REPORT TO:	**COUNCIL**	**AGENDA ITEM: 11**
DATE OF MEETING:	**26th FEBRUARY 2020**	**CATEGORY: RECOMMENDED**
REPORT FROM:	**STRATEGIC DIRECTOR (CORPORATE RESOURCES)**	**OPEN**
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (01283 595811)** **Kevin.stackhouse@southderbyshire.gov.uk**	**DOC:** u/ks/budgets/budget 2020 21/Section 25 Report 2020 Full 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 2020/21 and when considering future proposals for new spending and the utilisation of resources.

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 The Report also 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 2020/21 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 Based on the Budgets submitted for approval and the latest MTFP, the Council's overall financial position continues to look healthy.

3.2 Although there remains some uncertainty regarding Government funding beyond 2020/21, the current level of Reserves, together with provisions made in the MTFP to cover the costs associated with Growth, should ensure that the Council's financial position remains sustainable into the foreseeable future.

3.3 Based on current spending and the best estimate of resources, the MTFP forecasts some fairly large deficits in 2024 and 2025; these will need to be kept under review pending the outcome of the Government's funding review in 2020.

3.4 The Council's "Financial Resilience Index" compared to other shire districts broadly confirms the Council's position. Independent analysis shows that the Council's current level of Reserves places the Council at a lower risk of financial difficulties with its sustainability measure being high in comparison to many other authorities.

3.5 However, it also shows the Council to be at a higher risk when it comes to the reliance on Government funding, a key issue highlighted in the detailed opinion which follows.

3.6 Therefore, the Council should not become complacent and should 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.

3.7 The Section 151 Officer is aware that proposals have been developed to meet certain spending pressures, which are currently being considered. These will have an impact on the General Fund and subject to analysis of the final costings, are affordable in the MTFP as it currently stands.

3.8 However, until the Council's future funding position is more certain, no new commitments beyond these proposals should be made against the General Fund Base Budget until the future funding position is clearer.

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. The opinion, also considers a broad, but independent analysis of the Council's financial resilience.

General Context

4.2 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, Corporate Plan priorities and potential costs associated with Growth of the District.

4.3 The Budget for 2020/21 and forward projections are based on the most up-to-date economic forecasts for inflation and interest rates, etc. The Budget does not assume a vacancy rate for staffing and prudently assumes that all posts on the Council's Establishment are filled throughout the year.

4.4 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 Government funding in the form of Retained Business Rates and the New Homes Bonus (or its replacement) pending the outcome of the Government's Funding review.

4.5 Forward projections for Council Tax receipts are based on an increase in property numbers which are less that those contained in the Local Plan.

4.6 The compilation of detailed budgets has been undertaken in conjunction with service/budget managers. It is recognised that the Council has well established performance and budget monitoring arrangements in place to help ensure that 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.

4.7 The Council traditionally spends within budget and generates 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.

4.8 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.

4.9 A full risk assessment, with mitigating actions, is considered alongside the MTFP for both the General Fund and the HRA.

Financial Resilience

4.10 The Chartered Institute of Public Finance and Accountancy (CIPFA) published a Financial Resilience Index in December 2019. The Index shows a Council's position on a range of measures associated with financial risk, with a comparison to similar authorities. There are 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

Note: *The comparison rating is broadly similar whether compared against the Council's nearest neighbour grouping (**see Appendix 1**) or all shire districts*.

Reserves

4.11 The Council's current level of Reserves, show the Council in a much stronger position compared to many other shire districts.

Debt Level and Interest

4.12 The Council does have a high level of debt associated with the HRA 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, with over 50% of all authorities having transferred their stock to a Registered Social Landlord/Housing Association. This could skew the comparison.

4.13 Nevertheless, the level of outstanding debt is large at £58m. However, the cost of the debt and its repayment is affordable within the HRA'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. £30m is due to be repaid over the life of the current Financial Plan.

Financing

4.14 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 considerably above its Baseline Level set by the Government in the current funding system.

4.15 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.

4.16 This would be exacerbated if the Council was 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)*

4.17 This is in addition to any changes in the New Homes Bonus System. As previously reported, the Council is potentially at risk from the outcomes of the Fair Funding Review, including changes to the Business Rates Retention System and this is highlighted in the Resilience Index.

4.18 The Index also shows 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.

4.19 However, it is noted that the new Corporate Plan approved in November 2019, includes an action to identify and pursue commercial opportunities where appropriate, to generate additional income from fees and charges.

General Fund Account

4.20 The overall financial position continues to remain positive with a budget surplus projected for 2020/21.

4.21 Larger budget deficits are forecast in 2024 and 2025. Although this is considered to be the worst case scenario, the Council should not be complacent. As highlighted above, this is due to the uncertainty regarding Government funding beyond 2020/21 and in particular, proposals to replace the New Homes Bonus with a "*Housing Incentive*", together with the wider funding review.

4.22 As a Growth area, the Council should benefit from any system based on the delivery of new housing and business. However, this will depend on Government priorities and how much funding is awarded to shire districts for distribution.

4.23 As the Resilience Index highlights, the Council is at risk form changes in the current funding system and the current uncertainty makes future planning more difficult. The MTFP prudently assumes that overall funding will fall and if this is the outcome for the Council, potential deficits will need to be addressed later in this planning period.

4.24 Growth also brings additional demand on the Council's services and it is noted that the MTFP has prudently set-aside (as yet unallocated) sums in the Base Budget to meet future costs.

General Fund Reserve

4.25 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.

2019/20	£8.9 million
2020/21	£8.8 million
2021/22	£8.0 million
2022/23	£6.9 million
2023/24	£5.3 million
2024/25	£2.8 million

4.26 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.

4.27 The Council has set a minimum level of £1.5 million (10% of net expenditure) to be maintained by the end of 2024/25, and that target, based on current projections, should be achieved.

4.28 However, as the Budget Report highlights, there are more significant deficits projected from 2022/23. Therefore, the position will need to be kept under review in order that the Council does not become over reliant on reserves, unless they are replenished.

4.29 Overall, except for the outcome of the Government's funding review in 2020, there are no major concerns currently associated with the General Fund position.

Housing Revenue Account (HRA)

4.30 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 annual rent increases of CPI + 1%.

4.31 Resources have been set-aside for further capital investment in the housing stock, together with New Build and Acquisition. Given that the level of the HRA General Reserve is currently forecast to fall to no lower than £2.9m over the current planning period, there is scope to expand the revenue base.

4.32 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 as highlighted earlier in the Report.

4.33 The HRA's risk analysis shows that the main issues potentially are the continuing level of Right to Buys, future Government policy on Rents beyond 2023/24 and the financing of the Supporting People Programme.

4.34 However, given the current position of the HRA, any remedial action required can be achieved in a planned and timely manner. Overall, there are no major concerns currently associated with the HRA's position.

Capital Expenditure and Financing

4.35 Besides the HRA, there is no major capital projects associated with the General Fund programme, with all current commitments fully financed.

4.36 As reported, the Council has been steadily accumulating general capital receipts with additional receipts expected over the next 2 to 3 years from on-going regeneration projects in the District. Therefore, this provides resources for further capital investment and overall, there are no major concerns currently associated with capital expenditure and it's financing.

Treasury Management

4.37 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.

4.38 The HRA debt is mainly at fixed interest rates and provision is being made in the HRA's financial plan to repay loans in accordance with a repayment schedule. A proportion of variable rate debt is currently costing significantly less than that budgeted so this provides some contingency should interest rates increase. This loan is due to be repaid in March 2022.

4.39 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. An increase in rates would be beneficial for the MTFP.

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

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

Other Usable and Earmarked Reserves

4.42 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.

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

4.44 Overall, it is considered that current reserves will remain sufficient to meet commitments over the life of the current MTFP.

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 None required.

Equality and Diversity Impact

7.2 None.

Social Value Impact

7.3 Not applicable.

Environmental Sustainability

7.4 Not applicable.

8.0 Background Papers

8.1 None

APPENDIX 1

CIPFA NEAREST NEIGHBOUR GROUP 2018

Amber Valley

Blaby

Chorley

East Cambridgeshire

East Northamptonshire

High Peak

Hinckley and Bosworth

Melton

Newark and Sherwood

North Kesteven

North West Leicestershire

Selby

South Derbyshire

South Ribble

Staffordshire Moorlands

Stroud