Annex A

Commentary of the Responsible Financial Officer

REPORT UNDER SECTION 25 OF LOCAL GOVERNMENT ACT 2003
(To be read in conjunction with the Council Budget Report and Annex B)

Purpose

Section 25 of the Local Government Act 2003 requires that when considering the financial plans for the year ahead, the Council's Responsible Finance Officer reports to the Authority on the robustness of the budget and the adequacy of the reserves so that Members have authoritative advice available to them when making their budget and Council Tax decisions.

Background

Councils decide each year how much council tax they need to raise. The decision is based upon a budget that sets out estimates of what they plan to spend on each of their services.

The decision on the level of Council Tax is taken before the year begins and cannot be changed once set. It follows that an allowance for risks and uncertainties must be made by:-

- making prudent allowance in the budget for each of the services, and in addition;
- ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.

Robustness of Estimates

I am content that the Council has followed a comprehensive and detailed budget process when preparing the budget for 2023/24 which complies with both statutory requirements and best practice principles.

This year's budget continues to have challenges. The legacy of Covid remains exacerbated by the impact of the Russian-Ukraine conflict and the significant impact on inflation. There are rising employment costs linked to a combination of recruiting and retaining staff and implementing national pay agreements such as the National Living Wage. Energy and fuel costs have been at record high levels and in the case of energy costs forecast to remain so at least in the short term. Rising interest rates have benefitted the Council with greater investment income returns and also by being debt free not having to pay borrowing costs (which increase with higher interest rates). In the medium-term interest rates should return to lower levels as the economy recovers and inflation falls.

The Council has taken effective steps to deal with the financial pressures caused by both challenging economic conditions and Covid legacy issues, including increasing the estimates for pay and utility costs and £0.3m in contingency for other potential supplies and services inflation pressures. The assumptions within the MTFS (**Para 2.1 of the MTFS**) for 2023/24 show for example 250% increases in gas, 180% in electricity and 25% increase in diesel costs. The impact of national pay increases in 2022/23 and the 4% for 2023/24 gives a cumulative increase of around 10% in employee costs. The combination of the ongoing challenge of pay increase expectations from staff and unions due to high inflation, the national living wage and labour market supply issues means there is still significant downside risk on the budget. Every 1% pay increase amounts to around £0.14m in cost. Use of contingency or in-year budget efficiencies will mitigate this risk in the short term.

Linked to such financial pressures and to support the local community, it is proposed that the Council increases its Council Tax by 2% rather than the maximum of 3%. The impact of this is £0.3m of Council Tax foregone, over the life of the MTFS. This is not critical to the balancing of the MTFS. Furthermore the Government has enabled the use of a Council Tax Support Fund with up to £25 for those in receipt of Council Tax Support. There is also discretion to support others and it is proposed that, with the support of a further £30k from the Council, anyone in Bands A to D at 1 April 2023 has the equivalent of a payment which offsets their RBC Council Tax increase (effectively no increase in their 2023/24 Council Tax).

Council income streams have largely retained their resilience but clearly with the rising cost-of-living there are risks with reducing disposable income households may spend less on Council Services, Council Tax and Business Rates collection rates could worsen and with economic slowdown housing growth may reduce. Therefore areas such as Building Control and Planning income may fall. These are all reasons the Council has to maintain healthy levels of reserves. In times of difficulty we can therefore look to continue to provide excellent services to the Borough’s residents. Positively Edwalton golf course has seen greater demand and the Council is reviewing further modernisation of the facility.

In terms of the Council’s Transformation Programme delays in building Bingham Arena and Crematorium have led to a deferral in income returns but the anticipated financial benefits (notwithstanding the other socio-economic benefits) of such excellent facilities will help support the MTFS.

Despite the impact of Covid and high inflation and reduced power station business rates, levels of business rates have been maintained. The Borough Council’s strategy of encouraging business and housing growth in an excellent place to live has no doubt helped. There is some uncertainty given business rates revaluations from April 2023 and there will be appeals to the Valuation Office from some businesses, some of which will be successful (this is mitigated against by having an appeals provision). The Council’s retained business rates is due to be maintained at a level of around £4.9m for the next 2 years. The Government is still providing support in the form of rates relief to the retail, leisure and hospitality sectors in 2022/23 and 2023/24.

Future funding uncertainty is exacerbated by the potential changes in national policy regarding the business rates system and Fairer Funding (a proposed review for local government already delayed by 5 years notwithstanding the potential of further changes linked to digital commerce). One of the biggest risks for the budget going forward will be an anticipated 'business rates reset' (the Government removing any business rates growth above its baseline position). The Government have stated this will not be until at least 2025/26. Prudently we have budgeted in 2025/26 for a significant reduction of around £1.6m in business rates. This is at a 'safety net' position (from 2025/26) whereby the Council is guaranteed a minimum income level by central government even if business rates fall below this, plus 100% of retained receipts from renewable energy properties.

As reported to Full Council in September 2020, the Council has a number of mechanisms at its disposal to support the budget. This approach has not changed if a financial crisis arises, before resorting to reducing service provision, namely:

(a) identification of Transformation Programme efficiencies and the use of in-year underspends should they arise;

(b) use of the Organisation Stabilisation Reserve and New Homes Bonus Reserve (if necessary) and not applying the Voluntary Revenue Provision in relation to the Arena;

(c) A review of earmarked reserves and their use: where possible transfer those reserves not being applied, to the Organisation Stabilisation Reserve, as necessary, to improve resilience going forward in the event of one-off economic shocks; and

(d) Ultimately use of its £2.6m General Fund Balance.

The Council's Transformation and Efficiency Programme are designed to meet the emerging financial challenges. The Transformation programme combined with effective financial management (resulting in previous budget savings) have ensured the Council has the capacity to use reserves, only if absolutely necessary. The Organisation Stabilisation Reserve is available to deal with any 'one-off' shocks or to assist with the costs of delivering transformation.

Given all of the challenges, the Council has responded positively to the pressures that it faces in the medium term. This has been managed through the development of a Transformation Strategy and Efficiency Programme, in conjunction with a series of Member budget workshops and update sessions over the past few years. The Transformation and Efficiency Programme (detailed at **Annex B, Section 7**) identifies the Council's approach to meeting its saving requirement. Over the MTFS period there is a small projected budget deficit of £0.298m.

A positive budget position will prevail as long as the Council continues its cost control and income generation measures (including fees and charges and Council Tax). The Council continues to identify efficiencies for example, to reduce Councillor Community grants from £40k to £20k and remove the Young Programme, an £82k saving by 2024/25, as well as a number of income generation schemes. This all supports budget efficiencies assimilated from more significant projects such as Bingham Arena and the Crematorium, due to open imminently in 2023.

Going forward we cannot be complacent, there are significant financial challenges that lie ahead as a result of the unprecedented pandemic and the likely economic scarring that will result. As a Council we will continue to grow the Borough, galvanising the borough's high streets, and playing an active role in significant economic development projects such as the Freeport and Development Corporation on the Radcliffe-on-Soar power station site. The impact of devolution is expected to realise opportunities for Rushcliffe. Future financial reports and budgets will reflect the changing position with regards to this work.

As well as uncertainty regarding risks such as inflation, business rates and Fairer Funding reforms additional challenges arise from likely expenditure pressures linked to addressing climate change and the Climate Change Action Plan. There is the £0.8m Climate Change Reserve and the Council is also looking to leverage external funding where it can. A good example of this is the expected £1.2m Salix funding to assist with energy efficiency measures at Cotgrave Leisure Centre and improvements for Keyworth Leisure Centre **(para 9.2 (e) of the MTFS)** There is also a Vehicle Replacement reserve due to reduce to £0.4m by 2027/28 (£1m originally allocated) that will help the Council manage such risks.

Both the MTFS and the Transformation Strategy are iterative in their nature and will evolve over time to respond to, for example: changes in funding levels; the impact of the national economic climate; changes in government legislation; and developing corporate and service objectives.

Adequacy of Reserves

Reserves are held for two main purposes:

- a working balance to help cushion the impact of uneven cash flows and unexpected events or emergencies (General Fund balance); and

- to build up funds to meet known or predicted requirements (earmarked reserves).

Whilst there is no statutory guidance on reserves, the Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that each local authority should base its decisions on professional advice from its Responsible Finance Officer and its understanding of local circumstances.

Taking into account such considerations in October 2011 the Cabinet approved as part of its MTFS, the following guiding principle:

"General Fund Balance should not fall below £1.25m and overall revenue reserves should not fall below 20% of net revenue expenditure."

This remains a prudent position which I do not recommend changing at this time. Given the significant risks outlined above, such prudence is enabling the Council to navigate its way through a challenging period. A General Fund Reserve of £2.6m and earmarked reserves of around £8.9m-£10.1m (excluding NHB) ensures this principle continues to be adhered to. The new Office for Local Government (OFLOG) are due to look at local authority reserves, clearly every council will have a different risk profile and therefore levels of reserves.

There is a direct link between reserves and risks (both upside and downside risk). **Annex B, Section 8** highlights key risks with regards to the MTFS. One example is the fact that the Council appears increasingly less likely to gain Government funding (for example no funding received from either Levelling-up or Gypsy and Traveller schemes), given Rushcliffe is recognised for being a more economic and socially advantaged area. We still as a Council have a duty to protect our more vulnerable and continue to grow and improve the Borough. Therefore, it is proposed that a further £1m is appropriated to the Regeneration and Community Fund. Due to treasury investment risks as a result of the current economic environment a further £1m reserve is proposed– the Treasury Capital Depreciation reserve. This has been reported to Cabinet separately and Corporate Governance Group.

Having 1 year settlements in each of the last five years (having previously had a 4 year settlement) makes financial planning difficult. We mitigate this risk by taking a prudent approach in our assumptions. Whilst we know we no longer receive Central Government Revenue Support Grant (RSG), there is still a lack clarity on what will happen once the New Homes Bonus (NHB) scheme finishes although further information is expected later this year. NHB is currently budgeted for the next 2 years. We remain hopeful there will be a new scheme and, as a Borough committed to growth, we should benefit from such a scheme. We believe this funding is particularly important to not only reward the Council with regards to delivering housing growth but also to fund the cost of increased service provision as a result of growth. We will continue to make such representations to the Department for Levelling-Up Housing and Communities (DLUHC).

The Freeport (and Development Corporation (DevCo)) is a big opportunity for economic development at this site and the earmarked reserve will ensure the Council supports the initial business case development and plays an active role as key decisions are taken for the benefit of the local community. 2023/24 is the last of the 3 year allocation to the DevCo and further updates regarding its progress are expected in the forthcoming financial year. The Council will look to continue to support local businesses, applying central government policy with regards to business rates relief, and business support grants, albeit the long-term viability of the business rate system is in question. Furthermore, the Council is proposing not to increase car parking charges in 2023/24 to help ensure Rushcliffe has the environment for businesses to thrive and, as lockdown is eased, will continue to proactively support both businesses and the wider community.

It is important the Council retains its level of reserves given that there are heightened risks: the impact of Covid; the future funding of local government; changes in legislation such as with Planning and environmental services (waste collection); and the challenges that addressing climate change brings. Positively the Council is largely self-sufficient in terms of its funding streams although we will pay particular attention to what happens to NHB and Business Rates.

The amount of Council Tax raised will, to a large extent, be dependent on the realisation of our Local Plan housing targets. For 2023/234 the tax base is estimated to increase by 1.5% and thereafter 2% per annum. The ultimate intention is to realise opportunities for growth in the Borough, in both the business and housing sectors, as the Council aims to deliver excellent value for money for the community.

As detailed at **Annex B, Section 6,** the MTFS which supports this budget is predicated upon use of reserves (particularly the New Homes Bonus Reserve) to support service expenditure and to deliver investment across the Borough. Whilst the New Homes Bonus scheme in its current form is due to end after 2022/23, the use of the remainder of the NHB reserve is profiled and committed to fund the council's Minimum Revenue Provision (MRP) commitment (**Section 3.7 of Annex B**) over the life of this MTFS and beyond. In particular to fund the remaining commitment for the Arena of £3m (from what was originally £10m).

The Council, due to its level of cash balances, is not planning on externally borrowing in the medium term and therefore not incurring the additional cost of borrowing. The Council still retains an ambitious capital programme (£23.5m over 5 years) to deliver its corporate objectives. The excellent projects in particular to be delivered in 2023/24 include leisure centre upgrades, vehicle replacement, ICT development, and for the more vulnerable in the community, investment in Hound lodge, support for registered housing and disabled facilities grants. It is investment across the Borough and for a wide range of groups within the Borough.

Despite the impact of Covid and inflationary pressures, Rushcliffe maintains a relatively robust financial base. Once capital demands have been met, overall revenue reserves (excluding retained New Homes Bonus) are planned to remain at a stable level over the period of the MTFS. Undoubtedly such demands both those identified now as well as future requirements beyond the life of the MTFS will put pressure on such balances in the future and going forward. The Council will continue to identify 'headroom' within the revenue budget to fund the capital programme (the £1m in the Regeneration and Community Projects Reserve exemplifies this philosophy) unless other capital funding streams are identified. Such issues will be considered as the MTFS perennially evolves. As such the MTFS represents a balanced approach to meeting the financial challenges that face the Authority.

The Council is committed to investing in capital within the borough and no longer focuses on acquiring properties with the primary objective of a commercial return. Importantly the Council still remains committed to a commercial approach and maximising value for money from the use of its assets for the benefit of all Rushcliffe residents. The governance and management of asset investments, both individually and collectively remains important and that the Council has a diversified and proportionate asset investment portfolio to mitigate against adverse risk. The Capital and Investment Strategy refers (**Annex B, Appendix 4, Table 14**). This identifies £1.83m in gross income being generated from commercial investments expected to rise to £1.96m by 2027/28. The key point is that the Council has a range of such income streams and is not overly reliant on one source of income. It manages such risks proportionately and sensibly with investment income accounting for around 20% of fees and charges income.

The Council has had the results from the Pensions Fund triennial review (**Section 2.1 (c) of the MTFS).** Overall pension budget pressures have not increased. We continue to remain vigilant regarding this risk.

The Council is largely self-sufficient and no longer in receipt of RSG. The Council and community has shown resilience in the face of the Covid pandemic and current cost of living issues. The budget is financed from Council Tax, Business Rates and rents, fees and charges. The proposed budget demonstrates both financial sustainability and resilience, which CIPFA are increasingly focusing upon given the unprecedented financial challenges the local government sector (indeed all sectors) continue to face. I am not complacent regarding the Council's position. I remain confident in the ability of the Council to deliver its corporate priorities, as a new Corporate Plan is developed after the local elections in 2023/24, and that it will continue to be financially astute and agile to deliver the Corporate Plan.

Previous achievements with regards to the Transformation Strategy and Programme provide reassurance that the budget requirement will be met in a sustainable manner.

In conclusion, therefore, it is my opinion that the budget proposed in this report, and the sundry strategies which support it, are properly developed and provide an appropriate approach for meeting the significant financial challenges and funding risks facing the Authority at this time.

Peter Linfield
Executive Manager – Deputy Chief Executive and Executive Manager - Finance and Corporate Services (and Section 151 Officer)
February 2023