



FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

3 December 2024

Report of the Director of Finance

Statement of Accounts 2023-24 - Assessment of Going Concern Status

1. Purpose

- 1.1 To inform Audit Committee of the Director of Finance's assessment, as Section 151 Officer, of the Council's status as a 'going concern' for the purpose of producing its Statement of Accounts for 2023-24.

2. Information and Analysis

- 2.1 The concept of 'going concern' assumes that an authority, its functions and services, will continue in operational existence for the foreseeable future. This assumption underpins financial statements drawn up in accordance with the Code of Practice on Local Authority Accounting for 2023-24 (the Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA), and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government).
- 2.2 If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government, either for the continuation of the services it provides, or for assistance with the recovery of a deficit over more than one financial year.

- 2.3 The Code also confirms that transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption that the financial statements are prepared on a going concern basis.
- 2.4 Where an assessment determines that the 'going concern' status is not proven, particular care would be needed in respect of the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact on the financial statements.
- 2.5 Given the threat to the ongoing viability of one or more councils in recent years due to multiple factors, which include significant reductions in funding for local government and a highly inflationary economic environment, external auditors are continuing to place greater emphasis on local authorities undertaking and formalising an assessment of the going concern basis on which they prepare their financial statements.
- 2.6 As with all principal local authorities, the Council is required to compile its Statement of Accounts in accordance with the Code. In accordance with the Code the Council's Statement of Accounts are prepared assuming that the Council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its obligations in the normal course of business.
- 2.7 The main factors which underpin a going concern assessment are the:
- Council's current financial position.
 - Council's projected financial position.
 - Council's governance arrangements.
 - Regulatory and control environment applicable to the Council as a local authority.
- 2.8 Each of these factors is considered in more detail below.

Year-End Financial Position

- 2.9 The following review is based on the Council's pre-audit Statement of Accounts published in October 2024.

Revenue

- 2.10 The 2023-24 revenue outturn position was a net overspend of £21.682m (3.02% of net budget). It is notable that there was a total portfolio overspend of £24.988m in respect of the services the Council delivers. The Council continues to face significant inflationary cost pressures across all services, combined with continued growth in demand for Adults Services, Children's Social Care and Education, and increasing reactive and planned maintenance requirements on the Highways Infrastructure. At the time of setting the budget in February 2023, substantial investment was made in all service areas to support anticipated inflationary and demand pressures. However, despite this investment, inflation has continued to result in cost pressures in excess of budget across all service areas. In addition, the Local Government pay award for 2023-24 was higher than estimated.
- 2.11 The outturn position for 2022-23 resulted in the Council utilising £55m of its reserves to manage its budget to meet inflationary, demand and pay award cost pressures. In 2023-24, the Council utilised a further £59m of reserves after funding its overspend. Reserves are one-off amounts and cannot be relied upon to support future years' spending. As at 31 March 2024, the Council's General Reserve balance was £40.184m (£32.716m at 31 March 2023) and its earmarked reserves balance was £205.167m (£272.371m at 31 March 2023).
- 2.12 At its meeting of 10 July 2024, Cabinet agreed to make allocations to earmarked reserves totalling £0.506m to provide for specific commitments.
- 2.13 After the allocations above, this left the balance on the Council's General Reserve at £39.678m. This balance is 5.4% of the Council's net expenditure (£740.060m) in 2023-24. 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 3% and 5% of a council's net spending as a prudent level for risk based reserves.
- 2.14 The adequacy of reserves is reviewed on a regular basis and the ongoing requirement for specified earmarked reserves is reviewed on an annual basis. At its meeting of 1 February 2024, Cabinet agreed to release £31.803m from earmarked reserve balances to the General Reserve in order to mitigate the anticipated 2023-24 overspend and so ensure that the General Reserve remained at the minimum level.

Capital

2.15 Capital expenditure in 2023-24 was £165.544m (£100.308m in 2022-23). The Council has not entered into any long-term debt since September 2010. Where grants or capital receipts were not available, the Council's strategy has been to fund capital investment by using available cash balances, thereby reducing the cost of interest charges. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). As at 31 March 2024, the Council's Loans Capital Financing Requirement was £612.018m (£539.091m at 31 March 2023), of which £409.079m was funded from external sources (£490.079m at 31 March 2023) and £202.939m utilised available cash balances (£49.012m at 31 March 2023), therefore the Council's actual borrowing level remains well below its underlying need to borrow.

Table 1: Capital Financing, Borrowing and Investments Summary

	31 Mar 23	31 Mar 24
	£m	£m
General Fund CFR	594.275	662.087
Less: Other debt liabilities*	(55.184)	(50.069)
Loans CFR	539.091	612.018
Less: External borrowing**	(490.079)	(409.079)
Internal borrowing	49.012	202.939
Less: Usable reserves***	(371.790)	(347.000)
Less: Working capital	(56.729)	(33.528)
New borrowing (or Treasury investments)	(379.507)	(177.589)

*Leases, PFI liabilities and transferred debt that form part of the Council's total debt

**Shows only loans to which the Council is committed and excludes optional refinancing

***Excludes the earmarked reserve created from loan modification gains and includes the Dedicated Schools Grant (DSG) adjustment account deficit

Balance Sheet

2.16 The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The Council's net assets (assets less liabilities) are matched by the reserves held.

Table 2: Summary Balance Sheet

	31 Mar 23	31 Mar 24
	£m	£m
Non-Current Assets (excluding Net Pension Asset)	2,029.840	2,070.514
Net Current Assets/(Liabilities) (e.g. debtors, inventories and cash, short term creditors and liabilities)	(0.494)	(77.001)
Net Pensions Asset/(Liability)	29.323	240.258
Other Non-Current Liabilities and Provisions	(289.973)	(289.662)
Net Assets	<u>1,768.696</u>	<u>1,944.109</u>
Usable Reserves	399.956	385.854
Unusable Reserves	<u>1,368.740</u>	<u>1,558.255</u>
Total Reserves	<u>1,768.696</u>	<u>1,944.109</u>

- 2.17 The following trends are reflected in the Balance Sheet from the position as at 31 March 2022 to the position as at 31 March 2023:
- net assets have increased from £1,768.696m to £1,944.109m (a year-on-year increase of £175.413m);
 - non-currents assets have increased from £2,103.219m to £2,352.563m (a year-on-year increase of £249.344m);
 - net current liabilities have increased from £0.494m to £77.001m (a year-on-year increase of £76.507m); and
 - the debt ratio has decreased from 0.30 to 0.26.
- 2.18 The debt ratio is the proportion of liabilities to assets. It is a measure of an entity's ability to service its debts by selling its assets if it had to. A larger ratio indicates that more assets are being paid for by borrowed money, which can suggest less stability. At 0.26, the Council's debt ratio remains below 1 and is therefore not a cause for concern.
- 2.19 The large increase in non-current assets and corresponding increase in net assets on 2023-24 is due to a change in the net pension asset. This was chiefly due to gains arising on the Local Government Pension Scheme's investment assets.

- 2.20 The net pension liability/asset reported from one financial year to the next can be volatile and is extremely sensitive to changes in the underlying assumptions and the scheme's investment returns. The implications of changes in this amount can only be properly considered in the medium to long-term. As a participating employer in the Derbyshire Pension Fund, the Council reviews and adjusts its employer contributions every three years under advice from the actuary. This provides confidence that the Council's obligations remain sustainable by ensuring that rates are adequate to meet the cost of future service of active Fund members and that additional cash amounts address the past service deficit.
- 2.21 The reduction in net current assets is a result of the redemption of short-term investments to raise cash to maintain adequate working capital. This reflects the Council's reliance on utilising its reserves in funding its operating costs.
- 2.22 The Council's balance sheet at 31 March 2024 remains sufficiently robust. Factors contributing to this assessment include:
- a review of debts owed to the Council;
 - the adequacy of risk-assessed allowances for doubtful debts;
 - the range of earmarked reserves set aside to help manage expenditure;
 - an adequate general reserve which includes a risk-assessed working balance to meet unforeseen expenditure.
- 2.23 A financial overview that includes reference to the Council's balance sheet is included as part of the Narrative Report in the Statement of Accounts.

Cash Flow

- 2.24 The Council maintains short- and long-term cash flow projections, and manages its cash, investments and borrowing in line with the Council's approved Treasury Management Strategy. As at 31 March 2024, the Council had external borrowing commitments of £409.079m (£490.079m at 31 March 2023) and held £177.589m in treasury investments and cash (£379.507m at 31 March 2023).

Projected Financial Position

Social Care Costs

- 2.25 The cost of both Children's and Adult Social Care continue to increase significantly.

- 2.26 Demographic growth and children transitioning to adulthood are affecting Adult Social Care costs. These are predicted to cost up to an additional £6m each year for at least five years. Furthermore, increases to the National Living Wage (NLW) directly impact on the fees the Council pays the independent care sector. If recent actual and announced increases to the NLW, of between 2% and 10%, continue this could cost at least an additional £20m each year for at least the next five years. There are also growing pressures around hospital discharge from the NHS, with an increase in demand, and because there is an insufficient supply of home care and reablement services, this has driven increased placements into residential homes rather than into care at home, with the risk of associated long term cost implications for the likely significant number of individuals who are not able to regain their independence and return home.
- 2.27 Nationwide pressures on the cost of Childrens Social Care are reflected in Derbyshire. The number of children in the care of the Council rose by 37% in the five years to November 2023. Councils, including Derbyshire, are struggling to source alternatives to residential care which is the most expensive form of care. These placement costs have increased by 61% in the five years to April 2022. These pressures are expected to grow for the foreseeable future.
- 2.28 For 2024-25, the Better Care Fund and Improved Better Care Fund have been maintained at the same level as in 2023-24 in cash terms. In addition, the Social Care Grant awarded to Derbyshire increased by £19m. The Council has also implemented a 2% increase to the Adult Social Care Precept to provide Council Tax income to fund associated services. Without this continued level of support over the medium term the financial sustainability of these services is at significant risk.
- 2.29 The increase in the Social Care Grant included £0.5bn of additional one-off funding for 2024-25 announced on 24 January 2024. The Council's allocation of this additional funding is based on the Council's Adult Social Care Relative Needs Formula without equalisation (1.51% share; £7.557m) and was confirmed in the Final Local Government Finance Settlement. The FYFP assumes that this allocation of additional 2024-25 Social Care Grant will not continue into 2025-26 and beyond.
- 2.30 Forecasts as at Quarter 2 (September 2024) suggest there may be overspends across the two social care portfolios of around £47m in 2024-25. This is after £10m of one-off support from the Council's Contingency budget.

Unachieved Savings

- 2.31 Several years of real terms funding reductions and cost pressures have required a significant cumulative value of savings to be identified and achieved for the Council to achieve a balanced budget. Significant consultation and planning timeframes are required to achieve many savings. Delays in agreeing proposals can result in overspends by departments, which deplete the level of reserves held by the Council, decreasing its ability to meet short term, unforeseeable expenditure. It is vital that the Council identifies, agrees and implements savings initiatives within an adequate timeframe.
- 2.32 The 2024-25 Revenue Budget includes more than £30m of savings targets. Forecasts as at Quarter 2 (September 2024) suggest that 95% of savings targets will be achieved. The Council has introduced a programme management approach to the delivery of savings in 2024-25. This has improved the delivery and monitoring of savings proposals across the organisation.
- 2.33 The 2024-25 Revenue Budget also included a £13m increase to ongoing departmental budgets recognising that some savings proposals that had been allocated in prior years were unable to be achieved.

Pay Inflation

- 2.34 The 2024-25 pay award for Local Government Service Employees was agreed in October 2024. The 2024-25 pay award for Chief Officer grades, grades 17 to 20, was agreed in July 2024. The agreed increases were:
- An increase of £1,290 on all pay points covered by the Council's Pay Grades up to and including Grade 13, which is equivalent to a 5.8% increase for employees on pay point 1 and 2.6% for employees on pay point 35.
 - An increase of 2.50% on all pay points covered by the Council's Pay Grades on Grades 14 to 21.
 - An increase of 2.50% on all allowances, except for travel rates.
- 2.35 The pay award agreement equated to a total ongoing cost to the Council of £10.491m. For 2024-25 budget purposes a sum of £15.984m was set aside, based on a £1,925 increase on pay points covered by Grades 1 to 13, 3.85% for Grades 14 to 16 and 3.5% for Grades 17 to 21. This has resulted in the Council having a surplus in its ongoing contingency budget of £5.493m in 2024-25, which will be available to offset pressures in other service areas in this and subsequent years.

Price Inflation

- 2.36 Annual UK headline CPI inflation reduced during 2023. From its very high 2023 peak of 10.4% in February 2023, CPI inflation decreased through to September 2024, by which time it had fallen to 1.7%.
- 2.37 The effects of general inflation are experienced across all Council services. However, there is particular pressure where costs include utilities, fuel, transport, catering and food supplies, payments to independent care providers and construction and maintenance of building and road infrastructure. High inflation also means there is the potential for reductions in the Council's income for discretionary services as customers prioritise their essential costs.

Cost of Borrowing

- 2.38 The Bank of England (BoE) raised the key base rate to a peak of 5.25% on 3 August 2023 – its highest level since 2008 – with the intention of mitigating the risk of inflationary pressures becoming entrenched. Since then, the rate has been cut twice, falling to a rate of 4.75% on 7 November 2024. In November 2024, the Council's Treasury Management Adviser's central view was that base rate would steadily fall, in a series of cuts, to around 3.75% by the end of 2025.
- 2.39 Movement in the BoE base rate alongside the Government's exposure to gilts linked to the Retail Prices Index (RPI) and the scale of Government borrowing are major influences on the interest rate on Government borrowing and lending. In the year to November 2024 the interest rate on a new 40-year fixed rate maturity loan from the Public Works Loans Board (PWLB) had fallen only slightly, from around 5.9% to around 5.8%.
- 2.40 The Council's Treasury Management Strategy since 2010 has been to use internal borrowing (i.e. use its reserve balances) to fund capital expenditure, rather than take on new long-term external borrowing.
- 2.41 Due to the Council's Treasury Management Strategy, the Council has headroom, within the scope of its powers under the Prudential Framework, to take on additional external borrowing to preserve the liquidity of its cash flow, should it need to do so. However, in the event that the Council now enters new long-term external borrowing arrangements, it will be exposed to higher interest rates and additional costs of borrowing which it may be locked into for many years to come.

- 2.42 The Council's Treasury Management Advisors expect that interest rates will fall in the medium-term. Therefore, it is the Council's strategy to finance the Council's borrowing in the short-term, be it at higher rates, before 'locking in' to longer-term borrowing once rates are more favourable.
- 2.43 The Council's short-term borrowing cost has continued to increase with the rise in BoE base rate and short-dated market rates. The average rate on the Council's short-term loans at 30 September 2024 of £149.000m was 5.11%, compared with £274.500m at 4.54% 12 months ago.

Council Tax and Business Rates Income

- 2.44 Local tax income is collected by billing authorities and paid into local Council Tax and Business Rates 'collection funds'. Where there is a shortfall in tax receipts (compared to expected levels), this leads to a deficit on the collection fund.
- 2.45 The total Council Tax taxbase figure for 2024-25 is 264,429.58, based on the number of equivalent Band D properties, a 1.26% increase on the previous year. The additional Council Tax due as a result of the increase in taxbase is £4.860m. Previous years have seen increases in the taxbase of 1.57%, 1.86% and 0.41%. Based on strong expected housing growth, the Five Year Financial Plan (FYFP) assumes prudent annual taxbase increases of 1.30% from 2025-26.
- 2.46 The Council Tax collection fund surplus for 2023-24 was estimated at £1.049m in the Council's Revenue Budget 2023-24 Report, based on information received from billing authorities by the statutory deadline of 31 January 2023. This included £1.041m of deficit carried forward from 2021-22 budget setting. The repayment of collection fund deficits arising in 2020-21 was spread over the following three years rather than the usual period of a year. The regulations to implement the collection fund deficit phasing came into force on 1 December 2020, in response to difficulties billing authorities were experiencing because the Covid-19 pandemic was severely impacting on Council Tax collection fund positions and forecasting. 2023-24 was the final year of spreading the deficit. This estimated collection fund position for 2023-24 was lower than the position before the pandemic.

- 2.47 The total Council Tax collection fund deficit for 2024-25 was estimated at -£0.212m, based on information received from billing authorities. Based on this position being significantly worse than in previous years, the updated Five Year Financial Plan (FYFP) assumed a more prudent Council Tax collection fund position than had been previously assumed, of a £0.500m surplus each year from 2025-26.
- 2.48 Derbyshire's locally retained Business Rates income for 2024-25 was estimated to be £21.020m (2023-24: £19.383m) after a small surplus on the collection fund of £0.410m (2023-24: £0.144m deficit). The billing authorities estimated 5.5% growth in the local business rates taxbase (2023-24: 8.5% growth)
- 2.49 The Council's preference is for Government to recognise costs associated with social care through the re-distribution of national taxation. However, the clear expectation from Government is that local taxation is also part of the solution. Local authorities have little choice other than to increase Council Tax by the maximum amount to generate additional funding to pay for services. Therefore, the Council accepted the need to levy the additional Adult Social Care (ASC) Precept at 2% and also to increase basic Council Tax by 2.99% for 2024-25, a total increase of 4.99% in recognition of Adult Social Care pressures and the substantial increase in general budget pressures the Council is experiencing. This meant that the Council's options of levying a maximum 2% ASC Precept and a maximum basic Council Tax increase of 3%, permitted by the 2024-25 Referendum Principles, were fully exercised. The 2024-25 Council Tax increase of 4.99% will raise around an additional £19.502m in Council Tax income in 2024-25 and future years to support the Council's vital services.
- 2.50 The Council will always attempt to keep Council Tax rises as low as possible. However, pressures will continue to emerge over the medium term, in particular additional costs around pay, and inflationary pressures, were largely absent over the last ten years or so prior to 2022-23. The need to manage these, and other pressures, will be challenging and as a result future Council Tax increases cannot be easily forecast with a high degree of certainty, and it is possible that predictions expressed in the initial medium term financial plan (FYFP) will prove inadequate and may need to be revised upwards.

Services Grant and Other General Grants

- 2.51 The Services Grant is an un-ringfenced grant to support the delivery of all local authorities' services. It continued in 2024-25 but with total national funding significantly reduced from £464m to £87m, which was instead used to fund increases to other Settlement grants and equalisation of the Adult Social Care Precept within the Social Care Grant. The funding was distributed through the existing formula for assessed relative need. The Council's allocation decreased, from £4.385m in 2023-24 to £0.788m in 2024-25.
- 2.52 The FYFP reported to Full Council in February 2024 assumed that there was no reduction in the Council's general grant funding other than that its allocation of additional 2024-25 Social Care Grant, announced on 24 January 2024, would not continue into 2025-26 and beyond and that its allocation of Services Grant would end after 2024-25.

Five Year Financial Plan

- 2.53 The Council's Five Year Financial Plan (FYFP) is reviewed and updated annually and reflects an assessment of the Council's spending plans in the current and next four financial years. It includes the ongoing implications of approved budgets, service levels, costs of the capital programme and costs of servicing its debts and returns from its investments.
- 2.54 The Council's Plan for the period 2024-25 to 2028-29 was last updated in and reported to Council as part of the Revenue Budget Report in February 2024.
- 2.55 The latest forecast assumed that around £10.977m of one-off funding from reserves would be required to support the 2024-25 revenue budget. The FYFP was reliant on £40.068m of budget savings being achieved in 2024-25. Effective and timely implementation of savings plans is essential to the Council achieving its balanced budget. All savings which are delayed or not delivered increases the pressure on the Council's reserves or require alternate savings to be found by services. Furthermore, an additional £27m of savings were expected to be required between 2025-26 and 2028-29 in that forecast.

Governance Arrangements

- 2.56 The Council has a well-established and robust corporate governance framework. This includes statutory elements such as the post of Monitoring Officer and the Section 151 Officer, in addition to the current political arrangements.

- 2.57 An overview of this governance framework is provided within the Annual Governance Statement (AGS), which is included in the Statement of Accounts. This includes a detailed review of the effectiveness of the Council's governance arrangements. Whilst it is not possible to provide absolute assurance, the review process as outlined in the AGS does conclude that the existing arrangements remain fit for purposes and help provide reasonable assurance of their effectiveness.
- 2.58 The 2023-24 AGS continued to highlight the economic shocks created by the invasion of Ukraine by Russia, which led to rising fuel and food costs, general inflation and fragile supply chains. It noted that inflationary pressures and workforce shortages had pushed up the cost of services the Council provides and that if these pressures did not abate and the cost of service provision did not stabilise, then the Council was expected to face significant challenges to its financial resilience, and therefore its going concern status, in the short to medium term. The Statement concluded that to achieve financial stability the Council must move away from reliance upon reserves to supplement its funding of day-to-day spending. It also drew attention to the £40m of savings the Council must deliver in 2024-25 and noted the agreed measures to improve the delivery of these, including the monitoring of progress against savings targets by the Programme Management Office and 'budget responsibility memos', where all Executive Directors are required to agree their accountability for delivering services within their approved budgets.

External Regulatory and Control Environment

- 2.59 As a principal local authority, the Council has to operate within a highly legislated and controlled environment. An example of this is the requirement to set a balanced budget each year, combined with the legal requirement for the Council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and central government control, there are other factors, such as the role undertaken by the external auditor, as well as the statutory requirement, in some cases, for compliance with best practice and guidance published by CIPFA and other relevant bodies. For example, the Council has measured itself against the principles set out in CIPFA's Financial Management Code and is confident that it is achieving these in all substantive areas.
- 2.60 Against this backdrop it is considered unlikely that a local authority would be 'allowed to fail', with the likelihood being that when faced with such a scenario, that central government would intervene, supported by organisations such as the Local Government Association, to bring about the required improvements or maintain service delivery.

- 2.61 In Local Government, the Chief Finance Officer, also known as the Section 151 Officer (S151 Officer), has the power to issue a notice under Section 114 Local Government Finance Act 1988 (S114 notice) if there is a significant risk that the Council will not be in a position to deliver a balanced budget by the end of the current financial year. This is an emergency situation whereby a response is required by legislation. Councillors have 21 days from the issue of a S114 notice to discuss the implications at a Full Council meeting. The notice means that no new expenditure is permitted, with the exception of safeguarding vulnerable people and statutory services and continuing to meet existing contractual obligations. Council officers must therefore carry out their duties in line with contractual obligations and to acceptable standards, whilst being aware of the financial situation. Any spending that is not essential or which can be postponed should not take place and essential spend is monitored. The only allowable expenditure permitted under an emergency protocol includes the following categories:
- Existing staff payroll and pension costs.
 - Expenditure on goods and services which have already been received.
 - Expenditure required to deliver the council's provision of statutory services at a minimum possible level.
 - Urgent expenditure required to safeguard vulnerable residents.
 - Expenditure required through existing legal agreements and contracts.
 - Expenditure funded through ring-fenced grants.
 - Expenditure necessary to achieve value for money and/or mitigate additional in year costs.
- 2.62 Since 2018, seven councils have issued S114 notices due to their inability to balance their budget.
- 2.63 Experience and investigations into those councils experiencing financial failure demonstrates that periods of lower than allowed Council Tax rises can contribute significantly to exacerbate other financial issues, such as reducing Government support, increasing budget pressures, an overly-optimistic savings programme or lack of strength on the Balance Sheet.

- 2.64 Under Section 15 of the Local Government Act 1999 the Secretary of State for Housing, Communities and Local Government has the power direct an intervention package where an authority is considered to be in breach of its Best Value duty. Recent examples of such interventions have included capitalisation directives, access to the Public Works Loan Board to refinance borrowing and the appointing of commissioners to oversee the management of certain local authority functions. The ‘trigger event’ for such interventions can be the issuing of a Section 114 notice.
- 2.65 There is no intention at this time for the Council’s S151 Officer to issue a S114 notice. However, if the current financial pressures are sustained without additional funding and if sufficient and timely budget savings cannot be realised there is an increased likelihood that a notice may need to be issued.

Conclusions

- 2.66 The degree of uncertainty over the adequacy of medium-term funding can be related to the following issues in particular:
- The increasing likelihood of councils issuing Section 114 notices.
 - The continuing increase in pressures.
 - The need to maintain a significant and risk assessed level of reserves over the medium term.
 - The increasing difficulty in making significant and sustainable budget savings.
- 2.67 The Council does have deployable resources and assets at its disposal in the short term. The greatest risk to its financial sustainability in the medium term is from a reduced level of reserves following provision of substantial budget support in 2023-24 (and forecast in 2024-25), not achieving substantial budget savings, demand pressures on looked after children, the increasing effect of NHS discharge pressures and demographic growth on Adult Social Care costs and inflationary pressures. Furthermore, the Autumn Budget 2024 confirmed another one-year settlement for 2025-26, so the level of support for local government from 2026-27 remains uncertain.

- 2.68 The Council has sufficient reserves it can deploy to meet the anticipated funding shortfall in 2024-25. Any use of reserves for this purpose will, however, significantly impact on any future funding available to support the Council's planned improvements, to support any further delays to certain savings plans and will require additional reserves to be set aside in order to ensure that the balance of reserves remains at a prudent risk-assessed level. It also means that a similar level of support in 2025-26 will not be possible. Due to the Council's Treasury Management Strategy over the last decade being to use internal borrowing, rather than take on new long-term external borrowing, the Council has head-room, within the scope of its powers under the Prudential Framework, to take on additional external borrowing to preserve the liquidity of its cash flow, should it need to do so.
- 2.69 The Council set a balanced budget for 2024-25 and over the FYFP period in February 2024, although it will continue to require difficult decisions to be made and strong, robust financial management. It is vital that budget savings are delivered according to realistic plans and that tough decisions are taken to balance the budget.

Section 151 Officer Opinion

- 2.70 Having regard to the Council's arrangements and such factors as highlighted in this report, the Director of Finance, as Section 151 Officer, has concluded that Derbyshire County Council remains a going concern and that it is appropriate that the Council's Statement of Accounts for 2023-24 have been prepared on that basis.

3 Consultation

- 3.1 No consultation is required.

4 Alternative Options Considered

- 4.1 N/A – this report notes this formal assessment of the Council's status as a 'going concern' and the conclusion that it is an appropriate basis for preparing the Council's Statement of Accounts 2023-24.

5 Implications

- 5.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

6 Background Papers

- 6.1 The following published documents:

- Pre-Audit Statement of Accounts 2023-24 – Audit Committee 3 December 2024
- Revenue Budget Report 2024-25 – Council 14 February 2024
- Q2 2024-25 Budget Monitoring Report – Cabinet 5 December 2024
- Treasury Management Mid-Year Report 2024-25 – Cabinet 5 December 2024

7 Appendices

7.1 Appendix 1 – Implications.

8 Recommendation

That Audit Committee:

8.1 Notes this formal assessment of the Council's status as a 'going concern' and the conclusion that it is an appropriate basis for preparing the Council's Statement of Accounts 2023-24.

9 Reason for Recommendation

9.1 A formal Assessment of the Council's Going Concern Status is required to allow the Statement of Accounts to be signed.

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Appendix 1

Implications

Financial

- 1.1 The Director of Finance has formally assessed, as Section 151 Officer, the Council's status as a 'going concern' and has concluded that this is appropriate for the purpose of producing its Statement of Accounts for 2023-24.
- 1.2 The main factors which underpin a going concern assessment are explained and assessed. The main factors assessed are the year-end financial position, projected financial position, governance arrangements, and the external regulatory and control environment.
- 1.3 The assessment notes the following particular issues:
 - The increasing likelihood of councils issuing Section 114 notices.
 - The continuing increase in pressures.
 - The need to maintain a significant and risk assessed level of reserves over the medium term.
 - The increasing difficulty in making significant and sustainable budget savings.

It identifies the most significant threat to the Council's financial resilience being the reducing level of deployable reserves. Whilst it concludes that reserves will be sufficient to meet funding shortfalls in 2024-25, it does not consider that a similar level of support will be available in 2025-26.

Legal

- 2.1 None

Human Resources

- 3.1 None

Information Technology

- 4.1 None

Equalities Impact

- 5.1 None

Corporate objectives and priorities for change

6.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None