

REPORT TO:	COUNCIL	AGENDA ITEM: 9
DATE OF MEETING:	28 FEBRUARY 2024	CATEGORY: RECOMMENDED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
MEMBERS' CONTACT POINT:	TRACY BINGHAM tracy.bingham@southderbyshire.gov.uk	DOC: S/Finance/Committee/2023-24/February
SUBJECT:	ANNUAL REPORT OF THE SECTION 151 OFFICER	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That Council notes the S151 Officer's report on the robustness of budgetary estimates and the adequacy of reserves and considers its content as part of approving the General Fund budget 2024/25, the Housing Revenue Account budget 2024/25, the Capital budget and programme for 2024/25 – 2028/29 and the Capital Strategy and Treasury Management Strategy 2024/25.
- 1.2 That Council approves the minimum level of General Fund reserves at £1.35 million as set out in this report and continues with a level of £1 million for the HRA.

2.0 Purpose of the report

- 2.1 The Local Government Act 2003 requires the Council's Chief Financial Officer (Section 151 Officer) to comment on the robustness of the estimates and the adequacy of reserves – otherwise known as the "Section 25 Statement". Members must have regard to these comments when approving the budget for the forthcoming year.
- 2.2 The Chartered Institute of Public Finance (CIPFA) Financial Management Code also requires that the reserves statement should consider whether the level of general reserves is appropriate for the level of risk that Council is exposed to and gives assurances that the council's financial management process and procedure is able to manage these risks.
- 2.3 This report details the Section 151 Officers assessment of the Council's proposed budgets for 2024/25 and the medium-term position of its revenue accounts, along with an assessment of the robustness of estimates. The report also sets out an assessment of reserves.

3.0 Strategic Outlook

Economic Outlook

- 3.1 On 22 November 2023 the Chancellor of the Exchequer set out his Autumn Statement to Parliament. This set out the major fiscal policy for the UK, along with an updated Office for Budget Responsibility (OBR) Economic and Fiscal Outlook.
- 3.2 The OBR's outlooks report predicted slow economic growth, with Gross Domestic Product (GDP – a measure of the size and health of the country's economy over a period) around ½ a per cent higher in the medium term than previous forecasts, expecting to be 0.7% growth in 2024.
- 3.3 Inflation was predicted to fall to 4.8% by the end of 2023/24 and return to its 2 per cent target in early 2025/26.
- 3.4 Interest rates are expected to need to remain higher for longer to bring inflation under control. Arlingclose Ltd, the Council's Treasury Management advisor, forecasts that the Bank of England bank rate has peaked at 5.25% and that the Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy. Arlingclose anticipate rate cuts from Quarter 3 2024/25.

Local Government Finance

- 3.5 The context for Local Government budget setting remains increasingly challenging. Throughout the 2023/24 several Councils have issued Section 114 notices (effectively declaring themselves bankrupt) and many others have publicly reported the potential need to do so. The combined impact of reduced grant funding, high levels of inflation and increasing demand for services have created an extremely challenging operating environment.
- 3.6 In Autumn 2023, various sector bodies publicly raised concerns over funding for councils. The Local Government Association (LGA) reported that Councils face a funding gap of £4 billion over the next two years.
- 3.7 The provisional Local Government Finance Settlement, which confirms individual allocations, was published on 18 December and was out to consultation until 15 January 2024. On 24 January 2024, Michael Gove, Secretary of State for Levelling up, Housing and Communities announced additional measures for councils worth £600 million. Whilst most of this funding is earmarked for councils with responsibility for adults and children's social care, districts received an increase in grant funding. The final Local Government Finance Settlement received on 5 February 2024.
- 3.8 The key headlines for district councils were:
 - No change to Council Tax referendum principles for districts – highest of £5 or 2.99%;
 - Revenue Support Grant increase with CPI;
 - No changes to NHB, meaning another round of new payments following same calculation;
 - Business Rates income retained increased by CPI;

- Minimum Funding Guarantee to maintain Core Spending Power increase at 4% or above. This is the minimum funding increase that all DCN member councils will receive before taking into account council tax increases or any other rise in locally generated income.

3.9 A number of other key messages were shared as part of the final settlement. Firstly, the Secretary of State outlined the requirement for councils to produce “local productivity plans” will be expected to be published following approval by Council Leaders and Members, by July 2024. The plans are expected to cover four main areas:

- transformation of services to make better use of resources.
- opportunities to take advantage of technological advances and maximising data-informed decision making and service design.
- ways to reduce wasteful spend within systems, including specific consideration of expenditure on consultants and EDI programmes.
- barriers preventing activity that Government can help to reduce or remove.

3.10 The second key matter arising was the commitment that the Minister for Local Government will begin engaging with the sector over the coming months to consider reforms to local government finance in the next Parliament.

3.11 In response to the final settlement the LGA welcomed additional funding announced by the Secretary of State, but called for the Government to ensure that all that all councils have sufficient funding to deliver their 2023/24 budgets, set balanced budgets for 2024/25 and develop medium-term financial strategies that are not characterised by funding gaps.

Budget approach for South Derbyshire

3.12 At the inception of the budget setting process, the following key principles were agreed with Members:

- Budgets should support Service Plan and the Council Plan - Services should align with Service Plans and the Council Plan.
- Revenue investment should be based on demonstratable need or be self-funding - meaning that any cost-pressures (such as inflation pressures on supplies, services, and contracts), additional staff or reductions in income due to lower demand or reduced fees, should, insofar as is possible, be “self-funding”.
- Capital growth will be considered based on need and innovation meaning it is essential for the maintenance of service delivery or will improve service delivery by way of revenue improvement.

3.13 Following agreement, these principles were then set out to Heads of Service and managers to guide the preparation of service budget proposals.

3.14 The budget approach has been an incremental process, taking last year’s budget and varying for known changes. All budget proposals have been justified by Heads of

Service, reviewed by finance and subject to budget challenge with Finance, the Section 151 Officer, the Leadership Team and Leading Members. Not all proposals tabled feature in the budget, having not progressed past the Leadership team stage if they were deemed not in line with the budget setting principles outlined above.

- 3.15 A draft budget was presented to the Finance and Management Committee on 23 November 2023, with approval sought to use the estimates to undertake statutory and public consultation and approval of the relevant policy committees for service-based budgets.
- 3.16 In January 2024, policy committees were presented with service budgets and individual proposals of a material or staffing establishment nature.
- 3.17 The final budget was presented to Finance and Management Committee on 15 February 2024, who recommend the budget to Council as part of this agenda.
- 3.18 On the same agenda as this report is the Council Plan 2024-2028 for Council approval. This plan sets out the council's ambitions for the next four years, in the form of priorities, aims and outcomes. Developed in tandem, the budget supports the delivery of this plan.

Medium-Term Financial Strategy

- 3.19 At the time of writing this report, the Medium-Term Financial Strategy (MTFS) is in development and is due to be presented for review and recommendation to Council, at the next Finance and Management Committee on the 14 March 2024 and at the next Overview and Scrutiny Committee on the 27 March 2024.
- 3.20 The strategy will consider the future funding expectations and opportunities for increasing the Council's self-sufficiency in the light of diminishing central government grants and an uncertain future funding outlook, whilst ensuring the Council can continue to fund and deliver excellent services.
- 3.21 It is important to recognise that this strategy is critical given that the medium-term position for the General Fund is characterised by substantial funding gaps.
- 3.22 Key features of the strategy will be:
 - Identifying the range of potential financial outcomes through scenario analysis to enable the Council to plan and prepare for different outcomes;
 - A Sustainable Finance Plan to set out how the Council will maintain robust finances into the future. This plan will mandate officers to identify, assess and deliver savings in expenditure and improvement in additional and new income to close the budget gap over the medium-term position. The areas in which this plan will deliver savings/additional income will be based on member feedback provided at the MTFS Workshop held in December 2023; and
 - A Reserves Strategy to guide the effective and optimum management and use of the council's unallocated reserves whilst balancing risk.

Financial Resilience

- 3.23 The Chartered Institute of Public Finance and Accountancy (CIPFA) first published a [Financial Resilience Index \(cipfa.org\)](https://www.cipfa.org) in December 2019. This is updated annually with the latest release being in December 2023, based on prevailing data at 31 March 2023.
- 3.24 The 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 2022/23.
- 3.25 The following results show the risk position for South Derbyshire in comparison to other District Councils in England.
- 3.26 The Index is based on 8 measures, although they can be distilled down to 3 categories to illustrate the Council's position, which are taken in turn below.

Table 1 – Level and Sustainability of Reserves

Financial Stress Indicator	Comparison Rating
Level and Sustainability of Reserves	Lower Risk

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

Table 2 – Debt Level and Interest Payable

Financial Stress Indicator	Comparison Rating
Debt Level and Interest Payable	Higher Risk

- 3.28 The Council presents in comparison to others as having a medium level of debt compared to others but a high interest payable to net revenue expenditure ratio. This is because of the HRA self-financing debt which it inherited from the Government under the "self-financing system" in 2012/13.
- 3.29 The comparison with other authorities is influenced by the fact that many districts do not have their own housing stock. The level of debt is forecast to be £37.4 million at 31 March 2024, after the Council has repaid the next maturity £10 million loan due on 28 March 2024. As detailed later in this report and in the Treasury Management Strategy report - the repayment of this debt in line with the original repayment profile is no longer affordable due to constraints on rent income coupled with inflationary pressures experienced in recent years.

Table 3 – Funding and Income

Financial Stress Indicator	Comparison Rating
Funding and Income	Higher Risk

- 3.30 The Council is placed at a higher risk due the position of its fees and charges income against service expenditure. This comparison is likely influenced by the fact that the Council does not charge for car parking or green waste.
- 3.31 Additionally, the Council's level of income from Business Rates, due to Growth, is above its Baseline Level set by the Government in the current funding system. Therefore, the Council is at risk to changes in the funding system and when the Baseline Level is reset, and this would be further exacerbated if the Council were not part of the Derbyshire Business Rates Pool as no Levy (50%) is paid on Growth above the Baseline. This position is well documented in relation to the council's Medium-Term Financial Plan which accompanies the budget, and forthcoming Medium-Term Financial Strategy.

4.0 Financial Strategies

- 4.1 Tabled for approval at this Council meeting is the Capital Strategy, Treasury Management Strategy and Prudential Indicators for 2024/25. Combined, these strategies set out the council's activities and plans in line with requirements of the Local Government Act 2003. They were approved by Finance and Management Committee at its meeting on 15 February 2024.
- 4.2 On the Treasury Management Strategy there are changes for 2024/25 in respect of the repayment of HRA self-financing debt. This is because the contributions made from the HRA on an annual basis are not sustainable against the current HRA budget position. As set out in the report, deferment of the 2027 MRP has been proposed to allow for significant investment in its housing stock in the medium term and repayment will be determined at a later stage, in line with the housing review.
- 4.3 On the Council's Minimum Revenue Provision Policy (MRP - which is required to ensure the Council is setting aside a prudent provision for the repayment of debt), there are proposed changes in the method of calculating the MRP charge, so that the Council is adopting the most prudent approach.
- 4.4 A new strategy is included in the strategies for approval for 2024/25. The Non-Treasury Investment Strategy sets out how the Council will support local public services through investment and investing commercially. It also sets out the council's existing commercial investments. This information was previously contained within the Treasury Management Strategy but for 2024/25 and future years will now form a strategy in its own right.

5.0 General Fund

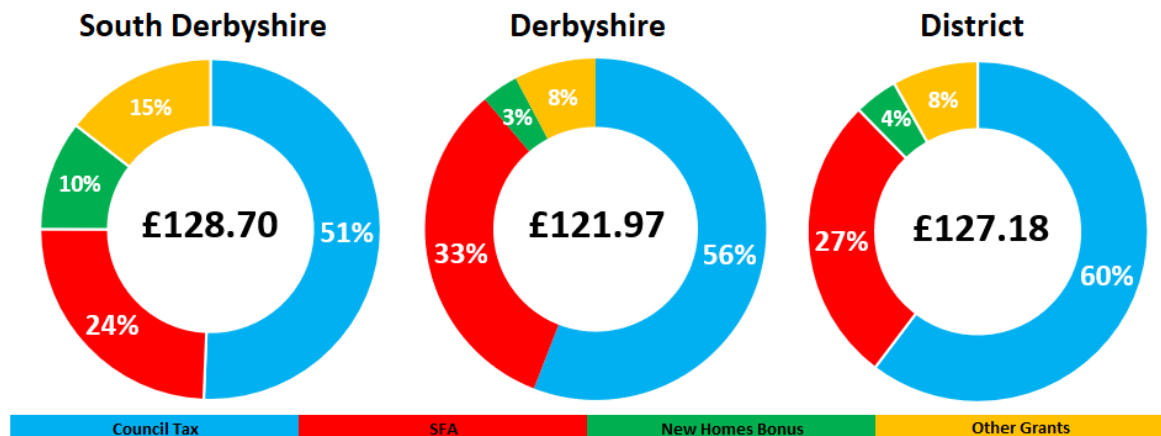
- 5.1 The budget position for the General Fund for 2024/25 is balanced budget, with a budget gap (deficit) of £227,737 that will be met from reserves.
- 5.2 This is an improvement from it compared to its forecast position for the draft 2024/25 budget and budgeted position for 2023/24.
- 5.3 Assumptions included in the General Fund budget around funding for 2024/25 and beyond have been developed and approved by the Section 151 Officer using several sources of independent and external advice. These include forecasts derived from

funding models used by the finance team from the Council's funding advisor Pixel Financial Management, the Institute of Fiscal Studies local government finance model, the 2024/25 Local Government Finance Settlement and sector intelligence shared by the LGA and the DCN. However, it remains that there is a risk that assumed funding beyond 2024/25, from 2025/26 onwards, is out of line with government intentions around the reform of the local government funding system – a commitment to which it has said will be a matter for the next parliament.

- 5.4 The increase in council tax by the maximum referendum limit (2.99% / £5.22 for the Council) is recommended and will serve to minimise the impact of funding reform on the Council. As it will have secured funding into the future via this council tax increase.
- 5.5 Budgetary estimates for spend on staffing and supplies and services have been developed and approved on the basis of service need.
- 5.6 The Council is susceptible to volatility in budgetary estimates. A relatively small change in the underlying assumptions can produce significant changes. If forecasts for the current or 2024/25 year are less favourable than projected, the Council could see its reserves utilised at a greater rate than currently forecast.
- 5.7 Looking further ahead, all local authorities will face a reduction in core funding from the Government once changes to the current funding regime (in particular New Homes Bonus and Business Rates) are introduced. These changes in grant funding are included in the assumptions in this report and MTFP, alongside with an assumption that the government will compensate the Council for any reduction in its core spending power that is more than 5% ("transitional funding"). These funding reforms therefore present a significant risk to the Council's ongoing financial sustainability, as is the case for all councils who benefit from new homes bonus and retained business rates.
- 5.8 The illustration below shows the current position of Spending Power (the government's measure of funding) for the Council against Derbyshire and all district councils. This position highlights the risk for South Derbyshire in relation to its reliance on New Homes Bonus and grant (in the form of "Funding Guarantee"). "SFA" in this context refers to the Settlement Funding Assessment and it essentially the level of Business Rates the government assumes for the Council. However, the level of Business Rates retained by the Council is much higher due to the growth generated in the system and retained pending the resetting of the baseline, and also additional amounts retained due to the council's participation in the Derbyshire Business Rates pool.

Spending Power Analysis: 2024/25

Composition of Core Spending Power in 2024/25



- 5.9 Given the relatively small structural budget gap (£227,737 for 2024/25) and the future predicted widening gaps, largely due to assumed funding reform, the Council must consider how it will close its ongoing budget gap.
- 5.10 On the matter of Concurrent Expenses, which was identified by the Section 151 Officer as an area that the Council should review given its identified budget gaps over the medium term. Parish Councils fed back clearly through the budget consultation several concerns around the potential withdrawal of Concurrent Expenses grant funding. These concerns are acknowledged and the position within this budget and the current medium term financial plan remains that Concurrent Expense grants are maintained at the current 2023/24 level. Future review will now be a matter for the Sustainable Finance Plan arising from Medium Term Financial Strategy. The Section 151 Officer would like to make clear however, that should the Council pursue a future review, this will be based on extensive engagement with Parish Councils and would be focussed on the position of the current scheme, the different models that can be employed to address double taxation, the optimal solution, and the most stable way of introducing any changes. At the time of writing this report, the Section 151 Officer is in the process of writing to Parish Councils to respond to their concerns and provide these assurances.
- 5.11 The proposed General Fund Capital Programme sets out significant investment in assets, including its Fleet Management Replacement Strategy to ensure operational vehicles are efficient.

Minimum Level of Reserves and Reserves Risk Assessment

- 5.12 It is important that the Council has sufficient reserves and balances to enable it not only to maintain its financial standing but also to ensure that the Council can realise its service provision expectations.
- 5.13 The Council's unallocated general reserves is estimated to be £11.8 million by March 2025, which represents 67% of its net expenditure for the 2024/25 year.

- 5.14 In the Audit Commission’s ‘Striking a Balance’ report published in 2012, the majority of Chief Finance Officers at the national level regarded an amount of between three and five per cent of Council’s net spending as a prudent level for risk-based reserves. For 2024/25, 5% represents circa £0.9 million for the General Fund.
- 5.15 In 2023, the Chartered Institute of Public Finance and Accountancy (CIPFA) published a bulletin that provides guidance to local authority chief finance officers on the establishment and maintenance of local authority reserves and balances. In accordance with the CIPFA guidance, the relevancy and adequacy of the levels of reserves for the Council should be reviewed on an annual basis. The financial risk assessment below considers the outcomes of a financial risk assessment, to ensure that as a minimum there are sufficient balances to support the budget requirements and adequately mitigate the risk of significant financial loss in the medium term.
- 5.16 The risk assessment indicates that in the worst case the Council could require £1.35 million of its net revenue budget requirement to fall back on, should all the potential risks happen concurrently and at their most extreme in a given year.
- 5.17 Ideally the General Fund Reserve balance should be somewhere between the range identified in the table (£1,150,000 - £1,350,000).
- 5.18 Based on current estimates for 2023/24 outturn, the proposed budget for 2024/25 Council has an adequate level of reserves to balance the budget on its General Fund. However, assumptions for 2025/26 – 2028/29 demonstrate that the level of unallocated general reserves will not stretch to cover the total budget gaps arising over this period.
- 5.19 As detailed within this report, the Council is currently developing its Medium-Term Financial Strategy which will set out how it intends to ensure that its future budget gaps are reduced, and the Council manages its spending within its funding means. This strategy is due to be presented to this Committee and Council in March and April 2024.

Table 4 - Reserves Risk Assessment 2024/25

Risk	Likelihood	2024/25 Value <i>(based on in-year impact only)</i>
Natural disasters and national emergencies	Low	£50,000
The Bellwin Scheme provides financial assistance to local authorities in the event of a national emergency or disaster, subject to an authority contributing to the total costs by an amount equivalent of 0.2% of its approved budget. For this Authority this would require approximately £50k.		
Business Continuity - It is difficult to anticipate the cost of such an event that would affect the Authority’s business continuity, although it is likely to be substantial. The Council’s response to the pandemic has enabled the organisation to be fully agile and more able to respond to emergencies whilst maintaining service delivery. However, for illustrative purposes, £100k is assumed.	Medium	£100,000

<p>National Economic Issues</p> <p>As was evident through the COVID-19 pandemic and cost-of-living crises, Councils have been relied on to deliver financial assistance to businesses and residents. The New Burdens funding doctrine covers additional costs that the Council bears in delivering central government burdens.</p> <p>The Office for Budget Responsibility's forecast for inflation suggest that inflation will return to 2% by April 2025. However, in the meantime, additional pressures in relation to service demands are expected to continue to emerge.</p> <p>The Council has assessed potential impacts in this area around utilities, insurance impacts arising from property revaluations or price volatility and excess pay award above budgetary assumptions.</p> <p>In total, the Council could expect in the region of £300,000 - £500,000 of additional pressures in year.</p>	<p>High</p>	<p>£300,000 - £500,000</p>
<p>Grant Funding</p> <p>The Council sometimes seeks external funding/grants for one-off projects. In the event that the expected projected outturns are not achieved, repayment of funding or grant may be required.</p>	<p>Low</p>	<p>£100,000</p>
<p>Property Assets</p> <p>The identification of unplanned major works to the Council's property portfolio could give rise to a budget pressure. As a responsible owner and with a duty to care, the Council could be expected to fund major works at short notice. Although the initial response would be to look to re-phase the capital programme, this may not be feasible, and additional revenue funding may be required, or prudential borrowing.</p>	<p>Medium</p>	<p>£100,000</p>
<p>Legal Issues</p> <p>It would be prudent for the Authority to make provision for an unfavourable outcome of any legal action taken against it, which could be made on a range of different grounds, including compensation payments, equal pay, discrimination and corporate manslaughter.</p> <p>Where the Council provides a paid service to a third party that does not directly relate to any statutory duty, the Council may require Professional Indemnity Insurance. This insurance cover is not automatically arranged and in the event that it isn't, and a claim arises the Council could be deemed liable for resulting costs.</p>	<p>Medium</p>	<p>£500,000</p>
<p>Total Financial Risk Exposure</p>		<p>£1,150,000 - £1,350,000</p>

6.0 Housing Revenue Account (HRA)

- 6.1 The position for the HRA is a budget gap for 2024/25 and this is also projected on an ongoing basis into future years. During the 2023/24-year, additional budgetary pressures have been absorbed for the service to comply to its regulatory requirements.

- 6.2 The increase in rent by the government’s social rent policy formula of 7.7% (CPI + 1%) is recommended and ensures that the maximum rent position for the Council is achieved with income reinvested back into housing services.
- 6.3 To ensure the HRA can deliver a balanced budget for the foreseeable future and maintain its reserves at a suitable level, the Council must not continue to set aside the £750,000 additional debt repayment amounts for redemption of the £10 million self-financing loan in 2027 is proposed. This will have implications for the ability of the Council to repay this loan when it falls due, however the Council is able to refinance this, recognising that there is no limit on the amount a HRA can borrow.
- 6.4 Since undertaking the self-financing loans in 2012, the Council has significantly less in projected rental income to fund its Housing service, having implemented 4 years of 1% rent reductions between 2016 and 2020 as per central government policy. A below inflation rent cap was also implemented by central government for the rent increase for 2023/24, and South Derbyshire increased its rents below this level. Although subject to Council approval as part of the revised Treasury Management Strategy for 2024/25, this revised strategy will therefore better align with the HRA’s financial health and minimise the revenue charges of debt on the HRA. A wider review of the HRA debt position is now necessary to support this and this should progress along with the review of the HRA Business Plan.
- 6.5 The HRA General reserves remain above the Council’s minimum reserve balance of £1 million.
- 6.6 The proposed HRA Capital Programme sets out investment in assets. It is recognised that further capital investment will be brought forward to Council for approval in the future, once renewed stock condition surveys currently underway have been completed and a future capital programme determined.

7.0 Risk Assessment

- 7.1 The following table provides an assessment of the key risk areas of the budget and forms the basis of the Section 151 Officer’s determination of robustness of estimates and adequacy of reserves.

Table 5 – Risk Assessment

Question	Response
Is performance against the current year’s budget on track and where variances are evident, ongoing and unavoidable, are they appropriately reflected in the proposed 2024/25 budget?	There are movements on both the General Fund and HRA revenue budgets for 2023/24. The projected financial outturn position at Quarter 2 for 2023/24 is that the General Fund will deliver a significantly reduced deficit position largely due to favourable revised forecasts on retained business rates and investment income. Other areas include adverse forecasts on spare parts to maintain the current fleet.

	<p>In all these areas the budget has been updated to reflect accurate forecasts going forward, using best information available.</p> <p>The 2024/25 budget setting approach has represented a step-change in developing budgets with more emphasis placed on engagement with services and ensuring services are fully funded and budgetary plans realistic, including the forecasting of complex and technical areas of local government funding.</p>
<p>Are arrangements for monitoring and reporting performance against the plans robust?</p>	<p>Yes.</p> <p>The council has an established and robust monitoring approach.</p>
<p>On what basis are the underlying budget assumptions considered reasonable?</p>	<p>All budget proposals have been justified by Heads of Service, reviewed by finance and subject to budget challenge with the Leadership Team and Leading Members.</p> <p>Growth forecasts for council tax and business rates have been developed through close engagement with the planning, revenue and finance teams.</p> <p>External input has been sought appropriately, for example, our treasury advisers Arlingclose supported the fleet replacement programme financing exercise, funding assumptions have been tested with the council's funding advisors Pixel Financial Management Ltd and advice sought on the pay award for 2024/25 from East Midlands Councils.</p>
<p>What is the availability of un-earmarked reserves to meet unforeseen cost pressures?</p>	<p>The council currently has £15 million in general unallocated reserves.</p> <p>It has previously cited its minimum agreed level of unallocated reserves as £1.5 million on the General Fund and £1 million on the HRA.</p> <p>Currently, both reserves are in excess of these minimum levels, with the General Fund unallocated reserves being particularly higher.</p> <p>In the Audit Commission's 'Striking a Balance' report published in 2012, the majority of Chief Finance Officers at the national level regarded an amount of between three and five per cent of Council's net spending as a prudent level for risk-based reserves. For 2024/25, 5% represents circa £0.9m for the General Fund.</p> <p>In 2023, the Chartered Institute of Public Finance and Accountancy (CIPFA) published a bulletin that provides guidance to local authority chief finance officers on the establishment and maintenance of local authority reserves and balances. In accordance with the CIPFA guidance, the relevancy and adequacy of the levels of reserves for the Council should be reviewed on an annual basis. The S151</p>

	<p>Officer has followed this guidance in undertaking a reserves risk assessment outline in this report.</p> <p>As part of this report, the Section 151 Officer has set out a detailed reserves risk assessment which has determined a new minimum operating level of reserves going forward for SDDC. A further strategy for the maintenance and management of reserves will also be set out.</p>
<p>Have realistic income budgets been set?</p>	<p>Yes.</p> <p>Local income budgets were assessed in relation to the proposed fee and charge level and anticipated demand as part of the development of the draft budget.</p> <p>As above, the budget process has undergone a step-change in with more emphasis placed on engagement with services and ensuring services are fully funded and budgetary plans realistic.</p> <p>The budget proposals presented by services were reviewed through a series of challenge / “Star Chamber” sessions, including review finance, review by the Section 151 Officer, star chamber with Leadership Team and Star Chamber with Leading Members.</p>
<p>Has “at risk” external funding and income been identified</p>	<p>The areas of funding that are at greatest risk of volatility because of inaccurate forecasting include business rates and council tax/collection fund – both of which have undergone significant scrutiny by the Section 151 Officer and external testing utilising the council’s funding advisors Pixel Financial Ltd strategic finance model and external scrutiny with collection fund accounting subscription service.</p> <p>The volatility that can be experienced on retained business rates has been identified, including the impact of the rates position of other Derbyshire pool members which can impact the level of benefit SDDC receive from the pool.</p> <p>Testing of robustness of estimates over the medium-term financial plan period, where major reform of local government funding is assumed (which result in significant budgetary gaps), has also been undertaken.</p> <p>Planning income can be volatile as it is susceptible to variation in the number of planning applications coming forward. The level of assumed planning income is based on the assessment of historic applications and known pipeline demand.</p> <p>The major area of at-risk income for the HRA concerning the contributions from Derbyshire County Council has been confirmed within the 2024/25 budget, with the HRA plugging this gap.</p>
<p>Has a reasonable estimate of demand cost pressures been made?</p>	<p>The budget process to develop the draft budget has improved the reasonableness of estimates.</p> <p>As above, the budget process has undergone a step-change in with more emphasis placed on engagement with services and ensuring services are fully funded and</p>

	<p>budgetary plans realistic. This has extended to ensuring services are costed to meet demand.</p> <p>The budget proposals presented by services were reviewed through a series of challenge / “Star Chamber” sessions, including review finance, review by the Section 151 Officer, star chamber with Leadership Team and Star Chamber with Leading Members.</p>
Have one-off cost pressures been identified?	<p>Yes.</p> <p>These have been funded via the reallocation of redundant earmarked reserves where this has been possible, to relieve pressure in the base budget.</p>
Is there a reasonable contingency available to cover the financial risks faced by the Council?	<p>The Council has incorporated estimates for pay award, inflation and demand pressures into its budget. It has sufficient reserves available to cover any unexpected fluctuations.</p>
Is there a reasonable level of reserves, which could be used to mitigate any issues arising and are they reducing as the risks decrease?	<p>The Council has a range of earmarked, unallocated and minimum levels of reserves to ensure its financial stability.</p>
Have the previous year’s Accounts been signed off by external audit to verify balances?	<p>The Council’s Draft Statement of Accounts for 2021/22 and 2022/23 were published on time and are available on the Council’s website. At the time of writing this report, the Value for Money opinion for both years is due to be presented by the External Auditor, Ernst and Young (EY) LLP, at the March meeting of the Audit Sub-Committee. Confirmation of the timetable for completing the full audit of the accounts for both these years remains unconfirmed by EY LLP.</p> <p>A consultation is expected to be published by DLUHC setting out the intentions to clear outstanding and delayed audits in the local government sector and this is expected to outline plans for the backlog to be clear by the end of September 2024.</p> <p>Discussions are ongoing between the S151 Officer and the Audit Partner for EY LLP around the capacity of the External Auditor to complete the audits for which they are contracted to deliver and for which the Council is due to pay.</p>
Has there been a degree and quality of engagement with colleagues and councillors in the process to develop and construct the budget	<p>Yes.</p> <p>As above, the budget process has undergone a step-change in with more emphasis placed on engagement with services and ensuring services are fully funded and budgetary plans realistic. The budget setting approach commenced internally with officers in September 2023. Simultaneously, engagement commences with members around the same time, and this included the development of the principles to setting the 2024/25 budget.</p> <p>The budget proposals presented by services were reviewed through a series of challenge / “Star Chamber” sessions, including review finance, review by the Section</p>

	<p>151 Officer, star chamber with Leadership Team and Star Chamber with Leading Members.</p> <p>The draft budget was presented to members in November 2023 and policy committees reviewed service budgets as part of this, making individual decisions to add proposals into the final budget presented as part of this report.</p>
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8.0 Conclusion

- 8.1 Taking into account the detail set out in this report, the Section 151 Officer considers that the estimates which form the General Fund and Housing Revenue Account, inclusive of the capital programmes, to be robust and prudent, and the proposals are deliverable for 2024/25.
- 8.2 The Council is able to set a balanced budget on both revenue accounts by utilising its reserves.
- 8.3 A number of risks have been set out in this report. In summary, the main risk faced by the Council in relation to its General Fund is the timing and impact of future funding reform and ability of the council to manage spend within its means. At the time of writing this report, the Medium-Term Financial Strategy is due for Council approval in April and will set out how the Council will deliver on this.
- 8.4 On the HRA, a similar risk is faced in managing revenue spend within its means but also financial pressure to ensure sufficient capital investment in its stock is another key risk factor for the HRA. As outlined in this report and the accompanying Treasury Management Strategy, the repayment profile of HRA self-financing debt must be reconsidered as part of mitigating this risk. Further considerations around the financial strategy of the HRA will be set out in a forthcoming review of the HRA Business Plan.

9.0 Corporate Implications

Employment Implications

- 9.1 There are no direct employment implications arising from this report. However, a number of proposals have employment implications through the creation of new posts to be added to the council's staffing establishment. These requests have been considered by the relevant committees in January/February 2024 and associated employment implications clearly set out. Engagement with employees and Trade Unions is underway as necessary and appropriate.

Legal Implications

- 9.2 There are no direct legal implications arising from this report. The final budget has been developed on a series of requirements of the Council in line with legal and regulatory requirements around service provision. Specific legal implications of proposals have been considered by the relevant committees in January/February 2024.

Corporate Plan Implications

9.3 This draft budget has been prepared to support the delivery of the Council's new Council Plan.

Risk Impact

9.4 The draft budget has been prepared to support the effective management of service risk. The council's risk register will be updated accordingly and presented to the relevant committees as part of the council's established performance monitoring approach.

9.5 A risk assessment of the adequacy of the council's reserves is set out in the report. A separate risk assessment on the budget has been undertaken and set out in this report.

9.6 The budgets will be monitored throughout the year to ensure the Council remains within its funding envelope and planned budget savings are delivered. Key risks to the budget are discussed in further detail in this report.

10.0 Community Impact

Consultation

10.1 As detailed in the report, relevant stakeholders in the business community were directly consulted on the budget proposals, in line with the council's statutory duty to consult ratepayers.

10.2 In addition, between 15 December 2023 and 26 January 2024 wider public consultation was undertaken via the Council's website and at Area Forums.

10.3 All consultation feedback received will be collated and reported as part of the final budget report in February 2024.

Equality and Diversity Impact

10.4 A preliminary Equalities Impact Assessment (EIA) has been undertaken on the budget.

10.5 This has identified that the budget could have significant positive impacts, particularly where it focuses on expansion of some services or investment in assets. The extent to which residents will benefit is dependent on individual circumstances and the consumption of services.

10.6 Increasing the district council's Band D by the maximum referendum limit of 2.99% (£5.22) has been assessed to have a neutral effect on protected groups. Residents on low income will have their council tax met by the Local Council Tax Reduction Scheme that is designed and administered by South Derbyshire District Council. Officers will continue to work to assist households in financial difficulty where possible, including the administering of Government funds to support those households in need.

10.7 Increasing rent by the social rent policy formula has also been assessed to have a neutral effect on protected groups. Tenants on low income will have their rents met by Housing Benefit (HB full or partial) or Universal Credit (UC), so it will impact the Government as opposed to the tenant. Officers continue to work to assist households in financial difficulty where possible, including the administering of Government funds to support those households in need.

10.8 As other proposals are introduced the specific equality impacts will be considered by Heads of Service with their relevant Strategic Director before implementation taken forward.

Social Value Impact

10.9 There are no social value impacts. Individual decision-based impacts on material budgetary proposals have been considered by the relevant committees in January/February 2024.

Environmental Sustainability

10.10 There are no social value impacts. Individual decision-based impacts on material budgetary proposals have been considered by the relevant committees in January/February 2024.

10.11 The budget proposes investment in the replacement of council vehicles and reducing our carbon emissions.

11.0 Background Papers

11.1 Report to Finance and Management Committee, 15 February 2024, "Budget Setting Approach 2024/25".

11.2 Reports to Council, 28 February 2024:

- General Fund Revenue Budget 2024/25 and Council Tax Setting 2024/25
- Housing Revenue Account 2024/25 and Rent Setting 2024/25
- Capital Budget 2024/25 and Capital Programme to 2028/29
- Capital Strategy, Treasury Management Strategy and Prudential Indicators 2024/25