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

The purpose of this report is to provide information on the robustness of the Council's budget and the adequacy of reserves so that Members have authoritative advice available when they take 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.

Section 25 of the Local Government Act 2003 requires that when it's considering its 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 decisions.

Robustness of Estimates

I am content that the Council has followed a comprehensive and detailed budget process when preparing the budget for 2019/20 which complies with both statutory requirements and best practice principles.

The Council has taken effective steps to deal with the financial pressures caused by challenging economic conditions and reductions in Council funding, particularly from central government. The Council's Transformation Strategy and Efficiency Statement 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 use of reserves in support of on-going expenditure requirements remains a key policy decision which is addressed later in this Annex.

The Authority has responded positively to the challenges that it faces in the medium term through the development, in conjunction with a series of Member budget workshops in the past few years, of a Transformation Programme (detailed at Annex

B, Appendix 3) that identifies the Council's approach to meeting its saving requirement, which the Council has managed to reduce. Last year we projected a budget deficit of £0.690m for 2019/20 and due to a combination of cost control and income generation the Council has a balanced budget. Going forward we cannot be complacent as there are significant financial challenges that lie ahead and these are commented on below. 2020/21 forecasts a use of reserves of £0.5m and thereafter the budget is balanced subject to the anticipated delivery of the Transformation Strategy and Programme.

In developing such plans, the Council has recognised that future funding and service provision is uncertain and that risks, particularly financial risks (given the prudent assumptions surrounding the outcome of the current reviews of both 75% business rates retention and the Fair Funding Reviews remain); and the overarching Spending Review 2019 is also an unknown quantity. The MTFS aims to mitigate and manage such risks going forward. 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 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 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.

I have previously commented that the settlement was unprecedented in terms of the changes (both actual and proposed) to the local government 'funding envelope', and involved the 'four year offer' which, as a Council, we accepted, albeit we effectively now have a one year settlement. We know of the reductions in Central Government Revenue Support Grant, but still lack clarity on the future of New Homes Bonus (NHB). We believe this is particularly important of not only rewarding 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 Ministry for Housing, Communities and Local Government (MHCLG). There still remains uncertainty in terms of Business Rates (and the 75% localisation of business rates) and given the volatile nature of the business rates tax base, the prospective closure of Ratcliffe-on-Soar power station (given it accounts for around one fifth of the tax base), is a risk that has to be managed. Consequently the Council is actively looking at alternative uses for the site in the future. Whilst the Council has forecast an increase in business rates in 2019/20 the anticipated systemic changes to the funding system means the Council has taken a prudent approach in its Business Rates income assumptions assuming a 100% reset and therefore a loss in business rates growth in 2020/21 (from £3.7m to £2.8m). Excluding NHB the Council’s reserves are due to rise moderately over the five years from £5.7m to £6.3m. It is important the Council retains its level of reserves given that there are heightened risks with regards to the future funding of local government.

There is also the ‘Fair Funding’ review of local government finance which will determine how, with what is a smaller cake, the funding allocation is divided within the sector. The amount of Council Tax raised will, to a large extent, be dependent on the realisation of our Local Plan housing targets. 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. The Council continues to leverage in external funding such as from the Local Enterprise. **Annex B, Section 8** highlights key risks with regards to the MTFS.

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. The Council remains committed to ‘grow the Borough’. The use of the NHB Reserve, amounts to £1m per year rising to £1.3m in 2022/23 as the Council anticipates additional borrowing in relation to the Bingham leisure hub project. In previous budget reports I have commented upon £10m being committed to fund the Arena project. There is sufficient NHB reserve currently to fund the outstanding balance of £7m, from the original £10m commitment for the Arena. If NHB was to cease then £0.3m would be required from existing resources from 2022/23. The NHB scheme is subject to review as part of the Fair Funding review, the Council continues to lobby government to ensure that housing growth is properly rewarded and the increase in demand for services is appropriately funded. Currently the MTFS assumes the £1.6m NHB currently received annually, will at least remain (ie the £1.6m is ‘capped’ for each year of the MTFS). This is considered prudent given we are expecting even more housing growth within the Borough in the next few years.

Despite ongoing funding pressures Rushcliffe has maintained a stable financial base and, as a result, even once such demands have been met overall revenue reserves (excluding retained New Homes Bonus) are projected to rise to around £6.3m by the end of 2023/24. The General Fund balance of £2.6m, keeps the Council above the threshold established by Cabinet in October 2011. Potential capital demands (for example arising from the Leisure Strategy) will put pressure on such balances in the future. These 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 now considers itself to be self-sufficient, no longer in receipt of Revenue Support Grant. Several years ago the Council relied on a £300k annual commitment from the Organisation Stabilisation Reserve to support the budget, this is no longer the case. The budget is financed from Council Tax, Business Rates and rents, fees and charges. In terms of financial resilience, which CIPFA are increasingly focusing upon given the financial challenges the local government sector faces, I am not complacent regarding the Council’s position. I remain confident in the ability of the

Council to deliver its corporate priorities and continue to be financially self-sustainable.

In the past I have reported on the worsening position of the Council's pensions' fund, arising from the triennial review and the budget pressure this created. The base budget incorporates the £1.164m required for the historic pension deficit position. The results of the next review are due in the coming year, for the 2020/21 budget. The Corporate Governance Group, Nottinghamshire County Council and the pension fund actuary (Barnett Waddingham) continue to remain vigilant regarding this risk.

The delivery of the Transformation Strategy is critical in ensuring the Council retains a stable MTFS. The Council's focus remains on 'growing the Borough' examples in the capital Programme including Fairham Pastures, a proposed crematorium and the Bingham Leisure Hub. The Council is therefore reining-in it's Asset Investment Strategy commitment particularly with regards to investments outside of the Borough. Commercial property investment still remains an important part of the Council's armoury in generating income returns and delivering employment and economic development across the Borough. The governance and management of such investments both individually and collectively (against the Council's overall investment portfolio) is covered from paragraph 62 of the Capital and Investment Strategy (Annex B, Appendix 5). This identifies £1.2m in net income being generated from commercial investments expected to rise to £2.2m by 2023/24. 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.

Previous achievements with regards to the four year plan and the Transformation Strategy 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 financial challenges and funding risks facing the Authority at this time.

Peter Linfield
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February 2019