6. SUMMARY OF KEY FINANCIAL INDICATORS

Background

6.1 Local government finance is subject to a high level of regulation. There are various codes of practice which the council, under legislation, has a duty to have regard to when taking its budget decisions.

6.2 This section of the budget report provides information to show the affordability, proportionality, and value of potential risk exposure with regard to the council's proposals for borrowing, lending to third parties, investment in equity shares in third parties, as well as its commercial income streams.

6.3 DLUHC has suggested various financial indices that could be used to fulfil this requirement and recommends that councils should "where appropriate" consider setting self-assessed limits or targets for these indices.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/678866/Guidance_on_local_government_investments.pdf

6.4 For the majority of indicators, the council has not elected to set self-assessed limits. This will be kept under review as better benchmarking data becomes available from other authorities. The annual limit regarding borrowing along with a number of other prudential and Treasury Management indicators are set in the Treasury Management Strategy (section 5).

6.5 The indices chosen as being the most appropriate for the council's circumstances at present take as their starting point figures from the 2021/22 draft statement of accounts and project these forward for this financial year and the five following years. Members should note that at the time of publication the 2021/22 accounts were still subject to external audit.

6.6 The DLUHC do not specify any indices for the HRA – they are given in the tables that follow where appropriate to do so using locally derived indicators.

Balance Sheet position - strong

6.7 The balance sheet provides a "snapshot" of the council's financial position at a specific point in time showing what it owns and owes. The council currently has a strong balance sheet position and has total long-term assets valued at £1.2bn, most of which are land and property assets including the council's HRA housing. The Councils usable Reserves totals £168M

6.8 As at 31 March 2022, the council had external borrowing of £264m (£213m long-term, £52.04m short-term) which is 22% of the value of the council's assets. In addition, the council had borrowed £58m internally from its own cash holdings to temporarily fund capital expenditure and investments. The total long-term indebtedness of the council at the end of last financial year was therefore £322m (this figure is known as the capital financing requirement (CFR)).

6.9 Long term investments (equity shares) as at the 31 March 2022 include a £3.4m shareholding in Norwich Regeneration Limited and £0.370m shareholding in Norwich City Services Ltd.

6.10 In the 2021/22 long term debtors, the amounts lent to third parties on commercial terms comprise a £6.150m loan to Norwich Regeneration Limited, £1.140m capital loan to Norwich City Services, a £0.500m working capital loan to Norwich City Services Ltd and a £0.104m loan to Norwich Preservation Trust. The council also makes "soft" loans (on non-commercial terms) to others, for example home improvement loans to residents. Only the lending undertaken on commercial terms needs to be considered as part of the requirements arising from the revised Investment Code.

Forecast Balance Sheet position

6.11 The council's budget proposals contained within this budget report will result in a growing balance sheet both in terms of the long-term assets that will be held by the council (in particular social housing and long-term debtors) as well as its long-term liabilities (its capital financing requirement or underlying need to borrow).

Core Funds and Expected Investment Balances

6.12 The application of resources (reserves, capital receipts etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances. The large increase in expected balances in 2022/23 reflects the capital receipts from the sale of assets during the year to date.

Table 6.1 **Core Funds and Expected Investment Balances**

	2021/22 Actual £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
General Fund Reserve	-10,336	-8,236	-8,236	-8,236	-8,236	-8,236	-8,236
GF Earmarked Reserves	-29,849	-14,591	-13,994	-13,994	-13,994	-13,994	-13,994
HRA Reserve	-51,373	-47,164	-45,954	-45,889	-7,095	-7,298	-6,495
HRA Earmarked Reserve	-848	-1,679	-1,609	-1,609	-1,609	-1,609	-1,609
Capital Receipts Reserve	-64,353	-67,904	-64,127	-63,765	-74,990	-82,502	-69,446
Major Repairs Reserve	-7,281	-4,314	-4,037	-5,582	-7,369	-9,462	-9,462
Capital Grants Unapplied	-4,249	-2,774	-1,210	230	230	230	230
Total Core Funds	**-168,289**	**-146,662**	**-139,167**	**-138,845**	**-113,063**	**-122,871**	**-109,013**
Expected Investment Balances	**164,525**	**186,000**	**139,000**	**138,000**	**113,000**	**122,000**	**109,000**

Financing Costs

6.13 The Council's Capital expenditure plans should be considered alongside the cost of past borrowing, maintenance requirements and planned disposals.

The authority's MRP or loans fund repayment policy will also have a critical impact on the overall affordability of new borrowing. Capital Financing costs are shown as a % net revenue stream (taxation and non-specific grant income excluding capital grants, contributions and donated assets).

Table 6.2 Capital Financing costs are shown as a % net revenue stream

	2021/22 Actual £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
General Fund	9%	13%	8%	7%	7%	7%	7%
Housing Revenue Account	12%	11%	9%	8%	8%	8%	7%

The Council's non-financial (commercial) investments

Commercial income to Net Revenue Stream

6.14 This ratio shows the general fund's dependence on commercial income to deliver core general fund services. The ratio is shown as a % against net revenue stream (taxation and non-specific grant income excluding capital grants, contributions and donated assets).

Table 6.3: Net commercial income to Net Revenue Stream

	2021/22 Actual £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Commercial Property Income	-7,203	-6,423	-6,041	-6,212	-6,212	-6,212	-6,212
Commercial Property Expenditure	3,397	2,623	2,432	2,461	2,466	2,472	2,477
MRP	789	809	783	802	823	844	865
Airport Industrial Net Income	-283	-44	0	0	0	0	0
Net Commercial Property Income	**-3,300**	**-3,035**	**-2,826**	**-2,949**	**-2,923**	**-2,896**	**-2,870**
Lending interest income	-418	-454	-479	-625	-625	-625	-625
Assumed lending cost	187	202	216	280	280	280	280
Net 3rd Party Lending Income	**-231**	**-252**	**-263**	**-345**	**-345**	**-345**	**-345**
Net Commercial Income	**-3,531**	**-3,287**	**-3,089**	**-3,294**	**-3,268**	**-3,241**	**-3,215**
Net Revenue Stream	**-21,416**	**-22,184**	**-22,552**	**-23,191**	**-23,691**	**-24,217**	**-24,773**
Net Commercial Income as a % of Net Revenue Stream	**16%**	**15%**	**14%**	**14%**	**14%**	**13%**	**13%**

6.15 For 2023/24 onwards the net and gross income from Commercial property shown in table 6.3 are based on the proposed budget assumptions. For 2022/23 the assumed income from the Norwich Airport Industrial Estate has been reduced based on the decision by Cabinet in July 2021 to dispose of the site and its assumed sales during the financial year. Income from the council's car parks is not included in this analysis as the primary reason for owning and managing them is not solely for-profit making purposes.