

BARNSELY METROPOLITAN BOROUGH COUNCIL

**LOCAL GOVERNMENT ACT 2003, SECTION 25 REPORT ON THE
2020/2021 BUDGET PROPOSALS**

1. **Purpose of the Report**

- 1.1 To provide, in accordance with the requirements of Section 25 of the Local Government Act 2003, advice from the Authority's Chief Finance Officer (CFO) on aspects of the 2020/21 budget proposals.

2. **Background**

- 2.1 Part 2 of the Local Government Act 2003 contains a series of duties and powers that give statutory support to aspects of good financial management within local government.
- 2.2 Section 25 requires the CFO to report to an Authority, when it is making its decision on determining the council tax, providing advice on the following issues:
- The robustness of the estimates included in the budget; and
 - The adequacy of the reserves the budget will provide.
- 2.3 The CIPFA Prudential Code also requires consideration to be given to the affordability and prudence of future capital investment - given its impact on the revenue budget.
- 2.4 CIPFA's Financial Management Code also highlights the importance of the budget setting framework which operates within local authorities and the legal requirements under which this sits.

3. **Advice of the Chief Finance Officer**

- 3.1 This report is based on the Budget Recommendations (separately attached).

Robustness of the Estimates

- 3.2 As Members are aware, the setting of the 2020/21 Revenue and Capital budgets are part of the Council's Medium Term Financial Strategy that forms the framework for the budget for the period 2020-2023.
- 3.3 The Council's financial strategy has sought to clearly identify the risks associated with the budget so that properly informed and prioritised decisions are made. This is particularly relevant given the outcome of the recent election, the continuing uncertainty around certain aspects of the UK's exit from the EU and the impact this may ultimately have on local government finance.

- 3.4 Specifically, the Government has not yet indicated what resources local government is likely to receive beyond 2020/21. Whilst the Government announced a one year settlement in September, it has not outlined its long term spending plans as it originally intended, mainly because of Brexit and the subsequent December election. The Government's Comprehensive Spending Review is not now scheduled until late in 2020 and there are also delays to the Government's other intended reforms such as Fair Funding and the move to 75% Business Rate Retention. This general uncertainty makes it very difficult to assess the Council's future funding position beyond 2020/21 and this is identified as a key risk facing the Council moving forwards.
- 3.5 Moreover, there are other financial risks facing the Council that Members need to be aware of and, where necessary, provide for. One specific risk relates to the way the Council receives the majority of its income under the Business Rate Retention (BRR) model. Whereas previously, our funding used to be largely grant dependent, it is now much more localised and thereby increasingly reliant upon the actual rate of collection. This means our primary sources of income (e.g. Business Rates, Council Tax) are subject to greater volatility than prior to the introduction of the BRR model which, in turn, makes financial planning and forecasting more difficult to predict.
- 3.6 My Section 25 report reflects this changing financial environment in addition to the specific proposals contained within the budget. In terms of the estimates which are included in the proposed 2020/21 budget, I would offer the following comments:

(i) ***Council Tax Income Assumptions***

The estimates for Council Tax Income are based on a collection rate of 95%. This remains at the same level as in previous years and takes into account proposed policy changes including the recently revised Local Council Tax Support scheme and ongoing issues surrounding Universal Credit. At this stage I have no reason to believe that this is not a robust assumption, although given the aforementioned policy changes, the position will need to be closely monitored during the course of the year.

(ii) ***Business Rates Income Assumptions***

Under the current Business Rate Retention scheme, Barnsley retains 49% of the total income collected. As previously mentioned, there is the potential for volatility around this income source in relation to the impact of the UK's exit from the EU on the level of businesses in the Borough and in respect of any appeals that are already within the 'system' that fall on the Council to fund. At this stage the expected income of £23.6M from retained business rates included within the budget is, I believe, based on prudent assumptions although again the position will need to be closely monitored during the course of the year.

(iii) ***Pay Inflation Assumptions***

A provision for a pay award equating to a 2% increase has been included in the 2020/21 budget and the forecast for 2021-2023. The Trade Unions made an initial pay claim in July 2019 although the negotiations have stalled due to the recent election. As the pay claim is outside of the sums provided for within the budget, further consideration may need to be given to this provision on conclusion of the national pay claim negotiations.

A provision has also been made in relation to the potential impact of the increase in the National Living Wage on external contracts. The full impact will need to be monitored and managed during the year.

(iv) ***Interest Rate Assumptions***

A prudent view of interest rates has been taken in constructing estimates for interest charges in 2020/21 and future years. Whilst these estimates are currently considered to be adequate and take on board advice/forecasts from our treasury advisors, there is the potential for considerable volatility in relation to interest rates. This is due to the current economic uncertainty as a consequence of the ongoing EU exit negotiations but also reflects the recent unexpected 1% rise in PWLB rates. As such, interest rates will need to be closely monitored throughout the year and regular updates will be submitted into the Council's Treasury Management Panel and Cabinet, to ensure timely action is taken to optimise the Authority's position.

(v) ***Service/ Demand Pressures***

Both the budget for 2020/21 and the forecast for 2021-2023 contain some significant increases in expenditure that result from increasing demand for Council services. Changes in demand / demographics are already particularly acute in adult and children's services and create significant financial pressures. It is highly likely that our financial position may also be impacted by the promised Government review of social care, when this is eventually concluded. Moreover, similar impacts are being felt across other services, such as waste and home to school transport. Whilst these have been quantified as far as is possible, the nature of the services means that demand can be difficult to predict. I have no reason to believe that the current assumptions are not robust but it is vital that these areas are monitored closely during the year so that any action required can be taken in a timely manner.

Adequacy of Reserves

3.7 **Section 2c** of the 2020/21 Budget Proposals set out the Council's position in relation to the current level of provisions, reserves and balances available to the Authority.

- 3.8 As indicated in that paper, the current Minimum Working Balance held by the Authority remains at £15M as agreed last year. I consider that this level remains prudent.
- 3.9 As part of the 2019/20 budget proposals, I recommended that a further contingent reserve be set up to assist the Council in preparing for 'Brexit' and its potential impact on the Council's major economic regeneration schemes such as the Glassworks. As Brexit remains unresolved at the time of writing this report and significant uncertainty prevails, it is recommended that this contingent reserve is retained for 2020/21.
- 3.10 The review of the Council's reserves has also included an assessment of its earmarked reserves / provisions to ensure their continued validity and make additional earmarking's where appropriate. I consider the current levels to be adequate subject to my comment at paragraph 3.12 below.
- 3.11 The 2020/21 one-year settlement has enabled the release of additional resources to be used on the Council's strategic priorities. I recommend that this additional resource is treated as one off pending the full 3 year spending review which is expected to be announced in Autumn 2020.
- 3.12 It should also be noted that not all resources have yet been received and need to be 'banked' before being committed to future investments. I will ensure that this position is reviewed and reported through future monitoring reports. In addition, I also consider it appropriate and necessary to continually monitor reserve levels in the light of the changing circumstances facing the Council and as such, a further detailed review will be carried out as an integral part of the 2019/20 accounts closure.

Prudence and Affordability

- 3.13 The current Prudential Borrowing regime places a duty on the CFO to ensure that the financial impact of decisions to incur additional borrowing over and above that supported by Government, are affordable both in the immediate future and over the longer term.
- 3.14 Consideration of the revenue impact of all new capital schemes is therefore undertaken alongside other operational service issues to ensure that resources are allocated in accordance with the Authority's overall priorities and within the overall resources available.
- 3.15 The 2020/21 budget includes provision for £5.0M of prudential borrowing which has already been earmarked to support the Glassworks redevelopment. My advice is that due to the significant borrowing necessary to complete the scheme, that only prudent and modest additional borrowing be considered for the remainder of the planning period, in order that the Council can effectively manage its risk exposure over the life of the MTFs.

Financial Resilience and Sustainability

- 3.16 CIPFA has recently published their Financial Resilience assessment of the Council based on the 2018/19 financial year.
- 3.17 Following a detailed review of the results combined with the other internal governance and financial control measures in place, I conclude that the Council is on a sound financial footing and has sufficient resilience in place to ensure a sustainable financial position.
- 3.18 However, the assessment does highlight that the Council has high levels of debt compared to its statistical neighbours. Whilst these levels have been agreed on a prudent, affordable and sustainable basis, this overall position underpins my advice to limit additional significant borrowing over the planning period until such a time as the risks associated with the Glassworks scheme have been appropriately mitigated.

Medium Term Financial Strategy (MTFS) and Budget Reduction Measures

- 3.19 A balanced 2020/21 budget can be delivered through the agreement of the proposals within the budget papers. However, this view is contingent upon the additional matters identified at paragraph 3.6 above and paragraphs 3.20 to 3.23 below.
- 3.20 The draft budget for 2020/21 is again based upon a significant volume of budget reduction measures and there needs to be a strong and sustained focus on ensuring the timely and comprehensive implementation of these measures. This equally applies to the budget reduction measures proposed to deliver a balanced budget in 2021/22.
- 3.21 In addition and as mentioned at paragraph 3.4, there remains considerable uncertainty around the overall level of resources available to local authorities beyond 2020/21.
- 3.22 Although we have taken a prudent approach in relation to our medium term financial strategy and provided for known pressures over the planning period, any additional pressures will need to be considered as part of future budget processes. Members therefore need to be mindful that if these pressures cannot be contained, then the current balanced position (identified within the current MTFS paper at **Section 2**) is likely to deteriorate and necessitate an urgent review of both our MTFS and Reserves Strategy respectively.
- 3.23 The Council has a strong financial planning and control framework in place to deliver a balanced position both in 2020/21 and over the medium term. This has been evidenced through the Corporate Peer Review in May 2019 that concluded that the Council has a 'strong financial grip on both its expenditure and performance' and 'benefits from early forward thinking and planning'. As mentioned above, I have also reviewed the Council's position against CIPFA's Financial Resilience Index and can conclude that, in my opinion, the Council is a financially resilient authority. Furthermore I will be undertaking an assessment

against CIPFA's Financial Management Code during 2020/21 and will report back my findings on this in due course.

4. **Budget Recommendations**

- 4.1 As indicated in the 3 year forecast at **Section 2a (Appendix 1)** and based on the Budget Recommendations, a balanced budget will be set for 2020/21.
- 4.2 This would see the Minimum Working Balance being maintained at £15.0M and a further £16.8M set aside as a contingency in light of the economic and political uncertainty facing local government. This position also allows for new General Fund investment of £19.4M (**Sections 5 and 7 refer**).
- 4.3 The proposals identified within the budget papers also provide the foundation around which Barnsley's 2030 Plan can be developed whilst also providing the framework to deliver and a balanced position achieved for 2021/22 (in addition to 2020/21) based on current assumptions.
- 4.4 However, it is evident that these assumptions could change and therefore further action may be needed to ensure that the plan not only delivers a balanced position in 2020/21 but remains on track to deliver a balanced position over the full planning period.
- 4.5 **In summarising my advice, I would stress that the robustness of the estimates and adequacy of the reserves which the budget will provide are satisfactory. However, this is contingent upon the requirements outlined at paragraphs 3.19 – 3.23 and reiterated at paragraph 4.4 above being delivered.**

N Copley CPFA
Service Director Finance and S151 Officer