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 2024/25 which complies with both statutory requirements and best practice principles.

This year's budget continues to have challenges but also builds on opportunities. A combination of the legacy of Covid and international conflict has had a 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. Over 3 years (including 2024/25) pay budgets have increased by over 15% and this presents a challenge given cumulative Council Tax increases of less than 9% over the same period; notwithstanding inflation impacting upon other areas of the budget such as supplies and services. Whilst energy and fuel costs have reduced they start from a high base and undoubtedly uncertainty remains as to their direction of travel. Control of inflation is a key government policy, the main lever being interest rates. The expectation over the medium term is that both interest rates and inflation will reduce. Rising interest rates have benefitted the Council with greater investment income returns. Importantly in being debt free the Council is not paying borrowing costs (which increase with higher interest rates).

The Council has taken effective steps to deal with the financial pressures caused by both challenging economic conditions, including increasing the estimates for pay and utility costs and £0.3m in contingency for either other inflationary pressures or any adverse impact of income not materialising as projected. The assumptions within the MTFS (**Annex B**, **Section 2 of the MTFS**) for 2024/25 show our expectations with regards to the impact of national pay increases from 2024/25 onwards, with a cumulative increase of around 14% in employee costs over the 5 years. The challenge of higher inflation is that it influences employee pay expectations. Combined both the national living wage increasing and labour market supply issues, means there is still significant downside risk on the budget regarding pay. Every 1% pay increase amounts to around £0.15m in cost. Use of contingency or in-year budget efficiencies will mitigate this risk in the short term if pay agreements exceed our assumptions.

Given ongoing inflationary pressures the Council should aim to increase Council Tax by the maximum that is allowable. The MTFS assumes a £5 increase now and in the future although the option of a 3% Band D Council Tax increase is £5.18 and therefore higher by £0.18p. This assumption of the £5 increase will need to be reconsidered going forward if the Council intends to increase Council Tax by the maximum to balance future budgets. By having a £5 increase as opposed to the 3%, over 5 years of the MTFS, the Council foregoes Council Tax receipts of £0.289m (**Section 11 of the MTFS**).

Council income streams have largely remained resilient but clearly with the rising cost-of-living there are risks with reducing disposable income that households could use Council Services less; and sundry debtor, Council Tax and Business Rates collection rates could worsen; and with economic slowdown housing growth may reduce. Pleasingly in recent years the Council has maintained its collection rate levels still having amongst the highest Council Tax and Business Rates collection rates in the country, which demonstrates the strength and resilience of both the local economy and community. Areas such as Building Control and Planning income are at risk if a recession impacts particularly construction, and we continue to monitor their performance, along with other service areas. These are all reasons the Council has to maintain healthy levels of reserves so that in times of difficulty such ‘insulation’ enables the Council to continue to provide excellent services to the Borough’s residents.

Despite high inflation and reduced power station business rates, levels of business rates continue to improve. The Borough Council’s strategy of encouraging business and housing growth in an excellent place to live has no doubt helped. The Council’s retained business rates is due to be maintained at a level of around £5.5m 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 2024/25.

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 6 years). 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). Realistically we do not believe this will take place until at least 2026/27 and have prudently budgeted for a significant reduction of around £1.8m in business rates. This is at baseline position (from 2026/27plus 100% of retained receipts from renewable energy properties. Given the uncertainty sensitivity analysis is provided in the MTFS (**Section 3.2, Annex B**).

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 and Efficiency 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 (TEP) are designed to meet the emerging financial challenges. This will also dovetail as the Productivity Plan a new requirement from Government this year as a condition of the Final Settlement and the provision of further funding (mainly £0.128m in Minimum Funding Guarantee Grant). The TEP combined with effective financial management (resulting in budget efficiencies over a number of years) 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.

The TEP (detailed at **Annex B, Section 7**) identifies the Council's approach to meeting its saving requirement. Over the MTFS period there is a projected budget deficit of £1.6m or 4% of annual gross expenditure, which is manageable over the medium term.

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 and has had to do so given inflation pressures outstripping growth in Council Tax income. The Council continues to balance the demands and opportunities of growth in the borough and continuing to provide excellent services, against a backdrop of rising costs. This consists of a combination of existing projects such as Bingham Arena and Enterprise Centre, projects going forward including the relocation of the West Bridgford Contact Centre, raising income in areas such as Car Parking and Garden Waste collection (where charges have not altered for several years) and reducing costs where we can.

Going forward we cannot be complacent, there are significant financial challenges that lie ahead with the implications of both the Devolution and Levelling-up and

Environment Acts to be identified and ongoing macro-economic uncertainty. 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, and this will unfold as the combined authority becomes operational from May 2024. 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 Council's Climate Change Action Plan. To this end a further £0.750m is being appropriated into the Climate Change Reserve from the 2024/25 New Homes Bonus allocation (**Annex B Section 6**). Furthermore given the Council's aim to improve net bio-diversity a further £0.1m has been allocated from the additional funding in the Government's Final Settlement. The Council remains committed to lever in external funding where it can. A good example of this is the £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 Annex B).** There is also a Vehicle Replacement reserve due to be completely used by 2028/29 (£1m originally allocated) to help the Council manage such risks.

The Council recognises the impact flooding has had on the Borough's communities. Consequently a new reserve of £28k, arising from additional funds from the Final Settlement has been created. This is for both flood resilience (eg flood stores) and further flood grants where there is damage in relation to integral or stand-alone garages. Currently a gap in existing Government guidance when there are official storms and grant funding is made available by Government. **Section 8** and the table of risks does include a new risk in relation to the impact of flooding on the Borough.

Both the MTFS and the TEP 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 should remain, particularly given earmarked reserves of around £8.7m are projected to reduce to £7.4m (excluding New Homes Bonus (NHB)). The new Office for Local Government (OFLOG) are reporting on local authority reserves, clearly every council will have a different risk profile and therefore levels of reserves. It is naive to focus on the reserves position at a specific date, given projections change going forward, linked to risks and opportunities.

Annex B, Section 8 highlights key risks with regards to the MTFS and many of the issues already mentioned are cited in the table of risks. The Freeport (and Development Corporation (DevCo)) is a big opportunity for economic development and the earmarked reserve has ensured the Council supports the initial business case and plays an active role as key decisions are taken for the benefit of the Borough. There remains £0.1m committed to the DevCo over the next 2 years.

It is important the Council retains its level of reserves given that there are heightened risks: inflationary pressures; 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 2024/25 the tax base is estimated to increase by 2% and thereafter 1.6% per annum, reflective of a current slowdown in the construction sector. This is reviewed annually. 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 the use of reserves (particularly the NHB Reserve) to support service expenditure and to deliver investment across the Borough. Whilst the NHB scheme in its current form is due to end after 2024/25 (**Section 3.7 of Annex B)** the use of the remainder of the NHB reserve is profiled and committed to fund the council's Minimum Revenue Provision (MRP) over the life of this MTFS and beyond. In particular to fund the remaining commitment for the Arena of £2m (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 (£24.8m over 5 years) to deliver its corporate objectives (**Section 9, Annex B**). The excellent projects in particular to be delivered in 2024/25 include leisure centre upgrades and carbon reduction initiatives, vehicle replacement, ICT development, and for the more vulnerable in the community, support for registered housing and disabled facilities grants (DFG). It is investment across the Borough and for a wide range of groups within the Borough.

Undoubtedly the Council's capital resources are diminishing over time. Increasingly taking difficult decisions are more likely. The MTFS does reference the proposal to limit DFG spending to the amount of grant received via the Better Care Fund. By 2028/29 projections indicate that £4.3m of capital resources remain. By 2033/34 without any additional schemes, and spend only on existing core capital (eg vehicles, existing property, ICT etc) capital resources are likely to be fully exhausted. Any significant capital projects, above and beyond the existing programme, would necessitate borrowing. By way of an example, in undertaking sensitivity analysis (**Section 9.5, Annex B**) borrowing £10m over 20 years would require annual repayments of £0.8m and significantly increase pressure on the budget.

The Council will borrow when it has to and when the right economic conditions prevail. Deferring borrowing remains a preferred approach whether via utilising additional capital receipts or accessing external grants. Because of the perception of Rushcliffe in the sector as an authority that doesn't need funding, accessing government grants remains a challenge. Significant levels of Levelling-Up and Towns Centre Funding has been provided to several other Nottinghamshire districts. Rushcliffe has not had that luxury – arguably a victim of its own success. This does create a challenge, which we will embrace, as we know we cannot stand still and economic growth will remain key to the future success of the Council.

The Council will continue with sensible financial management, follow a number of guiding principles, thus enabling future financial sustainability. The principles include individuals should pay for the services they use, maximise income streams and recover full costs, reduce discretionary expenditure and maximise the use of council assets.

The Capital Programme demonstrates that the Council is committed to investing in both service and assets within the borough. The Council 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 16**). This identifies £1.9m in gross income being generated from commercial investments expected to rise to £2m by 2028/29. 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 16% of fees and charges income.

Despite the inflationary pressures and rising demand for services, Rushcliffe maintains a relatively robust financial base. Once capital demands have been met, overall revenue reserves (excluding retained New Homes Bonus) will reduce 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 reserve balances in the future and going forward. The Council will continue to identify ‘headroom’ within the revenue budget to fund the capital programme and replenish reserves when it can according to its risk profile. As the Corporate Strategy evolves so does the MTFS. The MTFS represents a balanced approach to meeting the financial challenges that face the Authority.

I am not complacent regarding the Council’s position. I remain confident in the ability of the Council to deliver the new Corporate Strategy and associated corporate priorities. The Council needs to continue to be financially astute and agile to deliver the Corporate Strategy. It has to be sensible in its decision making and that they are affordable, prudent and sustainable. If the Council veers away from this path then financial difficulties will ensue. Previous achievements with regards to the TEP 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
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February 2024