

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 2026/27 which complies with both statutory requirements and best practice principles.

This year's budget has been particularly challenging with substantial changes to the government's allocation of funding to local authorities known as Fair Funding. This incorporates changes to both the funding formula and the business rates system, including the resetting of the business rates baseline position. The process was not helped by significant changes from the provisional financial settlement to the final settlement in early February. Whilst it is a 3-year settlement it is a poor settlement for Rushcliffe with core spending power (CSP), from 2025/26 to 2028/29 reducing by 2.25%. CSP being revenues from Government and anticipated Council Tax and Business Rates. The impact of this reduction is exacerbated by likely annual inflation increases over this period. The key determinants that have influenced reduced funding levels are population growth, deprivation and service demand (for example funding directed towards upper tier authorities for areas such as children's care and adult social care services).

Recommended to Full Council is a Council Tax freeze which has impacts CSP reducing it by 4.12%. By not maximising Council Tax the Council will lose around £0.245m per annum, £1.225m over 5 years (**see Section 11 of the MTFs**). Council Tax is one of the Council's more stable income streams anything less than maximising an increase makes the budget less affordable, sustainable and prudent. Inevitably less Council tax income leads to a less favourable future financial position whether for Rushcliffe or a new authority, but it currently would not put the Council in a s114 position which many Councils find themselves either in, or on the precipice of, and therefore Rushcliffe does not require exceptional financial support. The overall financial position over 5 years shows a £0.815m budget deficit, as a result of the late changes by the Government in the final settlement.

The MTFs assumes ongoing increases (2027/28 onwards) in Council Tax (to the maximum referendum limit allowable) which 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 Councils 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 with LGR. The Council has always had a reputation of being commercially sound in its decision making and we are mindful that a positive legacy for Rushcliffe before LGR is that this should continue so the new authority is on the best financial footing possible and services for Rushcliffe residents are not diminished in any way.

Lower Council Tax is undoubtedly good news for residents given cost of living challenges, although Rushcliffe's element of Council Tax is already in the lowest 25 percent nationally. Freezing Council Tax heightens the systemic weaknesses in the system where those authorities with lower Band D Council Tax (ie Rushcliffe) will see a widening differential compared to the higher Band D Council Tax authorities given referendum limit percentage increases, where higher Council Tax rates gain more from the same percentage increase.

There are proposals to both consider removing the Second Homes Premium and introduce a Council tax discount for the terminally ill. These will also have an adverse impact on the budget estimated at £60k per annum (subject to an agreed policy by scrutiny). Freezing council tax should be considered against the optics of other policy decisions and similarly policy decisions should be considered against the backdrop of the Council's overall financial position.

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 1.5% and thereafter 1.8% per annum, reflective of recent trends. This is reviewed annually.

Business Rates has undergone substantial change as the Government aims to restore the balance between aligning funding with need and rewarding business rates growth locally (**Section 3.2 Annex B**). Rushcliffe's baseline funding level has reduced from £6.67m (2025/26) to £2.675m (2026/27) a £4m or 60% reduction. Some sectors in the business community will face challenges given the combination of increases in

valuations (by the Valuation Office) and changes in business rates multipliers, the latter to help offset the rateable value increases. A good example being the impact on pubs and further changes the Government have implemented to mitigate risks in this sector. This creates pressures for businesses and could have a detrimental impact on local economic growth and business rates collection. As a result of the changes to the business rates system the Nottinghamshire business Rates Pool has been dissolved from 2026/27, agreed by all the members of the Pool.

LGR comes with both opportunities and risks and from 2028/29 the likelihood of a new unitary authority and new budgets. 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. An LGR reserve is specifically in place to help manage and mitigate associated risks. National policies continue to be implemented such as 'Simpler Recycling' where there remains a lack of clarity on how such schemes will be fully funded. **Annex B Section 4.2 of the MTFS** shows that by 2030/31 there is an expected £0.879m deficit in funding of this scheme.

There remain international conflicts 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 services finance envelope.

There remain rising employment costs pressures with an assumed employee budget increase of 3% for 2026/27 followed by 2% per annum thereafter. The employees' budget in 2026/27 rising from £16.9m to £19.15m (2030/31). An increase by over 13% and this presents a challenge given Council Tax increases of 3% over the same period (excluding 2026/27). 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 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. Some key assumptions within the MTFS are detailed at **Annex B, Section 2 of the MTFS**.

The Council continues to bear the cost of last year's decision to increase employer National Insurance Contributions (NIC) by 1.2% to 15%. The grant it received last year, which only partially offset the increase, is now part of the broader Revenue Support Grant (RSG) calculations (**Section 3.5 Annex B**). RSG has substantially changed as it incorporates the loss of New Homes Bonus funding and reduces in later years as the Council adjusts to the new funding formula and its impact (from £4.72m In 2026/27 to £2.5m in 2028/29).

Council income streams have largely remained resilient but clearly with ongoing cost-of-living challenges and the already mentioned rising business rates there are risks that with reducing disposable income 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 Planning income are at risk, a slight dip anticipated in 2026/27 of £0.2m to £1.386m, with any downturn in the construction industry, and we continue to monitor their performance, along with other service areas (**Section 3.8 Annex B**). 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. Positively the Crematorium is anticipating rising income over the MTFS period.

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 or if new risks materialise the creation of new reserves (such as LGR); 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 2030/31 with £1.998m of efficiencies there is a minor surplus of £72k. Over the MTFS period there is a projected budget deficit of £0.815m which is manageable over the period.

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. Going forward though we do have more certainty over the next 3 years albeit LGR should have taken place for 2028/29 with 2027/28 being a 'shadow year' of operation. Resources will need redirecting to support this and a specific Reserve has been created for this purpose of £2.9m by the end of 2027/2028. Updates will be provided through the Council's usual governance and reporting processes. This will be the single biggest Transformation Programme the Council will face.

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 Radcliffe-on-Soar power station site. The Council continues to work with the East Midlands County Combined Authority (EMCCA) to develop a symbiotic relationship and leverage in funding where it can and focus on areas such as economic growth.

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 particularly with the uncertainty of LGR. 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. Whilst earmarked reserves hover around £25m us of expenditure form the reserves is not fully profiled and they will diminish. For example, we know LGR will require considerable expenditure but the detail and timing of this is to be determined. The Council's reserve position relates to its risk profile, and this oscillates as the environment we operate in fluctuates.

The Council has a number of earmarked reserves (**Section 6 of the MTFS**) to help mitigate risks such as LGR and maximise economic development opportunities for Regeneration and Community Projects. Additional challenges arise from likely expenditure pressures linked to addressing climate change and the Council's Climate Change Action Plan. A projected balance of £0.816m is available from 2026/27 in the Climate Change Action Reserve. Because of both the uncertainty and significant financial pressures of Simpler Recycling a specific reserve has been created peaking at £2.48m (2028/29). The earmarked reserves are constantly reviewed many are used for capital purposes including Treasury Capital Depreciation and Vehicle Replacement. The Leisure Centre Maintenance Reserve is due to increase to £2m recognising the transitioning of the East Leake contract from Private Finance Initiative (PFI) arrangements to the leisure centre management contract.

The New Homes Bonus (NHB) scheme in its current form has now ended (**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. The commitment for the repayment of the Arena is now complete, with £1m paid for 10 years. It is also being used to fund economic development master planning work across the Borough for our main towns and villages and grants to enhance football pitches across the borough The Council remains committed to developing its towns and villages, so Rushcliffe remains a great place to live, work and enjoy sport and recreation.

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 challenges that addressing climate change brings; and helping to fund the future capital programme. Whilst there is an increase in Revenue Support Grant the Council still has a high degree of self-sufficiency. Council Tax, fees and charges and other income account for around 79% of income.

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 (£24.3m over 5 years) to deliver its corporate objectives (**Section 9, Annex B**). The excellent projects in particular to be delivered in 2026/27 include Radcliffe on Trent Master Plan development, West Bridgford Town Centre redevelopment; to support the more vulnerable with 'Warm Homes' and disabled facilities grants and to support registered housing providers; and

to facilitate more empty properties into use. The Council continues to invest 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 2030/31 projections indicate that £9.17m of capital resources remain (**Section 9.3, Annex B**). 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 supported by appropriate business cases.

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.

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) remain stable 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. The Council must be diligent in the decisions it takes and cannot afford to continue to freeze council tax particularly given reduced government funding over the 5 years and inflationary pressures. 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, although LGR will provide challenges to officers and members in its magnitude. It is likely that the MTFS for 2027/28 will be a 2-year strategy assuming LGR is legislated for.

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. Particularly given the certainty of a 3-year settlement

should provide. I believe the budget is overall prudent, sustainable and affordable with reserves in place to meet future challenges.

Peter Linfield

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