



MEETING: COUNCIL

MEETING DATE: 27 FEBRUARY 2023

AGENDA ITEM: 10

Advice from the Council's Chief Financial Officer (Section 151 Officer) in respect of amendments received in relation to the Council's budget.

Section 151 Officer advice in respect of the amendment in respect of the Household Fund and Discretionary Fund

1. The amendment can be accommodated within the Council's budget and is operationally deliverable within existing resources.

Section 151 Officer advice in respect of the amendment to increase Council Tax by 3%

1. My professional advice to Members is included within the final budget report and is given in the context of the significant uncertainty and risks we face as a Council and a local government sector. The amendment proposes a council tax rise of 3%. My advice in respect of Council Tax is clear. In the context of significant uncertainty, the Council's best chance for financial sustainability is to raise Council Tax by the maximum amount allowable, 4.99%. A proposed rise of only 3% would reduce council tax income by c£600k in 23/24 and every year following but would give Band D households a saving on Rutland council tax of £38.16 (73p a week) compared to a proposed increase of 4.99%. My view is that an increase of 3% would expose the Council to greater risk and I would strongly advise against it. However, I accept that there are scenarios (albeit outside of our control) that could prevail which would mean that a 3% rise may be sufficient to support a financially stable Council.
2. Our Medium Term Financial Plan (MTFP) is one version of possible scenarios that could prevail. Members should be aware of this. It is built on a series of assumptions and risks - set out in para 4.3.4 and section 5 of the budget report – that cover Government funding, the pay award, future council tax rates, levels of demand, pension contribution rates etc. These assumptions are based on professional judgment, experience and available information. Regrettably, very few assumptions are certain. In particular para 4.3.5 highlights the uncertainty around funding from 25/26 after a General Election. Members will know that many of the assumptions are outside of the Council's control and any variation could have a significant impact positively or adversely on the Council's financial position. I have spent time showing Members what changes to assumptions could mean to the MTFP and the Council's projected financial deficit.

3. The amendment asserts that there is “room” in the MTFP to accommodate the £3m funding loss from a 3% tax rise (compared to 4.99%). This is possible and I will go through my view of the issues raised.
4. The amendment highlights that investment income returns may be better than envisaged. I am hopeful that this is the case and at this point it is very likely as Council capital spending plans are slower than expected and interest rates remain high. My updated view is that we could exceed the budget by 10%-15% (£160k-£250k) in 23/24. Beyond 23/24 there is more uncertainty particularly around Interest Rates, level of Balances and level and timing of Capital Investment. I consider £2m over the lifetime of the MTFP to be unrealistic but I cannot rule it out. Members should note that any additional investment income is one-off, a windfall. A windfall in itself can replace the lost £600k Council Tax in one year or maybe even two years but it is unlikely to plug the gap indefinitely.
5. The amendment also asserts that the contingency may be overstated or not required in full so could be reduced. I accept that there is a possibility that this is true but by no means certain. The contingency for 23/24 is 0.5% of the budget (£245k). It is lower in the year of the proposed budget because there are known pressures that are already built into the base budget (Directorate costs). Importantly, the £245k is built into the MTFP in every year that follows. This means contingency allows for that amount to be built into the base budget in that year and subsequent years if a pressure arises. For example, if demand for commissioned transport rises the £245k contingency can be moved into the base budget in 23/24 and every year after. The contingency for years from 24/25 represents 1% of that years budget.
6. In terms of the adequacy of the contingency, what I do know is that the MTFP does not include any provision (other than this contingency) for unexpected pressures. What I also know is that the contingency in the last few years has not been sufficient to cover subsequent pressures. For example in January 2022, the contingency for 23/24 was £842k (£428k of this was for 22/23 pressures continuing into 23/24 as per the point above and the remainder for 23/24). Pressures for 23/24 turned out to be £902k made up of £256k for commissioned transport, Adult Social Care demand £260k, Childrens Social Care Demand £300k, Community Support Service £39k, Other Pressures £47k . In this economic climate maintaining such a provision at this level is advisable. Of course we may be in a position with new information to reduce the provision in 25/26 and beyond but I would argue it is too early to assess and for now the approach is prudent.
7. We could also extend such speculation about the robustness of assumptions to other variables including for example the pay award. We have budgeted for a 4% settlement. In 22/23, the pay award was settled at a rate that was effectively 6%. Helpfully, Cllr Waller reported back from a recent East Midlands Council pay briefing that a number of Councils have budgeted for more than 4% for 23/24 and that we run a risk with only a provision of 4% in light of the current ask from Unions. She is correct. A 5% award would cost the Council another £186k per annum beyond what is included in the budget. The same rate as 22/23 would cost an additional £372k per annum.

8. The proposal also references savings. Whilst it is not explicit, I believe the assertion is that further savings could be made beyond the £4m built into the budget. The Council has made an assumption that it can deliver further savings of £4m by 27/28 (having made £1.1m of service led savings in 23/24). The report explains in para 6.1.1. why this figure is lower than that presented in the Financial Sustainability Strategy. The report also explains in 4.4.4 why the £4m figure is challenging. Neither myself, the Chief Executive or Corporate Leadership Team believe that savings above this level are realistic. Importantly, I have seen no analysis or proposals from any Member arguing that a greater level of saving is achievable.
9. The delivery of £4m savings assumes that the Council can identify savings at this level (this is still a work in progress) and that enough Members in the Council Chamber will approve savings when asked to do so. I consider this to be a very significant risk which I highlighted in the Financial Sustainability Strategy. It is my view that decisions around reducing or changing service provision will be very challenging for Members. The recent decision around Leisure exemplifies the type of sensitive decision we face in the future.
10. The amendment also references the 21/22 council tax decision. In 21/22 and 22/23 the Council raised council tax by the maximum allowable over that two year period. I do not see any parallels with the amendment for 23/24. A rise of only 3% could not be "made up" in future years as was the case with the 21/22 council tax decision.
11. My final point relates to the comment re MRP and the suggestion that the reversal of the decision made in 2014 would boost General Fund balances by £2m (albeit would increase the deficit by £200k per annum thereafter until the £2m is repaid). My initial view is that this is not the case as capital balances were used to make the overpayment. However, before making any final decision on this matter I would need to consult with external audit and our treasury advisors. As the amendment does not propose reversing the overpayment, I will not be seeking that advice at this time but wanted to be clear on my initial view.
12. In summary, each of our assumptions carry a risk. Outcomes could be favourable as the amendment points out, but they also could be adverse. One thing is certain. We are in control of the decision over Council Tax levels. We know of Councils such as Northamptonshire County Council that have seen financial difficulties when not applying maximum tax rises. If the Council were to approve a 3% tax rise then this is affordable in the short term (there is no immediate risk). If then assumptions turn out better than expected (over the life of the MTFP), then it is of course the case that the impact of a 3% tax rise (a loss of c£600k every year from 23/24) may be managed in the medium to longer term. Conversely, a 3% tax rise coupled with assumptions turning out worse than expected would see the Council face an insurmountable challenge. Knowing this, my advice is that the Council should apply a 4.99% tax rise now (23/24) and when and if assumptions turn out more favourably in the future, the

Council may be in a position to make some positive choices – reduce its savings programme, hold or even reduce Council tax levels or invest in services.