

Appendix D- Chief Finance Officer's 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.

Future funding

Previously, future funding has been the biggest uncertainty facing the Council. That seems to have been resolved by now having a three-year settlement, although noting that the allocations in years 2 and 3 are not guaranteed. It is even more positive that the Fair Funding formula provides the Council with more funding than had been estimated might be the case.

The funding estimates treat Extended Producer Responsibility (EPR) monies as part of base funding. This is a reasonable position to take as the money is to fund the collection and disposal of packaging. These costs are already part of the Council's base budget and saw a significant increase between the previous and current contract, even with a competitive tendering process and decisions to help mitigate the increases in costs. However, this funding is not guaranteed, and the aim is that it will reduce packaging volumes. The current assumption is that the funding will reduce by 20% each year. This will need to be kept under review, as collection costs are linked to number of properties rather than volumes.

The Council was already incurring the costs associated with Simpler Recycling, e.g. separate weekly food waste collection. The New Burdens funding for this, now that it is a mandated, has been incorporated into the total pot that is allocated via Fair Funding.

As part of funding reforms, the Business Rates system has been reset. The Council has been used to being above the baseline funding level, which meant that there was minimal risk in relation to Business Rate income, and the opportunity for some gains. The reset will create some risk, depending on the level of Business Rate income that is collected compared to the baseline. As there is a 0% safety net in 2026/27 there is no risk next year. But the risk increases as the system moves back towards a 7.5% safety net. The risk could be around £240k.

Impact of inflation

Each year, budgets are increased to reflect forecasts of contract inflation and pay inflation. Contract inflation is usually linked to specific indicators and published economic forecasts are used to predict what these will be.

Overall inflation is remaining above the Bank of England target of 2%. Forecasts from the Monetary Policy Committee are that it will remain above target until 2027. This may put further pressure on contract budgets as the medium-term inflation assumptions may prove to be insufficient.

As part of the Medium-Term Financial Strategy update, pay inflation forecasts were increased to 3% for 2026/27 and 2027/28. Even with this increase, this may not be sufficient, particularly for 2026/27. Economic data is showing that pay inflation in other parts of the public sector are higher than these levels. The outcome will be subject to the ongoing pay negotiations between the Joint Negotiating Committee employers and the Unions.

There is still some uncertainty on the waste and street cleansing contract for 2025/26 (and therefore future years) as waiting for confirmation of the effect of the pay award to be applied from April 2025.

Capital budgets are set over a 10-year time horizon, and therefore 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. The estimates will need to be reviewed as we get closer to the need and opportunity to deliver affected projects.

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.

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. Although staff training is one of these budget types, we have generally found creative ways to get the most out of these budgets (e.g. use of our apprentice levy, use of other organisations unused levy). Although this will be kept under review, as it is vital that the Council values staff training. Some of the Local Government Reorganisation (LGR) reserve budget is also intended to be used for staff training.

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 is 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. Garden waste charging increases come with some risk due to the overall income generated, although the increase agreed for 2026/27 is a relatively small percentage increase. The risk is partly mitigated by a reduction in the amounts paid to Veolia for collection costs. Also other Councils have higher charges, and have not reported a drop-off in demand.

Demand pressures and grant funding

Housing is the main service area where we see demand pressures, which usually result in 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, and there has been an increase in specific grants. There is also an increase in the availability of accommodation for those that require greater support. But it remains an area to keep a focus on through quarterly monitoring, including the impact of subsidy loss (where the Housing Benefit that can be reclaimed from the Department of Work and Pensions is less than what has been paid to the provider).

As detailed in the main budget report, the risks in relation to other specific grant funding have also been considered. These risks are declining as there are now fewer specific grants.

Spend estimates

The reduction in pension costs is a significant contributing factor towards the improved financial position of the Council. The actuary has based this on the usual long-term funding time horizon. It also reflects the high levels of past-service contributions the Council has made and improved

investment performance over a sustained period. However, it is worth noting that there is some risk that the next triennial valuation could see an increase in contribution rates. However that would not apply until 2029/30.

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 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. These have been updated as part of this update. They are more focused on smaller disposals (rather than larger site disposals) which helps to reduce the risk.

As it currently stands, the Council has a small amount of historic external debt that it is not economic to repay. In the short-term there is the option to borrow internally against 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 reduce in the medium term (although not to the exceptionally low levels seen from 2008-2022).

Savings requirement

Based on current forecasts there are no unidentified savings required. There was also not a savings target in place when the proposals were put forward. The proposals are based on genuine estimates of what is achievable and have been supported by the Finance team. It is noted that the income from increased Careline marketing is projected to grow by a large amount (£367k by 2030/31). However this is based on a relatively modest growth in customer numbers each year, and reflects the structure that is already in place. Achievement against the targets will be kept under review to see if the forecasts need amending.

Council Reserves and the CIPFA Resilience Index

At the start of 2026/27 we expect our General Fund reserves to be £14.4m and we also have £6.5m of previous Business Rate gains and grants held in reserve that will be transferred in to the General Fund. 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 are 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>).

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. This can help with highlighting where the Council may be 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 fees and charges to service expenditure ratio. In both cases they are only slightly below the mid-point risk level when compared with the Council's (statistical) Nearest Neighbours. When compared with all non-metropolitan districts, only the fees and charges indicator is above average in terms of risk.

The reserves indicator shows that the Council has usable reserves that are 170% of net expenditure. Whilst this lower than a high proportion of the comparators, it is not too low in general terms. Indeed, as stated in the main report, there is scope to use some of our usable reserves for investment in the district.

The Council's fees and charges as a proportion of service revenue expenditure are just under 23%. That is against a Nearest Neighbour comparator range of around 15% to 55%. CIPFA take the view that having a higher proportion of costs covered by fees and charges, makes a Council less dependent on other funding sources. There was an exception to this during the Covid pandemic where fees and charges were badly affected, and increased risk. Although some losses were covered through Government compensation. Having lower fees and charges may also give scope to increase them, and a way to generate more income.

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.