

9. APPENDIX C

REPORT UNDER SECTION 25 OF LOCAL GOVERNMENT ACT 2003

(To be read in conjunction with the Council Budget Report – 26 February 2020)

1. Purpose:

- 1.1 The purpose of this report is to provide Members with information on the robustness of the Councils budget estimates and the adequacy of reserves so that Members have appropriate advice available when they take their budget and Council Tax decisions.
- 1.2 The commentary is different to that in previous years owing to the current situation of local government reorganisation in the County. The Northamptonshire Structural Changes Order 2019 (SCO) – which sets out how the two new unitary authorities will be formed to replace the existing eight councils on 1 April 2021 – was laid before Parliament on 28th October 2019. The SCO has now completed its approval journey through Parliament and came into effect on 14th February.
- 1.3 All the principle local authorities in the county still have to set their individual budgets for 2020/21 this being their final year of their existence. Clearly, members of all local authorities in the county need to be aware of this major impending decision when considering their council's budget, however it doesn't alter their statutory duties when setting the 2020/21 budgets.
- 1.4 It is important to remind members that at the time of considering the draft budget proposals contained within the budget report, members of this council must take into account the financial projections for 2020/21 (and the subsequent medium-term projections) when making budget decisions. As such, full regard should be given to the financial estimates, pressures, business and funding risks into the medium term

2. Background:

- 2.1 Section 25 of the Local Government Act 2003 requires that an authority's statutory finance officer reports to the authority when it is considering its budget estimates and council tax levels. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals.

3. Robustness of Estimates

- 3.1 The Council has a well established and robust budget processes that comply with statutory and best guidance requirements. These have been followed when compiling the 2020/21 budget and medium-term projections.
- 3.2 The financial 'golden rules' and financial 'guiding principles' are supplemented by the Councils 'Budget Delivery Framework' – a set of workstreams that have successfully delivered ongoing efficiency savings to help ensure that the Council continues to achieve a balanced budget. These continue to be focused upon 'adding value' and generating additional income more than concentrating on reducing inputs.
- 3.3 The Council as in previous years have fully identified where the required 'savings' will come from – however there are a number of significant consultations that could see further changes in National Policy such as the Fair Funding Formula Review and the move to 75% Business Rates Retention. Whilst these will not be an issue for this Council they will be a key issue for the new Unitary Council - both of which may have adversely impact the Unitary Council's budget in the medium term.

- 3.4 The assumptions used in the estimates and the risks outlined in Section 4.11 of the main report will need to be closely monitored as will the key risks summarised in the Swing-o-meter.
- 3.5 Whilst there are no changes to the operation of the New Homes Bonus (NHB) scheme in 2020/21 and Councils will continue to receive four years-worth of payments there are significant changes in 2021/22 where NHB will only be paid for 2 years and in 2022/23 NHB will only be paid for one year. The government clearly intends to consider alternative options for incentivising housing growth going forward and this could have a significant impact on the levels of income authorities receive.
- 3.6 Based on the assumptions applied to the Council's Medium Term Financial Strategy, in the years after 2020/21 the Council would have on average needed to deliver additional annual on-going savings in the region of £1,250,000 – this adds up to around £5m over the medium term which is on top of the £16m ongoing savings achieved since 2010. This would have been a very significant challenge – this will clearly become part of the financial challenges faced by the new unitary authority that will come into being from 1st April 2021.
- 3.7 The Council would have needed to ensure that progress was made on all elements of its budget delivery framework if a balanced budget were to be achievable into the medium term. This would have included generating additional income from commercial investments, council tax and fees and charges, as well as ensuring it keeps delivering services in an efficient manner. All of which will be key considerations for the Unitary Council from 2021/22.
- 3.8 The Council continues to focus on the medium term and influence what the medium term 'world' may look like – this is in accordance with the Councils guiding principles and is considered a good use of resources, as any small changes that take place at a national level can have significant financial implications for the Council's budget. The time taken to try and influence the shape of any new system(s) is an investment by the Council and is time well spent – this is especially true in relation to the Fair Funding Review and the Business Rates Retention Scheme – this approach could continue to be of a significant benefit to the Unitary Council going forward.

4. Adequacy of Reserves

- 4.1 There is no statutory requirement in relation to revenue reserves. Best practice guidance from CIPFA suggests that each local authority should consider their own local circumstances (and levels of associated risks) and take proper advice from its Officers.
- 4.2 Reserves can be held for two main purposes:
- ◆ A working balance to help cushion the impact of uneven cash flows and unexpected events or emergencies;
 - ◆ Earmarked reserves to build up funds to meet known or predicted requirements.
- 4.3 One of the Council's guiding principles is that *“Revenue balances should not fall below £1m and overall revenue reserves should not fall below 10% of net revenue expenditure”* – the Councils medium term financial projections comply with this provided that the required levels of ongoing efficiency savings are delivered in each year.
- 4.4 The Executive Committee have an established policy whereby any budget savings (over and above those required to set a balanced budget) will be used to supplement earmarked 'smoothing' reserves. These reserves have been created specifically to deal with the uncertainty that currently exist in the local government environment and to provide some additional flexibility to deal with the challenges that the Council is likely to face into the

future. This is a sensible policy to follow and recognises the potential scale of the financial risks – particularly the impending national changes such as the Fair Funding Formula which will look at what factors should initially drive the allocation of government core funding to each local authority – principally looking at factors which drive ‘need’. The 75% Business Rates Retention Scheme is due to be implemented from April 2021. When implementing the changes over the coming years, it would not be surprising if the recent trend of transferring risk from central to local government continues – this will need to be carefully mapped.

- 4.5 The potential ramifications of changes to the Business Rates Retention scheme, the Fair Funding Review and New Homes Bonus should not be understated – there have been very few (if any) major changes in funding mechanisms over recent years that have actually resulted in local authorities particularly Districts and Boroughs being better off financially in the medium term. It would be prudent to assume the same in relation to these three key funding streams.
- 4.6 Depending on how the Business Rates Retention scheme and the Fair Funding review is implemented, the Council in Northamptonshire could potentially lose a significant amount of funding it has received as a result of the business growth it has achieved in recent years. The transitional arrangements the Government implement will determine the scale and pace of change in moving to new funding levels which will be determined by the Fair Funding Review hence a significant smoothing reserve was a prudent and sensible course of action.
- 4.7 The Government’s announcement around the phasing out of NHB has been reflected in the Council’s Medium-Term Financial Strategy. A consultation is planned in spring 2020 around alternative incentives for delivering housing growth any further changes will be reflected in the Council’s (and the Unitary Councils) Medium-Term Financial Strategy when the landscape for housing incentives becomes clearer.
- 4.8 The prevailing market conditions during summer 2019 resulted in historical low levels of borrowing rates from the Public Works Loan Board (PWLB). The Council in accordance with the Treasury Management Strategy opted to externalise a significant amount of its internal debt meaning the reserves are predominately ‘cash backed’.
- 4.9 An integrated plan for Local Government Reform and Transformation in Northamptonshire titled ‘Prospectus for Change’ set out the projected costs which amount to around £44m. At Full Council at the end of August 2018, it was agreed that all eight local authorities in the County would initially contribute £500,000 each towards the cost of moving the unitary programme forward and each of the eight Council’s would be required to make a further contribution of up to £1.9m – meaning a total contribution of up to £2.4m. This Council’s contribution will be funded from the Organisational reserve (due to the one-off nature), it does not form part of the base revenue budget.

Mark Dickenson
Responsible Finance Officer
20th February 2020