



Report of Responsible Financial Officer (RFO)

Budget Proposals

Access Public

Background

1. Budget proposals are the result of an iterative process incorporating Council decisions, as well as other changes that have an impact on Council expenditure. The current proposals have been considered previously by meetings of Council, the Budget and Administration Committee, and the People and Communities Committee. As a result of these meetings 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. (See attached Schedule of budget discussions and meetings).
2. A draft Medium-Term Financial Plan (MTFP) has been considered, and officers have considered the need to undertake new and further risk assessments as a result of:
 - a. Changes to the predicted average income from the Schedule III payment,
 - b. Changes to the range of services offered and delivered by council,
 - c. The impact of the Covid-19 pandemic, and
 - d. The need to replace Spittal Play Park and the proposal to borrow part of the cost of that work.
3. In order to meet Northumberland County Council's (NCC) timescales for preparing Council Tax bills, and so collecting the precept, Council:
 - a. Resolve to set a budget at this meeting,
 - b. Resolve to apply to the Secretary of State for authorisation to borrow money, and
 - c. Resolve to authorise the Town Clerk to notify the precept requirement to NCC.
4. Calculating the precept involves considering both expenditure, detailed in the budget, and income. As in previous years this calculation 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 MTFP should include an estimate for the income from the Freemen calculated on the basis of the recent trend for receipts.
5. 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.

6. In previous years this estimate of the income from the Schedule III surplus has proved to be inherently conservative, as low values from earlier years balance out higher figures more recently. This had the result of producing a surplus available for deployment elsewhere, such as funding capital projects or allowing a lower precept to be set.
7. In 2021-22 officers predicted that there was a real risk that the budgeted sum of income from Schedule III could be more than the actual outturn. This has been the case in 2021-22, where the budgeted sum was £171,132, as against an outturn of £150,261, leaving a shortfall of £20,871.
8. Nevertheless, because of the higher sums returned in previous years, the predicted income from Schedule III for 2022-23 is £174,042; this is some 10% higher than the actual sum received in 2021-22, and does not take account of the lack of clarity as to why the reduction in 2021-22 was so great, an issue highlighted to the People and Communities Committee in January 2022.
9. There has been a need to make provision for a fluctuation in this income in previous years; the experience of this year suggests that it may be prudent in future years to make a provision by way of a dedicated reserve; this would prevent the risk of an exceptional underperformance forcing council to raise the precept.

Costs

10. 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 previous council briefing are attached to this report.
11. Since that briefing officers have been able, considering feedback from councillors, to prepare a schedule of movements on reserves predicted for this year and next year, and which demonstrates:
 - a. The affordability of key programmes such as relocation, the Town Wardens scheme and the refurbishment of Spittal Play Park, and
 - b. That it is appropriate to borrow 80% of the cost of the procurement of the Play Park, since reserves will, at the end of 2022-23, be comprised of provisions made for specific purposes and to mitigate risks.

As a result of this, staff have included within costs for next years provisions, itemised on the schedule of movements on reserves, predicted costs such as machinery replacement.

12. The figures for staffing costs on a year-on-year basis have been adjusted on the basis of a predicted staff pay rise of 1.75% and the previously announced increase in National Insurance. As we have previously pointed out, council has no control over the Local Government Pay Settlement, nor when it takes place. Nevertheless this seems reasonable, and is congruent with the current position.
13. 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. However, these are matters which are unpredictable and should therefore be provided for from operational reserves.

Budget

14. Uncertainty as to the impact of inflation, reflecting the general economic climate, has not been easy to accommodate. External cost pressures may result in overspends in 2021-22, but it is the RFOs view that reserves are sufficient, and that in the absence of clear estimates of changes an attempt to make provision would verge on speculation.
15. The overall budget envelope shows an increase in recurring expenditure (that is, expenditure not provided for from reserves for exceptional items) of £27,227.
16. This increase mirrors almost exactly the increase in the cost of providing council services of £26,003. Council chose in 2020-21 to take a saving in financial year 2021-22 by leaving a post that was to become vacant unfilled; this budget reflects the view of council, after the 2021 elections, that further capacity to undertake administrative tasks will be required.

Precept

17. NCC have been able to give us a clear indication of the likely tax base and other supporting information, and this has allowed for a clear calculation of the impact of any changes to the precept requirement to be made.
18. In 2021-22 the net result of changes to the tax base (a reduction in the number of households of 49) was a reduction in total precept income at the same level of charge to £261,840 from £265,656 for that year. Changes to the tax base for 2022-23 amount to an increase in the precept income, for the same level of council tax charge, or 0.95%.
19. We would flag up to council an ongoing concern that the collection rate is impacted by county wide economic conditions, and the tax base by local economic conditions, and that as a result there may be further impacts on the tax base in future years which help to explain, in part, the RFOs view that robust management of reserves will continue to be an essential part of financial planning. In particular, we would flag up the impact on council's income of the withdrawal of housing from the council tax base by its re-designation as a small business holiday let; we understand government may be considering changes intended to minimise this tax loophole, but we would argue strongly that any compensating taxation needs to include a proportion hypothecated to the relevant parish and town councils.

Accounting Impact of use of reserves and in year borrowing

20. It is anticipated that reserves will be used as council transforms its services and moves into new accommodation. The attached schedule of movements on reserves provides a statement of the expected position. A revised MTFP will be prepared in February 2022, along with a revised risk appraisal.

Recommendations

1. That council resolves to use the figure of £174,042 as the budgeted Schedule III figure to which the council is likely to be entitled in 2022-23,
2. That council adopts the draft budget, as attached,
3. That council sets a precept requirement of £269,581, leading to a household charge for a Band D property of £78.62 per annum,

4. That council authorises the Town Clerk / RFO to sign the requisite form notifying NCC of the precept requirement, and
5. That Council resolves to apply to the Secretary of State at the Department for Levelling Up, Homes and Communities for approval to borrow, from the PWLB, the sum of £200,000, on an equal instalments of principal basis, over 15 years, for the purpose of renovating Spittal Play Park.

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