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People and Communities

11 January 2022

Appendix A

**Report of Town Clerk**

**Budget Proposals**

**Access Public**

**Background**

1. A draft budget was discussed at the last meeting of council, at which officers were directed to prepare the budget on the basis of the creation of the new Town Wardens Service, the replacement of the Spittal Play Park via borrowing from the Public Works Loan Board (PWLB), and the creation of a consultation hub in the Town Centre to replace the existing offices.
2. All of these issues had been discussed previously at committee and council level, and a schedule of those discussions will be prepared for council's budget setting meeting at the end of January.
3. In accepting the draft budget council accepted the principle of an increase in the precept requirement of approximately 2.95%, made up of an increase in the household charge of 2% allied to an increase in the tax base amounting to the equivalent of a 0.95% increase in the total income.
4. Calculating the precept involves considering both expenditure, detailed in the budget, and income. It is essential that we draw to the attention of elected members that significant portions of activity, including costs of the renovation of bus shelters and public realm items are to be funded in 2022-23 from reserves, on the basis that in future years the cost of contractors to do this work will be greatly reduced by the new Town Wardens undertaking a considerable portion of this work. This represents a considerable restructuring of the way in which services are delivered, and it is appropriate in year one of such a restructure to have reserves to enable contingencies to be addressed.
5. As in previous years the calculation of the precept has been carried out, on the advice of the External Auditor, on the basis that it should include all the council's income, including the monies received as of right from the Freemen of Berwick, and that the council's budget and Medium-Term Financial Plan [MTFP] should include an estimate for the income from the Freemen calculated on the basis of the recent trend for receipts.
6. There is no precedent from the local council sector for estimating what the income from the Freeman Trust might be and council have previously decided to utilise a 5-year average.
7. For the first time in recent years the Schedule III Surplus has undershot its predicted level, producing a deficit on income in 2021-22, and a lower estimate of the likely level in 2022-23 and subsequent years.

8. Officers take no pleasure in reporting to council that this has occurred, and feel duty bound to point out that the process by which council is represented on the Freemen Trust, and the way in which the surplus is calculated, can be described as opaque and unaccountable. The Freemen say, on their own website:

'If the new Town Council and the Guild work harmoniously together there is a lot to be gained for the town from both Council and Guild.

For the freemen the message is very clear. They must ensure that their traditions are maintained and ensure knowledge is passed on to be able to face any challenge in the future.

For the Council the message is equally clear. When the Trust works together assets and income will rise. With conflict assets and income will be lost and then will be less finance available for the town.'
9. The problem for the Responsible Financial Officer (RFO) is that they are required, by Financial Regulations and best practice, to secure income to which the council is entitled, and to ensure the most prudent management of assets. It is impossible to perform this duty without adequate information about the management of the Schedule III estate, which is a more complex set of assets than the landholdings described in the history of the Freemen on their website.
10. In recent years the Freemen appear to have moved a substantial proportion of the estate away from real property and into investments in shares and tradeable instruments, making the likely level of income more volatile. Conversations in the last year have raised two issues:
  - a. How the Trustees decide on their investment policy, and the strategy that informs those decisions, and
  - b. How, on the disposal of assets (such as the sale of land for development) the trustees apportion the proceeds of disposal to profit, and to re-investment.
11. The RFO's strategy has always been that the avoidance of conflict between the parties to the Trust is both prudent (from a financial sense) and desirable, in terms of building a strong social bond between the parties, including a shared vision of what is best for the Town, but that strategy should be tested if, as at present, the likely outcome of the management of the Schedule III estate may be changing.
12. The RFO would, therefore, seek council's guidance as to whether the current process for estimating income should be informed by a clearer understanding of both the investment strategy and accountancy undertaken by the Trust.

## Budget

13. The draft budget spreadsheet separately circulated with these papers is based on detailed examination of costs in the current year and addition of new initiatives identified and discussed since then. The relevant slides produced for the council briefing are attached to this report.
14. The figures for staffing costs on a year-on-year basis have been adjusted on the basis of a predicted staff pay rise of no more than 2%. As we have previously pointed out, council has no control over the Local Government Pay Settlement, nor when it takes place.
15. The impact of changes to fuel costs, amongst other things, may not become apparent until we are within the budget year, and this reinforces the need for provision for reserves.

## **Staffing Costs**

16. Officers have raised with committee and council on a number of occasions their concerns that the existing employment relationships structure is not tenable. Broadly speaking, council is tied, contractually, to award to staff the agreed pay rises that emerge via the local government joint negotiations structure, in which the local council sector is not represented.
17. The Town Clerk has discussed this issue with members of the SLCC and with individuals involved in NALC.
  - a. Our view is that, as the employers body, Northumberland ALC should be doing more to provide councillors and council with advice on how they should prepare for the outcome of pay negotiations and any issues arising from them.
  - b. Officers advice remains that council should consider asking the Budget and Administration Committee to consider whether it is in council's interest to opt out from the national agreement for pay, terms and conditions. Officers cannot advise on this easily, as we are directly affected by any such decision, but it is clear to us that the current system, with interminable delays to settlements made worse by the threat of industrial disputes by staff with whom we have no direct connection, allied to a complex and hard to apply system of job evaluation makes no sense.  
In a similar vein, officers advice is that council should consider whether, if external advice can be obtained from another source, membership of NALC is either necessary or desirable.

## **Precept**

18. Officers have adopted as an approach to this budget the principles:
  - a. That the budget should be balanced,
  - b. That the household charge should not increase unnecessarily beyond the rate of cost inflation, and
  - c. That the precept requirement should not increase unnecessarily except where required by inflation or enabled by changes to the tax base.
19. In some cases, this will involve using funding from allocated reserves where the project in question may not proceed to pay for one off costs (such as the maintenance backlog on bus shelters).

## **Recommendations**

1. That committee considers the draft budget and provides guidance to staff,
2. That committee considers whether to recommend that council make the appropriate statutory resolution to enable borrowing to be undertaken from the PWLB, and
3. That committee instruct the Town Clerk to undertake consultation on the specific proposals for borrowing from the PWLB.

Author	GD	Town Clerk sign off (if required)	GD
Checked by	SC	Finance Officer sign off (if required)	RPL