REPORT TO:	**COUNCIL**	**AGENDA ITEM: 11**
DATE OF MEETING:	**22 FEBRUARY 2023**	**CATEGORY: RECOMMENDED**
REPORT FROM:	**STRATEGIC DIRECTOR (CORPORATE RESOURCES)**	**OPEN**
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE** Kevin.stackhouse@southderbyshire.gov.uk	**DOC:** u/ks/budgets/budget 2023 24/Section 25 Report 2023 Council
SUBJECT:	**ANNUAL REPORT OF THE SECTION 151 OFFICER**	
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: FM 08**

1.0 Recommendations

1.1 That the Annual Report of the Section 151 Officer is considered and noted.

1.2 That the Council has due regard to the Annual Report when approving the Budget for 2023/24 and when considering future proposals for new spending and the utilisation of resources.

1.3 That no new unfinanced spending commitments are added to the Base Budget and Medium-Term Financial Plan approved by the Finance and Management Committee on 9 February 2023.

1.4 That the Medium-Term Financial Plan continues to be reviewed and updated on a quarterly basis.

2.0 Purpose of the Report

2.1 In their role as the Council's Section 151 (Chief Finance) Officer, the Strategic Director (Corporate Resources) is required, under Section 25 of the Local Government Act 2003, to provide an overall opinion on the robustness of the estimates included in budgets and the adequacy of Council reserves.

2.2 In doing so, the Report includes an assessment of the Council's financial sustainability based on its spending plans and projected resources available, as set out in its Medium-Term Financial Plan (MTFP).

2.3 It is recommended that Elected Members of the Council pay due regard to the Annual Report when approving the Budget for 2023/24 and when considering proposals for new spending and the utilisation of resources.

3.0 Executive Summary

Overall Opinion of the Section 151 Officer

3.1 The overall financial position of the Council has not changed significantly over the last year with the same prognosis underlying current forecasts. Based on the Budgets submitted for approval and the latest MTFP, the Council's current financial position continues to look healthy ahead of 2023/24.

3.2 However, over the planning period to 2027/28, the position is forecast to deteriorate based on current spending and projections regarding funding. Although the latest MTFP highlights the General Fund still operating above its minimum level of reserves of £1.5 million for the next three years until 2025/26, significant budget deficits continue to be forecast in the intervening period.

3.3 These deficits, which will be financed from current reserves, effectively show that the on-going position is not sustainable and will reduce the current General Fund Reserve from approximately £12.2 million in 2023 to £2.6 million by 2026 and into a negative position by 2027, as highlighted in Section 4 (below).

Proposals for Council Tax

3.4 It is noted that the Finance and Management Committee have recommended a 1% increase in Council Tax at Band D for 2023/24. This is lower than the planned increase of 1.95%. In the medium-term, this will have the effect of increasing future budget deficits and negate the cumulative effect of an increasing tax base.

3.5 ***Given the Council's forecasted medium-term financial position, which highlights increasing budget deficits in future years, any decision to increase the rate of Council Tax below 1.95% needs to be considered with caution***.

3.6 The financial forecast supports a higher increase to enable current service provision to be maintained and it should be noted that the Government's Financial Settlement is based on the Council increasing Council Tax at the maximum level allowed (without triggering a referendum) of £5 per year at Band D.

Projected Spending

3.7 Projected spending continues to allow for the anticipated growth associated with residential development and other expenditure such as additional waste collection costs, vehicle, and IT replacements, etc. The MTFP also continues to assume that current service provision is maintained over the planning period, with allowances for inflation on pay, utilities and contracts, etc.

3.8 Although the Council can control its expenditure base and has time to take corrective action in a timely and planned manner, if necessary, it cannot as easily control its external funding and in particular that provided by central government (including through the Business Rates Retention system) which in total accounts for over 50% of the Council's funding.

Government Funding

3.9 The biggest uncertainty and key risk to the Financial Plan, continues to be Government funding. The Government's settlement for 2023/24 was again for one year only. Following on from an overall reduction in funding of £418,000 (10.7%) in 2022/23, there will be a further cash reduction in 2023/24 of approximately £100,000.

3.10 This was significantly better than projected in the MTFP. However, the Settlement for 2023/24 includes a Funding Guarantee payment of £1.8 million. This is effectively a protection payment to offset the reduction in New Homes Bonus payments and means that the Council should be no worse off in 2023/24, assuming it increases Council Tax by the maximum rate possible.

3.11 The concern with the settlement for 2023/24 is that the Guarantee Payment of £1.8 million, is for one year only. There is also no certainty that another New Homes Bonus allocation will be paid in 2024/25.

3.12 It is now fairly certain that there will be no review of the current funding system before the next Parliamentary Election, the earliest date considered to be in 2025/26. This may include a review of the current Business Rates Distribution system, although this does currently benefit the Council as growth (which is retained) is above the Baseline.

3.13 In the meantime, the MTFP continues to be based on the presumption that the Council will continue to lose funding and will ultimately be scaled back to a base funding allowance, the basis of which remains out-of-date.

3.14 Consequently, over the medium-term, this leaves the Council in a position where it may need to raise additional income locally or review its expenditure base to maintain a sustainable position. This would need to be undertaken ahead of 2025/26 in order that any changes can be properly considered and implemented.

External Comparisons

3.15 During 2022, the Council's Financial Resilience Index (*compiled by the Chartered Institute of Public Finance and Accountancy and published in December 2022)* was updated based on actual data as at 31 March 2022.

3.16 This Index confirms the Council's position. The Index continues to highlight that the Council's current level of Reserves places the Council at lower risk of financial difficulties with its sustainability measure being high in comparison to many other authorities. Further details are provided in Section 4, below.

Future Plans

3.17 Although the Council remains in a positive position at this point, it should not be complacent and continue to operate with a certain degree of caution. Where-ever possible, opportunities to generate efficiency and budget savings should be pursued with the concept of providing Value for Money being at the core of all Council spending.

3.18 It is acknowledged that there may be proposals to meet certain spending pressures, which are not included in the MTFP. Re-directing current resources and/or using earmarked reserves should be considered where there may be greater pressure to spend.

3.19 In the meantime, it is recommended that no further unfunded financial commitments, beyond the proposed Budget and MTFP recommended by the Finance and Management Committee on 9 February 2023, should be made, with the position continuing to be reviewed and updated on a quarterly basis.

4.0 Detail

Basis of the Opinion

4.1 The Opinion is given within the general context detailed below, followed by a summary of each of the Council's main accounts and their financing. Reference is made to the separate budget reports considered by the various Policy Committees during January and February 2023.

4.2 The opinion also considers an overview of the Council's financial resilience.

General Context

4.3 It is considered that estimates of income and expenditure included in the Base Budget and longer-term financial forecasts are prudent. They provide for inflation and other known variations (pensions, pay awards, etc.) together with provisions that recognise current cost pressures, and potential costs associated with Growth of the District.

4.4 The Budget for 2023/24 and forward projections are based on the most up-to-date economic forecasts for inflation and interest rates, etc. However, as the Budget is being presented for consideration and approval, it should be noted that the Council is operating in uncertain times economically.

Economic Uncertainty

4.5 With current inflation rates at high levels not seen for 30 to 40 years, this may put further pressure on spending. Budget reports to the various Policy Committees have highlighted the rising cost of pay, fuel and utilities, etc. and the Budget has made provision for this. This will need to be kept under review as the MTFP beyond 2023/24 assumes a reduction in inflation rates.

4.6 With a high level of funds on deposit, rising interest rates are proving a significant benefit for the Council's financial position in the form of interest, helping to offset increased costs. Although remaining prudent, the MTFP assumes that interest rates will remain higher than the current Base Budget beyond 2023/24, but eventually reducing in line with a reduction in inflation.

Pay, Recruitment and Retention

4.7 The Budget does not assume a vacancy rate for staffing and assumes that all posts on the Council's Establishment are filled throughout the year. Where posts are vacant and problems may be experienced with recruitment, this allows a contingency to maintain services through temporary arrangements.

4.8 However, it is noted that there are current problems with recruitment and retention, particularly in certain services, where short-term measures such as market supplements have been implemented to help retention of staff in key services. This will need to be kept under review.

4.9 Ways of working and changes in the job market are putting pressure on the Public Sector generally; proposals to implement longer-term solutions will be presented to the Council during 2023.

4.10 In addition, a realistic but prudent view has been taken regarding projected income levels from fees, charges, and short-term investments. This also includes a prudent reduction in overall Government funding as highlighted in Section 3 (above).

4.11 Forward projections for Council Tax receipts are based on an increase in property numbers, within those contained in the current Local Plan.

Budget Strategy and Process

4.12 The compilation of detailed budgets has been undertaken in conjunction with service/budget managers and reviewed by the Council's senior management.

4.13 It is recognised that the Council has well established performance and budget monitoring arrangements in place to help ensure the Council finances are monitored effectively. This includes quarterly reports to the Finance and Management Committee, in addition to statutory reports regarding the Annual Accounts and the Annual Budget.

4.14 The Council has traditionally spent within budget and generated additional income over that estimated. Although this is no guarantee of future performance, it does provide some comfort that budget preparation and budget management is sound.

4.15 The Council's Financial Strategy directs the Council to plan its spending over a 5-year rolling period for the General Fund and 10 years for the Housing Revenue Account (HRA). This provides an indication of the sustainability of spending plans and the projected level of Reserves. Consequently, this allows sufficient time in which remedial action can be implemented to address any issues in a planned and timely manner.

4.16 A full risk assessment, with mitigating actions, is considered alongside the MTFP for both the General Fund and the HRA and risks for each Policy Committee are reported alongside budget proposals.

Financial Resilience

4.17 The Chartered Institute of Public Finance and Accountancy (CIPFA) first published a Financial Resilience Index (cipfa.org) in December 2019. This is updated annually with the latest release being in December 2022, based on prevailing data as at 31 March 2022.

4.18 This Index calculates the Council's position on a range of measures associated with financial risk, with a comparison to similar authorities. It is based on figures for the financial year 2021/22.

4.19 The Index is based on 8 measures, although they can be distilled down to 3 categories to illustrate the Council's position as shown below.

Financial Stress Indicator	Comparison Rating
Level and Sustainability of Reserves	Lower Risk
Debt level and interest payable	Higher Risk
Financing	Higher Risk

Reserves

4.20 The Council's level of Reserves highlights that the Council continues to be in a strong position compared to many other shire districts.

Debt Level and Interest

4.21 The Council does have a high level of debt associated with Council Housing which it inherited from the Government under the "self-financing system" in 2012/13. It is considered that the comparison with other authorities is influenced by the fact that many shire districts do not have their own housing stock, Consequently, there is a risk that this could skew the comparison.

4.22 The current level of debt is £48 million. However, the cost of the debt and its repayment remains affordable within the Housing Revenue Account's Financial Plan and the financial model for the HRA is designed to ensure sums are set-aside on an annual basis to repay the debt.

4.23 £30 million is due to be repaid over the life of the current Financial Plan to 2032/33. The level of interest payable is fixed and is not affected by changes in interest rates, which provides certainty for financial planning.

Financing

4.24 The Council is placed at a higher risk due to its reliance on the Government's funding system. Although the Council does not receive any Revenue Support Grant, its level of income from Business Rates, due to Growth, is above its Baseline Level set by the Government in the current funding system.

4.25 Therefore, the Council is at risk to changes in the funding system and in particular if/when the Baseline Level is reset. If the Council's need is assessed as far less than that currently due to its Growth, then the Council could be penalised through an increase in its Levy.

4.26 This would be exacerbated if the Council were not part of the Derbyshire Business Rates Pool as no Levy (50%) is paid on Growth above the Baseline.

*(**Note**: The Levy is effectively the amount that the Council pays to the Government from its 40% share of local Business Rates as part of the redistribution system of local authority resources)*

4.27 The Index also highlighted that the Council does not generate as much income from fees and charges compared to other authorities. Again, this comparison may be influenced by the fact that the Council does not charge for car parking and will be in a minority of authorities who don't charge.

General Fund Revenue Account

4.28 The Base Budget for 2032/24 highlights a budget deficit as previously forecast, which will be financed from the General Fund Reserve, as planned.

4.29 Increasing budget deficits continue to be forecast in all years of the updated MTFP to 2027/28. This is based on current expenditure increasing and current central government funding decreasing.

4.30 As the Resilience Index highlights, the Council is at risk fr0m changes in the current funding system and the current uncertainty makes future planning more difficult. The MTFP prudently assumes that overall funding will fall towards its baseline funding assessment and if this is the outcome for the Council, projected deficits will need to be addressed earlier than previously planned ahead of 2025/26.

4.31 Growth also brings additional demand on the Council's services, and it is noted that the MTFP continues to set-aside sums in the Base Budget to meet future costs.

General Fund Reserve

4.32 The current level of the Reserve continues to remain healthy. The projected level of the Reserve over the medium-term planning period is summarised below.

2022/23	£12.2 million
2023/24	£9.7 million
2024/25	£6.5 million
2025/26	£2.6 million
2026/27	Minus £1.2 million
2027/28	Minus £5.5 million

4.33 The above table shows that the General Fund Reserve is projected to reduce quite significantly over the current planning period. This allows the financing of committed capital projects and asset replacements, together with budget deficits, which include provisions to increase spending arising from Growth.

4.34 Under statute, the Council has to maintain an unallocated contingency in its General Reserve. The Council has discretion on how this is calculated, considering the recommendation of the Section 151 Officer. Good practice suggests that the minimum level should be between 5% and 10% of net revenue expenditure.

4.35 The current approved minimum level is £1.5 million, to be maintained by the end of the five-year planning period, i.e., 2027/28. This equates to 9.4% of net revenue expenditure in 2023/24, falling to 8.3% by 2027/28.

4.36 Based on these latest projections, this target will not be met after 2025/26 without corrective action or additional funding being generated.

Housing Revenue Account (HRA)

4.37 The HRA also remains in a healthy position and the current 10-year Financial Plan shows a sustainable position. It is noted that the Plan is based on a rent increase of 3% for 2023/24 within a rent cap of 7% set by the Rent Regulator. The HRA General Reserve is currently forecast to remain above the minimum contingency level of £1 million over the life of the planning period to 2032/33.

4.38 Resources have been set-aside to deliver a capital programme of works and to maintain services at their current levels.

4.39 Resources have also been set-aside to repay debt. It is noted that the financial model for the HRA is designed to generate sufficient surpluses to maintain the original debt repayment schedule approved in 2012/13. Total debt outstanding is £48 million, of which £30 million is due to be repaid over the next ten years.

4.40 The HRA's financial risk register shows that the main issues potentially are the continuing level of Right to Buys, the current level of void properties and the time taken to relet, together with external financing of the Careline Service.

4.41 On this point, Derbyshire County Council will no longer be supporting this service past March 2024 and the HRA's MTFP has built in this reduction.

4.42 The Careline Service is currently under review and a new working model will be reported to the Council during 2023. In addition to the loss of income, there are likely to be costs incurred for the transfer of the service from analogue to digital. The costs are still unknown but further detail will be reported to the Council during 2023.

4.43 However, given the current position of the HRA, any remedial action required can be achieved in a planned and timely manner, although a more detailed review of resources may be required depending on the magnitude of costs.

Capital Expenditure and Financing

4.44 All capital projects both in the General Fund and the HRA, have sufficient resources set-aside to finance the associated expenditure.

4.45 It is expected that potential asset sales over the MTFP period will generate resources, although these are not guaranteed. Additional receipts will need to be generated at some point to help finance future vehicle and other asset replacements.

4.46 Potentially, there is a shortfall of General Fund receipts in 2025/26 and the Council's vehicle replacement programme is being reviewed.

4.47 Besides this issue, there are no major concerns currently associated with capital expenditure and it's financing.

Treasury Management

4.48 The General Fund is currently debt free. Council expenditure is not reliant on any borrowing and given the current level of reserves and cash on deposit, it is unlikely that the Council will need to enter into any form of borrowing over the financial planning period.

4.49 The HRA debt is at fixed interest rates and provision is being made in the HRA's financial plan to repay loans in accordance with a repayment schedule.

4.50 The Council is not reliant on interest rates increasing to generate a return on investments. A prudent assessment has been made in the MTFP for interest and dividends on investments and this is below the amount actually being generated. As previously highlighted, the current increase in rates is beneficial for the MTFP.

4.51 The Treasury Management Strategy includes a Lending Policy and Counterparty List. This is designed to ensure the liquidity and security of investments, in priority to yield.

4.52 Overall, there are currently no major concerns associated with the Council's current treasury management position.

Other Usable and Earmarked Reserves

4.53 The Council maintains various reserves that are used to meet one-off/known commitments or to defray expenditure over a number of years, for example, ICT upgrades, vehicle replacements and community development projects.

4.54 Reserves held to finance on-going community and sports development spending, will need to be kept under review if external and partnership contributions significantly reduce. On-going contributions to asset replacement reserves are provided for in the MTFP.

4.55 Overall, it is considered that current reserves will remain sufficient to meet commitments over the life of the current MTFP. In addition, they should continue to be reviewed on an on-going basis to determine whether they are still required or can be reassigned to meet other emerging cost pressures, as reported to the Finance and Management Committee in November 2022.

5.0 Financial Implications

5.1 None as a direct result of this report.

6.0 Corporate Implications

Employment Implications

6.1 None.

Legal Implications

6.2 None.

Corporate Plan Implications

6.3 None. The production of the Section 25 Report is a statutory requirement.

Risk Impact

6.4 None.

7.0 Community Impact

Consultation

7.1 The Council is statutorily required to consult on its budget proposals, prior to setting the annual Council Tax rate, with the local business and community sector. The Council has an established process in place to meet this requirement and this was undertaken in January 2023.

7.2 Consultation takes place for approximately four weeks following approval of the draft budget proposals by Finance and Management Committee in January each year. There was no specific feedback or comments raised from the consultation this year.

7.3 There is no statutory requirement to consult generally with residents or other stakeholders, although it is considered good practice to do so.

7.4 Traditionally, the Council has disseminated proposals through Area/Community Forums and via a presentation at the South Derbyshire Partnership Board. Many authorities do consult formally regarding their budget proposals and medium-term financial plans prior to setting budgets, using panels, representative groups, etc. as a way of fully engaging local people.

Equality and Diversity Impact

7.5 None.

Social Value Impact

7.6 Not applicable.

Environmental Sustainability

7.7 Not applicable.

8.0 Background Papers

8.1 None