

**Barrow Borough Council
Executive Committee
22 June 2022
Council Finances**

Report from: Director of Resources

Report Author: Director of Resources

Wards: None

1.0 Summary and Conclusions

- 1.1 This report contains several financial matters that are brought forward ahead of the normal quarterly financial monitoring.
- 1.2 The Council's electricity prices have been received and the gas prices are still awaited; the Minimum Revenue Provision is presented for a specific review; there are Business Rate write offs to approve; and the Local Government Reorganisation Section 24 Direction has been made with the Structural Changes Order.

2.0 Recommendations

2.1 It is recommended that the Executive Committee:-

- 1. Approve the use of financial reserves to supplement the electricity budget within the General Fund for 2022-2023;**
- 2. Note that the Medium Term Financial Plan shall be updated to reflect the increased energy costs;**
- 3. Consider the appropriateness of the Council's MRP Policy;**
- 4. Approve the write off of the Business Rate arrears noted that resulted from bankruptcy;**
- 5. Note the provisions and requirements of the Section 24 Direction and General Consent as attached to this report.**

3.0 Background and Proposals

- 3.1 There are a number of matters concerning the Council's finances contained in this report; this is not a budget monitoring report, those will follow the normal quarterly timing.

3.2 Energy prices

3.2.1 The General Fund budget was approved on 24 February 2022 and contained energy pricing assumptions at:

- Electricity 38% budget increase
- Gas 55% budget increase

3.2.2 The Council purchases energy through Cumbria County Council to benefit from the bigger buying power; the County Council purchase through a framework to enlarge the buying power.

3.2.3 The electricity pricing is now confirmed and is significantly higher than the budget assumption. The 2022-2023 budget is therefore underestimated and the budget shortfall for 2022-2023 must be drawn from reserves at an estimated £148,000.

3.2.4 The gas budget for 2022-2023 will be reviewed once those prices are confirmed.

3.2.5 It is expected that energy prices will fall from April 2023, but there is no projection at present.

3.2.6 The budget pressure will be reflected in the Medium Term Financial Plan which is already projecting a deficit.

3.3 Minimum Revenue Provision

3.3.1 The Audit Findings Report for the 2020-2021 financial statements included a comment regarding the Council's Minimum Revenue Provision (MRP) and recommended that the Council review its MRP policy. The MRP is the charge against the budget which represents the service derived from capital assets, where there has not previously been a charge to revenue.

3.3.2 The MRP Policy is agreed annually as part of the Treasury Management Strategy and consists of two elements:

- For capital expenditure incurred before 1 April 2008 ("historic"), the MRP charge in relation to capital expenditure incurred prior to 1 April 2008 where the expenditure was funded by either supported or unsupported borrowing is 1/50th of the balance remaining at the 31 March 2016.
- From 1 April 2008 for all unsupported borrowing the MRP is based on the estimated life of the assets.

3.3.3 These options provide for a reduction in the borrowing need over approximately the asset's life.

3.3.4 The historic element of MRP is £341,898 per annum, to discharge the historic capital financing requirement as set in 2016 following a review of the options

available to establish a prudent MRP that recognises the consumption/use of the assets:

- A fair and prudent way of matching the MRP charge to Council Taxpayers with the use of the assets is to limit the repayment period to 50 years, this being an approximation of the average life for the Council's assets. In addition, it would seem fair that future Council Taxpayers pay an amount for the use of assets comparable in real terms to that being paid by current Council Taxpayers.

3.3.5 The MRP for 2021-2022 was 4% of the General Fund capital financing requirement.

3.3.6 Members are asked to consider the continued suitability of the MRP policy based upon:

- the useful economic life of the Council's assets has not significantly changed;
- the use of the Council's assets in delivering services has not significantly changed;
- the MRP charge must be prudent – affordable; and
- the 1 April 2008 split has been applied as there was no requirement to relate borrowing to assets before that time.

3.4 Write off

3.4.1 Recovery action against a company that became bankrupt in 2017-2018 is exhausted and £124,912.28 of Business Rate arrears must be written off; the arrears relate to four hereditaments.

3.4.2 The arrears are provided for within the bad debt provision for Business Rates and are attributed in the precepting shares of:

- 50% DLUHC £62,456
- 10% Cumbria County Council £12,491
- 40% Barrow Borough Council £49,965.28

3.4.3 The value of the write off exceeds the delegation to officers and requires the approval of the Executive Committee.

3.5 Section 24 Direction

3.5.1 As part of the Local Government Reorganisation process, the Secretary of State has issued a Section 24 Direction.

3.5.2 The Direction will restrict the District Councils and the County Council from entering into revenue contracts and disposals of land over £100,000 or "capital contracts" exceeding £1m (or where the term for payment of such contracts is variable) without the consent of the Executive (Cabinet) of the Shadow Authority.

- 3.5.3 The Direction also gives the Executive (Cabinet) of the Shadow Authority oversight of significant contracts and projects that will have an impact on their financial situation.
- 3.5.4 The sanctions for not complying with the Direction and consent regime are severe. Any contracts entered into by an authority without the required consent will be legally unenforceable by, or against, the authority in question and its successor new unitary council, and any transfer or acquisition relating to land will be void.
- 3.5.5 It is essential that all the affected local authorities (which are subject to this direction) are able to continue delivering high quality services to the public and run their day-to-day business in the period prior to 1 April 2023. Therefore, it has been acknowledged that a General Consent would be helpful to the continued delivery of services to the public in this period.
- 3.5.6 The Secretary of State's Direction will come into force on 30 June and the principles behind the General Consent were formally considered by the Westmorland and Furness Shadow Cabinet on the 10 June 2022.
- 3.5.7 The General Consent which was approved is set out at **Appendix 1** and establishes an asset disposal value of £1m and a contract value of £2m, subject to various conditions.
- 3.5.8 Specific consent has been granted for these contracts:
- Town Deal - grant funding agreements:
 - University of Cumbria for Barrow Learning Quarter
 - Cumbria County Council for Local Cycling and Walking Infrastructure
 - Cumbria County Council for Community Wellbeing Hubs
 - Levelling Up Fund – Public Realm works contract
 - Town Deal - Housing Market Renewal works contract
- 3.5.9 The implications section of the committee report template shall indicate where the General Consent or Section 24 Direction are relevant, and matters must be referred to the Shadow Authority.

4.0 Consultation

- 4.1 Consultation is not relevant to the recommendations.

5.0 Alternative Options

- 5.1 There are no alternative options to set out other than approval or rejection of the matters noted, apart from the Section 24 Direction and General Consent that is presented for noting.

6.0 Contribution to Council Plan Priorities

6.1 The recommendations primarily concern the Council's financial resilience which underpins the Council's operations, strategies and Council Plan.

7.0 Implications

Financial, Resources and Procurement

7.1 The body of the report contains the financial implications including the use of financial reserves and the existing bad debt provision.

Legal

7.2 It is a statutory requirement to set the Council's budgets, a balanced budget, and the Council Tax for the following financial year.

Local Government Reorganisation

7.3 The report provides an update with regards to the s.24 Direction and General Consent arising from local government reorganisation for Cumbria.

Equality and Diversity

7.4 Have you completed an Equality Impact Analysis? No, the recommendations have no direct Equality and Diversity implications.

Risk

Risk	Consequence	Controls required
Budget assumptions are insufficient.	Budget shortfall.	Best estimates are used and are supported by financial reserves.
Risk	Consequence	Controls required
Core expenditure is beyond the budget proposed or income is lower than expected.	Budget shortfall.	Financial monitoring and budgetary control.
Risk	Consequence	Controls required
Unplanned or unexpected expenditure pressures.	Funding shortfall and moratorium.	Financial planning and accountability.

Contact Officers

Director of Resources directorsadmin@barrowbc.gov.uk

Appendices Attached to this Report

Appendix No.	Name of Appendix
1	Spending Protocol and General Consent: Westmorland and Furness Council