**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 2025/26 which complies with both statutory requirements and best practice principles.

This year's budget continues to have challenges but also builds on opportunities. There are notable challenges since last year's budget. The catalyst for these is the new Labour Government and resulting changes in policy direction. These will continue over the next 12 months with further uncertainty, particularly with regards to planned funding reforms for local government. The most notable difference compared to last year is the high probability that within 3 years' time this Council will be become part of a larger principal authority as part of Local Government Reorganisation (LGR). We do not know enough at this stage and future iterations of the Council's Medium Term Financial Strategy (MTFS) will reflect the 'direction of travel' and be updated accordingly. Furthermore national policies are being implemented such as 'Simpler Recycling' where there remains a lack of clarity on how such schemes will be fully funded. **Section 4.2 of the MTFS** shows that by 2029/30 there is an expected £0.318m deficit in funding of this scheme.

There are pervading international conflicts and also a new American Government which adds more uncertainty. Uncertainty can inhibit the ability of an economy to grow which is an important component of government economic policy along with having low inflation. The impact of this inevitably is that it places pressure upon the public finance envelope.

There remain rising employment costs pressures 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 9% and this presents a challenge given Council Tax increases of 3% over the same period. Inflation also impacts upon other areas of the budget such as supplies and services and energy, fuel and utility costs. The main lever for the Government to control inflation is interest rates. The expectation over the medium term is that both interest rates and inflation will reduce, although the trajectory and pace of this is not as quick as the Government would like. Higher interest rates have benefitted the Council with greater investment income returns which help offset expenditure pressures. Importantly the Council remains debt free and therefore does not have debt repayment liabilities.

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, for example, the adverse impact of income not materialising as projected. The assumptions within the MTFS (**Annex B**, **Section 2 of the MTFS**) for 2025/26 show our expectations with regards to the impact of national pay increases from 2025/26 onwards, with a cumulative increase of around 13% in employee costs over the 5 years. The challenge of higher inflation is that it influences employee pay expectations. Combined with 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.

Pay inflation has also been exacerbated by the 1.2% increase in National Insurance Contributions (NIC) to 15%. The Council's direct exposure to this is circa £0.3m per annum with the Government only compensating the Council through additional grant of £0.123m. Not to mention the pressure on Council third parties which may well be passported to the Council via rising contract costs. The Council has only received an increase in its Core Spending Power – CSP - (anticipated business rates and Council Tax, and specific grants by the Government) of 0.9% which in effect is the NIC grant. CSP does not cover inflationary increases in expenditure.

Given ongoing inflationary pressures the Council is proposing that Council Tax increases by the maximum that is allowable. The MTFS assumes a 3% increase now and in the future amounting to £5.31 for 2025/26 (which includes the increase in Special Expenses). If the Council did not increase Council Tax by the 3%, over 5 years of the MTFS, the Council foregoes Council Tax receipts of £1.6m (**Section 11 of the MTFS**). Ongoing increases in Council Tax (to the maximum referendum limit allowable) is both prudent and sensible given the operational and financial challenges the Council faces. The Council remains within the lowest quartile in comparison to district and borough Council nationally for its element of Council Tax and whilst Council Tax is 'capped' this will remain the case until, as expected, the Council becomes part of a larger authority as part of LGR.

Council income streams have largely remained resilient but clearly with ongoing cost-of-living challenges 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 the construction industry, 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 it has sufficient 'insulation' to both withstand shocks and it enables the Council to continue to provide excellent services to the Borough's residents.

The Council looks to balance the needs of both the more vulnerable in the community and that those that use services pay for those services and such principles with growing the local economy. **Appendix 5 of the MTFS** focuses on car parking charges with incremental increases for stays over 1 hour to encourage more 'churn', to align with the Council's Off-Street Car Parking Strategy. Garden waste increases by £2 per annum to meet rising costs and an increase in charge of £5 for second and subsequent bins. When compared to other Councils such charges remain competitive.

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 increase to £6.67m by 2025/26. The Government is still providing support in the form of rates relief to the retail, leisure and hospitality sectors in 2025/26 although this is reducing from 75% to 40%.

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 7 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 £3.098m in business rates. This is at baseline position (from 2026/27 plus 100% of retained receipts from renewable energy properties. Given the uncertainty of the outcome of the reset, 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. The TEP combined with effective financial management (resulting in budget efficiencies over several years) have ensured the Council has the capacity to use reserves, only if absolutely necessary.

The TEP (detailed at **Annex B, Section 7**) identifies the Council's approach to meeting its saving requirement. By 2029/30 with £1.762m of efficiencies their remains an annual deficit of £0.686m. Over the MTFS period there is a projected budget deficit of £0.171m which is a positive outcome given the difficult financial climate that local authorities are operating within.

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 increasing Leisure contract efficiencies, continuing to both optimise income streams and reduce costs.

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 (Simpler Recycling) with ongoing evaluation and macro-economic uncertainty. During 2025/26 the Government is reviewing the financing of local government, with a focus on authorities with higher deprivation levels, and systemic reviews of both New Homes Bonus and Business Rates. It is hoped there will be multi-year financial settlements to provide greater certainty to Councils which will help with future business planning. The biggest challenge for this authority going forward is the impending Local Government Reorganisation and it is likely resources may need redirecting to support this. Updates will be provided through the Council's usual governance and reporting processes.

As a Council we will continue to grow the Borough, galvanising the borough's high streets, and playing an active role in significant economic growth projects such as the Freeport and the development of the Ratcliffe-on-Soar power station site. The East Midlands County Combined Authority (EMCCA) is in situ and its role and influence and what we hope will be a symbiotic relationship, will evolve over the next few years. Future financial reports and budgets will reflect the changing position with regards to this work.

As well as uncertainty regarding risks such as LGR, 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. A projected balance of £0.918m is available from 2025/26 in the Climate Change Action Reserve. Because of both the uncertainty and significant financial pressures of Simpler Recycling a specific reserve has been created of £1.02m (**Section 6 of the MTFS**). Due to the fact that anticipated capital funding from central government is insufficient to meet expenditure pressures an appropriation from the Collection fund Reserve of £0.746m is proposed. The earmarked reserves are reviewed with many are used for capital purposes including Treasury Capital Depreciation, Vehicle Replacement and Regeneration and Community Projects.

Last year the Council recognised the impact flooding has had on the Borough's communities. Consequently a new reserve of £28k was created, with a current balance of £22k. 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.

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 challenges already stated, such prudence will enable the Council to navigate its way through periods of undeniable uncertainty as the Council transitions towards a potential new council. A General Fund Reserve of £2.6m should remain, particularly given earmarked reserves of around £8.1m are projected to reduce to £6.9m (excluding New Homes Bonus (NHB)). The Council's reserve position relates to its risk profile and this oscillates as the environment we operate in fluctuates.

**Annex B, Section 8** highlights key risks with regards to the MTFS and many of the issues already mentioned above are cited in the table of risks. It is important the Council retains its level of reserves given that there are heightened risks: impending local government reorganisation, inflationary pressures; the future funding of local government; changes in legislation such as with Planning and Environmental Services (waste collection); enabling economic growth; 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 and with fairer funding the impact of a focus on councils where there is higher deprivation.

The amount of Council Tax raised will, be dependent on the realisation of our Local Plan housing targets. This impacted by both developer and general public confidence in the economy and therefore their propensity to respectively build and acquire houses. For 2025/26 the tax base is estimated to increase by 1.66% and thereafter 1.8% per annum, reflective of recent trends. This is reviewed annually.

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 2025/26 (**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 £1m (from what was originally £10m), now the last year of repayment.

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 (£27.1m over 5 years) to deliver its corporate objectives (**Section 9, Annex B**). The excellent projects in particular to be delivered in 2025/26 include continued investment in its investment properties, leisure centre upgrades and carbon reduction initiatives, vehicle replacement and other simper recycling capital costs (such as new bins), 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.

Without additional capital receipts or external grants, the Council's capital resources inevitably diminishing over time. By 2029/30 projections indicate that £3.4m of capital resources remain **(Section 9.4, Annex B)** although in reality with the advent of LGR being within this time frame capital resources are sufficient to meet current needs.

The Council will only 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 or continuing to internally borrow (ie using its cash balances). There is a perception of Rushcliffe in the sector of being an authority that has less of a requirement for funding and therefore accessing any external funding remains a challenge. Where it can the Council will aim to leverage external funding where business cases support this.

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 8, Table 16**). This identifies £1.9m in gross income being generated from commercial investments expected to rise to £2m by 2029/30. 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 11.5% 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. Even with the significant uncertainty prevailing in the local government sector the Council must continue to act with due diligence, continuing ‘to be brave but not reckless’ and to deliver its corporate objectives. Even with LGR on the horizon the Council will continue to be diligent in the decisions it takes. 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 its 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 decisions taken 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. Given the strong likelihood of LGR materialising, the MTFS going forward is expected to reduce in the number of years it covers. The 2026/27 MTFS will be updated when we know more.

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. The Council is currently not at risk of requiring Exceptional Financial Support (EFS) or issuing a s114 Notice which unfortunately some authorities have had to do. The outcome of the Government's own spending review, and thereafter the impact on local authority financial settlements for 2026/27 and beyond, is a big unknown although I believe the budget is sufficiently prudent and we also have sufficient reserves to ride the outcome of this.

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