Appendix D- Chief Finance Officer section 25 report

As part of this report, under section 25 of the Local Government Act, the Council's Chief Finance Officer is required to comment on the robustness of estimates and the adequacy of reserves.

The major external factors affecting the Council are uncertainty over future funding and inflationary impacts. Inflationary impacts have created cost of living pressures which could also impact on income and service demand.

Future funding

In the draft Local Government settlement, Government have provided a 3% funding guarantee for 2024/25. This guarantee is provided before local decisions on Council Tax levels. However the guarantee does make an assumption around an increase in the Council Tax base (the number of properties paying Council Tax). Even if that assumption is correct, then part of the overall funding increase is therefore to cover population growth, and therefore not just to cover inflationary pressures. Our position is affected by an increase in the support provided via our Council Tax Reduction Scheme (CTRS). This reduces the Council Tax base, which means that our funding goes up by less than that implied by the 3% funding guarantee. We still have growth in the actual number of properties in the District, so we are still having to provide services to more residents and households. This CTRS impact was known about when the Medium Term Financial Strategy (MTFS) was set, and included in those assumptions. The MTFS does assume that there will be a reversal of the impact, which could happen through general economic improvements meaning less residents needing CTRS support, changes to the CTRS scheme or improvements in Council Tax collection rates.

Beyond 2024/25, there is very limited indication of what Council funding will be. A new funding formula for Councils has been due for a long time and will now not be in place until well into the next Parliament. There remains the possibility that when it is introduced that we will see a funding reduction, akin to the previously announced (but then rescinded) 'negative Revenue Support Grant'. The current 3% funding guarantee is highly unlikely to continue, as that level of funding to Councils is not consistent with the forecasts that sat behind the Government's Autumn Statement. There is some indication that the cap on Council Tax increases could be retained at 3%, rather than reverting back to 2%.

On the funding side, Cost of Living pressures could have an impact on residents ability to pay their Council Tax. However, our collection rates remain in line with previous years and therefore it seems reasonable to assume that we will continue to achieve an ultimate collection rate in excess of 99%.

The current funding forecasts are based on the following:

- That Council Tax increases will be 2%. There is an up-side (in funding terms) opportunity that the cap could stay at 3% per year. Over a 5 year period that would equate to additional annual Council Tax income of £XXk. Although any increase may be partly off-set by a decrease if there was a funding guarantee in place, as although current year decisions on Council Tax increases are not included, assumptions are built in as those impacts flow in to later years.
- That the 3% funding guarantee is replaced by a 0% funding guarantee, and that there remains the prospect of a £1m funding cut alongside a new funding formula. Given the Autumn Statement forecasts, it seems likely that any funding guarantee level would be below inflation, but it could still be more than 0%. The down-side risk is that there is a

funding cut without any funding guarantee protection and/or the level of cut is greater than £1m (as there has been significant inflation since that figure was due to be implemented).

- Given the assumptions above, the other elements of our funding (e.g. retained Business Rates and New Homes Bonus) become somewhat irrelevant, as movements would be covered within the funding guarantee.

The table below considers how much funding we would get in 2028/29 using our current base assumption, a plausible better case assumption and a plausible worse case assumption. Note that these are deliberately not intended to be best or worst case assumptions.

Assumption Type	Council Tax referendum limit per year	Negative RSG	Increase in retained Business Rates	Funding guarantee	New Homes Bonus	Other general grants	2028/29 Funding (£m), and difference to base case
Current base case	2%	£1m from 27/28	Increases with CPI	0% funding guarantee	Continues at current level	Stay at current levels	18.0
Plausible better case	3%	£0.5m from 27/28	Increases with CPI	0.5% funding guarantee	Continues at current level	Stay at current levels	18.9
Plausible worse case	2%	£1.25m from 27/28 (to account for inflation)	Increases with CPI	Does not protect against negative RSG	Continues at current level	Reduce to zero	17.6

It is my view that the assumption made is a reasonable one to make with limited information available. As will become a theme through this section 25 report, there will be a need to be ready to react as better information becomes available. That means having a set of plans that are developed and being ready to make decisions that ensures the ongoing sustainability of the Council.

Impact of inflation

The United Kingdom (alongside other global economies) has seen a very high level of inflation in recent years. This has been responded to by the Bank of England with high interest rates, in accordance with their monetary policy objectives. Economic forecasters are predicting that UK inflation will return to target levels during 2024. However interest rates are expected to remain high, probably dropping to around 4% by the end of 2024 and then falling to around 2.5% during 2025.

Each year, we apply increases to our budgets to reflect forecasts of contract inflation and pay inflation. Contract inflation is usually linked to specific indicators and we use published economic forecasts to predict what these will be. Even when inflation is applied to contracts, when contracts need to be retendered there is a risk that there could be exceptional increases or decreases in the contract value. Competitive tendering processes are used to help ensure that, whatever the outcome, we are getting good Value for Money. The renewal of our leisure contract has provided us with a long-term increase in the amount of income that we will received compared to our budget. However as highlighted in the report to Cabinet in December, there is expected to be a significant increase in the costs of our waste and street cleansing contract. As we are in the middle of a procurement process and as the new contract starts in May 2025, it is not appropriate to fully quantify this increase. Decisions have been made to try and mitigate some of the expected increases. Now there is a need to wait for the final tender prices and be ready to react and make appropriate decisions for the 2025/26 budget.

We have estimated pay inflation at 4% for 2024/25, followed by 3% in 2025/26 and then 2% per year thereafter. Whilst the forecast for 2024/25 pay inflation is above the expected level of inflation in April 2024, there is still a reasonable risk that the amount forecast will be too low. This reflects that we may need to catch-up as recent pay awards have been below the prevailing rate of inflation. It may also need to reflect recruitment issues across Councils (which we are definitely exposed to) and the need to attract and retain staff, and pay levels will always be a component of that. That also links into what other wages are increasing by. For example, the National Living Wage in April 2024 is increasing by almost 10%. Whilst I think the current budget assumption is a reasonable one to take, I am concerned that it may turn out to be an under-estimate.

We set our capital budgets over a 10-year time horizon, and therefore our estimates are susceptible to inflation between when they are added to the programme and when the expenditure is ultimately incurred. For more discretionary capital spend, this can have an impact on viability when estimates are updated. As part of this years budget process we have increased the forecast capital spend on waste vehicles to deliver the new contract from 2025. A combination of changing income forecasts and increasing capital costs means that the planned museum storage scheme is being reviewed. An allocation has been kept in the capital programme, but spend will be dependent on a business case. Whilst IT and leisure centre capital costs are forecast over a long period, they are reviewed and revised on a regular basis. The cost of the Royston fitness extension has been reviewed as part of procurement process and the previous allocation was deemed to be sufficient. Some of the Grounds Maintenance forecasts do not get adjusted (e.g. the play area refurbishment allocations), although the extent of some of these can be adjusted to fit the budget available. Whilst the provision for a new waste depot has been kept in the capital programme, there are concerns over the actual costs that will be necessary, which may affect the viability. This will need to be kept under review.

There are some revenue budgets that do not get inflated each year, i.e. budgets that do not relate to pay or where known contract inflation can be applied. These are generally low value budgets that pay for ad-hoc items, but it is acknowledged that the spending power of those budgets is being eroded. In the quarterly budget monitoring process we have not seen any pattern of overspend against these budgets. However, especially as one of the budget types included is staff training, this will be kept under review.

The inflation that is applied to fees and charges budgets is done in accordance with the assumptions agreed in the MTFS. In some areas this acts as a clear plan for how the level of fees and charges will be adjusted, although there is still uncertainty over the level of demand for those services. For car parking charges there is an additional level of risk over the total income that will be received. The MTFS assumption acts as a budget forecasting estimate only, and there will be a subsequent report to Cabinet to consider the actual changes to parking tariffs. That report will need to consider the wider implications and justification for any tariff changes. Whilst the percentage increase is moderate (2%), the total impact equates to around £50k. I feel that this is a balanced assumption, but highlight that there is an element of risk to highlight.

Demand pressures and grant funding

In relation to the potential impact of reduced demand (either at current prices or where prices are inflated), there are various factors that provide me with confidence that the forecasts are reasonable. Firstly, we have been carrying out budget monitoring through the first 8 months of the year and have not seen any significant in-year drops in demand that needs to be adjusted on an ongoing basis. Secondly, as part of the Quarter 2 budget monitor a permanent adjustment to the parking budget was proposed to reflect the continuing post-Covid-19 drop in income. This has been incorporated into these budget forecasts. Thirdly, there are no significant increases in any of our fees and charges budgets.

Housing is the main service area where cost of living pressures are likely to lead to a demand pressure that in turn leads to a substantially higher cost that we face. In this year we are seeing an increase in the need to use hotel and B&B placements. The excess cost of these placements is currently being covered through specific housing grants. Whilst it is expected that housing grant funding will continue in 2024/25, there is a risk over any grant funding in terms of whether it continues, the amount received and any restrictions attached to it. This therefore an area to keep a focus on through quarterly monitoring.

As detailed in the main budget report, the risks in relation to other specific grant funding have also been considered.

Capital spend, capital funding and debt

Capital spend comes with a revenue cost, which ranges from lost treasury income through to external interest charges and Minimum Revenue Provision. There is therefore a need to ensure that our capital spend forecasts continue to be realistic, both in terms of cost forecasts for items that are progressing, as well as being prepared to remove those items that are no longer deliverable.

The impact of inflation on capital spend forecasts is considered above. The need to fund capital spend from borrowing comes with an increased revenue cost, compared with being able to fund it from capital receipts. It is therefore necessary to consider the assumptions made in relation to generating new capital receipts.

There has been a delay in the timing of capital receipts compared to forecasts. This is due to a combination of economic conditions, resourcing in the Estates team and investigating options for developing housing on Council land. As we are reaching the tipping point where we will run out of existing capital reserves, I have asked the Estates team to be more prudent in their forecasts in the timing and amount of capital receipts. This results in a higher forecast Minimum Revenue Provision charge than may be required, but I consider this to be necessarily prudent.

As it currently stands we have a small amount of historic external debt that it is not economic to repay. In the short-term we have the option to borrow internally against our revenue reserves and delay any further external borrowing as long as possible. This is both a more prudent approach, and likely to reduce longer term costs as it is likely that the cost of borrowing will continue to reduce.

Savings requirement

The plan (as established in previous years' budgets and detailed in the MTFS) is to use Business Rate pooling gains (that are held in reserve) to support balancing the budget in 2024/25. This has meant that a savings target has not been set for the 2024/25 budget. Once the impact of increased waste and street cleansing costs (that will apply from 2025) are known then it will be necessary to consider the savings necessary to balance the budget in 2025/26 and beyond. Our level of reserves gives some scope to phase in the delivery of those savings, but there is expected to be a need to take decisive action. There is likely to then be a need for a second phase of substantial savings when a new Council funding is implemented, assuming the impact is in line with our forecasts.

As there is not a savings target in place, any savings that have been put forward have not been due to pressure being placed on Budget Managers. Therefore, I consider the savings that have been put forward as part of this budget to be achievable and I do not need to flag any risks or concerns.

Council Reserves and the CIPFA Resilience Index

At the start of 2024/25 we expect our General Fund reserves to be £XXm and we also have £XXm of previous Business Rate pooling gains held in reserve. As detailed in the budget report this is substantially above the recommended Minimum General Fund reserve levels. This gap helps to provide further comfort against the risks and concerns that I have highlighted in this section 25 report.

The Chartered Institute for Public Finance and Accountancy (CIPFA) produce a Resilience Index for Councils. CIPFA recommend that Chief Finance Officers consider the results from the index in compiling their section 25 reports.

The index is published on the CIPFA website (https://www.cipfa.org/services/financial-resilience-index). At the time of writing this report the version on the website was still based on March 2022 data. CIPFA had provided a pre-release version using 2023 data to Chief Finance Officers, and the considerations below are based on that version. I hope that version is published on the CIPFA website soon.

The Resilience Index includes some important measures in relation to level of reserves and how quickly they are being used. However, as it is based on data from the previous financial year-end, it obviously is not current data. Any key messages that are highlighted by the Resilience Index, would usually have been being flagged by the Council's Chief Finance Officer long before they show up on the Resilience Index. However, the Index can help as a wake-up call to reiterate the need for action.

The Index is based on comparisons, both with others and over time. In our case we can compare ourselves against all Districts or our statistical near neighbours. This can help with highlighting with where you are different to other Councils and not just rely on the fact that it is difficult for everyone.

When compared with our nearest neighbours the two measures which are showing as higher risk are: level of reserves and change in reserves. Our results are that our reserves were 142% (comparative range of 52% to over 300%) of our net expenditure and that we increased our reserves by 21% (comparative range -14% to 63%) during that year. My conclusion is that our reserves are at a reasonable level for the risks that we are exposed to. Some Councils may have higher reserves as a way to mitigate against the higher risks (e.g. in relation to investments or borrowing) that they face. There is capacity for our reserves to drop as we respond to the budget pressures that we expect to have to face. But is worth noting that our reserves are not so high to allow for an excessively delayed response. They are at a level that allows for measured but prompt response but reflecting that savings will take some time to implement.

Conclusion

Overall, I consider that the budget is proposed based on robust estimates. I have highlighted where I feel that there are elements of higher risk, but I am satisfied that there are mechanisms in place to be able to respond to these if required.

My overall conclusion is focused on the medium-term. It is almost certain that there will be a be a need to act. The 2025/26 budget is almost certainly going to require some difficult decisions over areas of priority. As long as action is taken then the Council can be sustainable in the medium-term and beyond. But if action is not taken then our reserves could be fall very quickly.