023/24 and the Investment Strategy for 2023/24

Overview:

In making the proposed amendments and request for further information, the Labour Group draw attention to the obligation to move a lawful budget each year which is shared equally by each individual Member. In discharging that obligation, Members owe a fiduciary duty to the Council Taxpayer.

Notwithstanding the legislative requirement to set a budget, financial plans are important because they act as a financial expression of the Council's policies and instruct officers on the areas to which they should attribute spend.

The Labour group is; i) very concerned at the proposed level of borrowing (an initial £15 million pounds this coming financial year followed by a further £15 million over the life cycle of the capital strategy), ii) the potential financially vulnerable position this will leave the council in from 2026 onwards, iii) the lack of transparency over financial decisions being made by the Conservative administration, iv) the spiralling costs of plans to build a new multi-story car park in the town centre, and v) the proposal to defund the Walley's Quarry legal fund.

We are committed to getting good value for money on behalf of our residents. As a consequence, we are unable to support the budget in its current form, where significant borrowing is unlikely to be matched by realised value of capital receipts. We feel that to be able to take a decision on potential borrowing, and commitments to expensive capital projects we require significant further information that has not been forthcoming or available in the public domain.

Our specific concerns, and proposals to help alleviate these are as follows:

1. Level of borrowing proposed to meet capital expenditure.

The Labour group notes that the Conservative administration's capital strategy will require the sale of assets, predominantly in the form of land for housing development, alongside significant borrowing. The proposed Capital programme amounts to £84.353 million spending, funded by £20.900 million in capital receipts, £33.085 million in external contributions, and £30.367 million in borrowing.

The Labour group notes that for 2023/24 the Capital budget the Conservative administration proposes to borrow £15 million, incurring an annual estimated interest of £1.05 Million. To

balance payments the budget anticipates capital receipts of £2.4 million in capital receipts and £12.4 million in external contributions.

The Labour group has significant concerns over the level of borrowing proposed by the Conservative administration, particularly given the current financial situation with volatility of financial markets, interest rates and affordability. Further, we are concerned that i) the value of capital receipts, in particular from proposed land sales, will not be realised, and ii) the costs associated with capital projects will be subject to unbudgeted increases in costs. We are concerned that under these circumstances the Conservative administration will be forced into further borrowing to meet the requirements of the capital programme. We therefore propose that the administration tie an annual limit on borrowing to capital receipts, with a three times multiplier; permitting the Conservative administration to borrow three times the value of funding received from capital receipts. This sensible borrowing ceiling would be set annually by, and reported to, full council.

2. Volatility in UK financial markets

The Labour group notes the number of identifiable high risks highlighted in Appendix 3 – Risk Assessment on Required Balances within the Revenue and Capital Budgets and Strategies 2023/24 report, such as;

- Increased fuel costs
- Increased energy costs
- Staff pay awards
- Unbudgeted borrowing costs
- Volatility due to Brexit

The Labour group further notes that each of these risks are a consequence of policy decisions made by the Conservative national government, represent significant potential costs, and has contributed to the current MTFS funding gaps. We are concerned that given the current financial situation with volatility of financial markets, interest rates and affordability; that council should be aware in full of these risks. We therefore propose that council receive a full report on these identified risks, including mitigation strategies and contingencies within the MTFS.

3. Value of assets proposed for disposal.

The Labour group notes the Conservative administrations £20.9 million assumption within the capital programme, to be presumably funded largely via the sale of land for housing development. We further note that the identity, location, and assumed value for these assets can be found within the Asset Management Strategy. We note that this document is not publicly available and has not been included with the proposed budget/programme assumptions.

The Labour group has significant concerns that the value of capital assets will be realised within the lifetime of the proposed capital programme. We have further concern that should the value of these assets not be realised; the Conservative administration will resort to increased borrowing to fund the capital programme. We therefore propose that the full list of sites identified as contributing to the capital receipts assumption of the capital programme be published, with the capital programme, including evidence of financial viability assumptions and risks.

4. Costs associated with proposed new multi-story carpark in Newcastle town centre.

The Labour group notes the costs associated with the development of the new multi-story car park on the former Sainsbury's/Ryecroft site within the town centre. We further note that the financial settlement for the proposed development is to be funded through a £3.5 million contribution from the Future High Streets Fund, £400K from the Newcastle Town Deal Fund, and £7.1 million from the Council Capital programme, presumably funded through borrowing. We further note that on acceptance of the Future High Street Funds, cabinet approved match funding of £3.5 million for the whole project. We note that over a period of 24 months, that councils' financial contributions for this development have risen exponentially from less than £3.5 million to £7.1 million.

The Labour group is significantly concerned that costs associated with the development of the multi-story car park are growing exponentially. We propose that a full need and viability assessment for the creation of a new multi-story car park be conducted. We further propose that following this assessment, should a recommendation be made to proceed with this development, a 'value engineering' exercise be conducted to bring the costs of the development in line with the financial envelope approved by cabinet in April 2021.

5. Removal of the financial allocation to support legal action regarding regulation of the abatement notice at Walley's quarry.

The Labour group notes the significant victory for the council in securing the abatement notice regarding nuisance odours at Walley's quarry. This abatement notice provides a formal route for potential further legal action should the operator fail to comply with the requirements. The decision at full council to allocate £1 million to a ring-fenced fund for potential legal action, associated with the abatement notice, received cross-party support. We note however, that in reallocating reserves, the Conservative administration propose taking £400K out of this ring-fenced fund, leaving the fund with £100K to fund further legal action. Given that the abatement notice has only recently been legally enforced, we believe that removal of this funding would leave the council in a weak position should further legal action be required.

The Labour group strongly condemns the reallocation £400K out of the Walley's quarry legal fund to reallocate budgets within the general reserve strategy. We note, that part of the settlement of the legal action with the operator included recovery of costs associated with serving of the abatement notice. We further note, that these recovered costs are not accounted for within the published budget papers, and should be reallocated to the ring-fenced legal fund too provide the legal contingency fund. We recognise that a considerable amount of legal work has already been undertaken and that could be assumed that such a level of reserves is no longer required. However, the costs in taking the operator to court for a breach of the abatement notice, and work to establish the impacts of causative links to ill health for example would, incur significant costs. We therefore propose that Conservative administration continue to protect this ring-fenced budget set in line with the level set at full council with full cross party agreement, at (1 million).

Summary

- (i) Council agrees an annual limit on borrowing to capital receipts, with a three times multiplier; permitting the borrowing of up to three times the value of funding received from capital receipts in the municipal year
- (ii) council to receive a full report on the identified risks contained within the financial risk assessment, including mitigation strategies and contingencies within the MTFS
- (iii) Publication of the full list of sites identified as contributing to the capital receipts assumption of the capital programme, including evidence of financial viability assumptions and risks.
- (iv) full need and viability assessment for the creation of a new multi-story car park be conducted. Following the assessment, should a recommendation be made to proceed with this development, a 'value engineering' exercise be conducted to bring the costs of the development in line with the financial envelope approved by cabinet in April 2021.
- (v) Re-allocate and protect Walley's Quarry budget line at the level set with cross-party support at full council (1 Million pounds).



Proposed and seconded by Cllr Dave Jones and Cllr Andrew Fox-Hewitt