



Agenda Item

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

20 September 2022

Joint Report of the Managing Director and the Director of Finance & ICT

Performance Monitoring and Revenue Outturn 2021-22

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 No.

3. Purpose

3.1 To provide Members with a report on Council Plan performance and to set out the Council's final revenue outturn position for 2021-22, identify significant variations from the final net budget and note commitments already agreed against the underspend, together with the further use of underspends approved by Cabinet. To also identify the impact of the 2021-22 outturn on future years and agreed actions. The report also sets out the Council's Earmarked Reserves position.

4. Information and Analysis

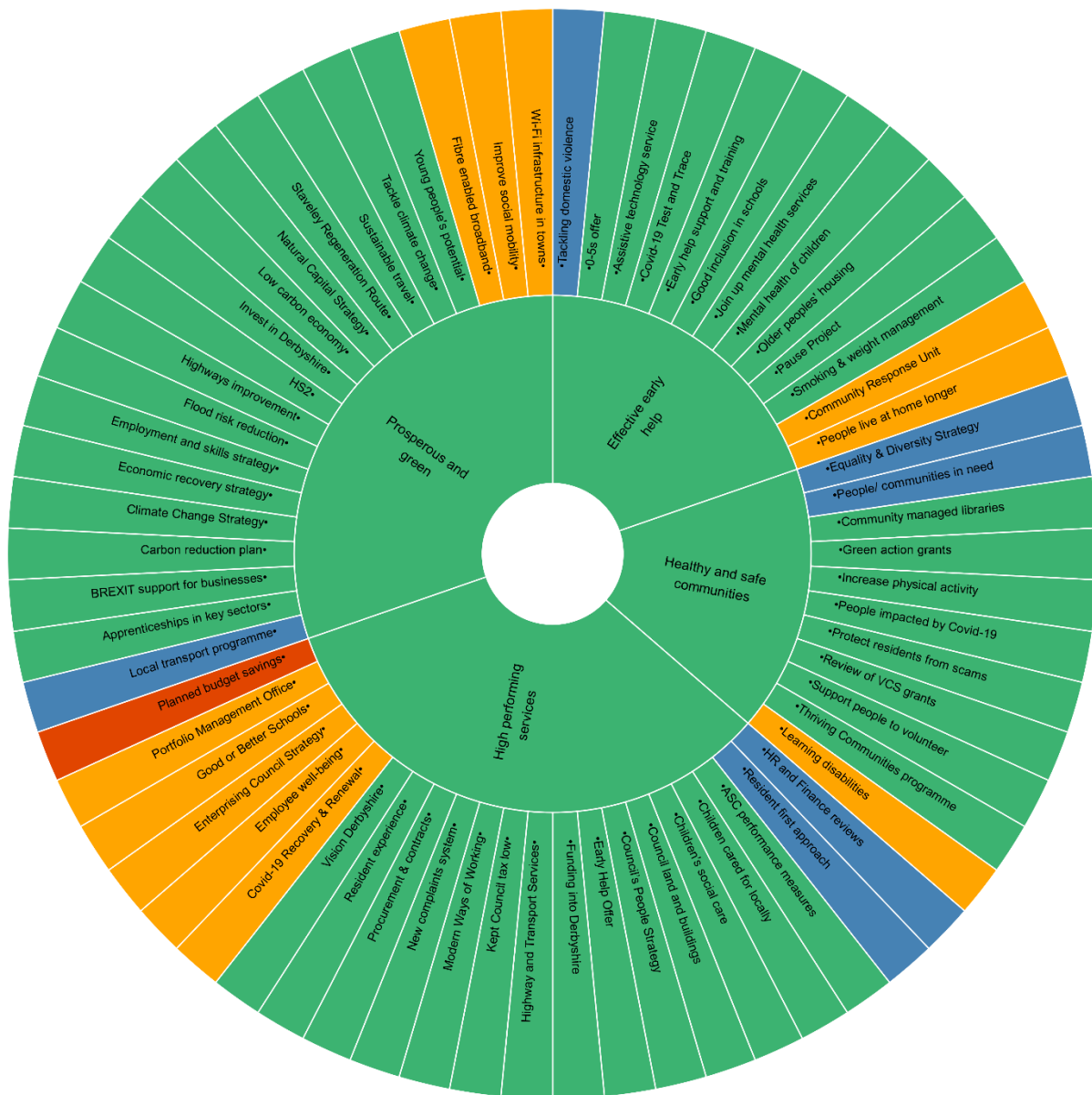
Integrated Reporting

- 4.1 This report presents both Council Plan performance and financial budget monitoring and outturn data.
- 4.2 The Performance Summary sets out the progress the Council is making on delivering the Council Plan 2021-25 with a focus on the achievement of Council Plan priorities.
- 4.3 The Revenue Outturn Position and Financial Summary provides an overview of the Council's overall budget position and outturn for the year ended 31 March 2022.
- 4.4 Appendices to this report summarise progress on Council Plan deliverables and the controllable outturn position by Cabinet Member Portfolio for 2021-22.

Performance Summary

- 4.5 The Council Plan for 2021-25, which outlines the Council's priorities, key deliverables and performance measures, was developed and approved by Council in March 2021.
- 4.6 The 2021-22 Performance Report, attached at Appendix 3, sets out the position in full up to the end of March 2022 for each deliverable and associated key measures set out in the Council Plan.
- 4.7 The Council is performing well in delivering the new Council Plan, with 82% of the 66 deliverables in the Plan showing "Good" or "Strong" progress. Only 17% have been rated as "Requiring Review" and a single deliverable has been rated as "Requiring Action". Progress in delivering the Plan is shown in the graphic below.

Deliverable Progress



- 4.8 The graphic below shows performance against target for each measure by priority. For the 37 key measures where data for 2021-22 against target is available, 12 have been rated as “Strong”, with a further seven rated as “Good”. Three have been rated as “Requiring Review” and 15 as “Requiring Action”.

Key Measures Against Target



Performance by Priority

- 4.9 The resilient, healthy and safe communities priority shows overall “Good” performance for highlighted deliverables, however measures are rated as “Review” overall.

4.10 Key areas of success are as follows:

- Providing over 50,000 separate grants and vouchers from a range of programmes and schemes for individuals and families in need, including over £2 million from the Derbyshire Discretionary Fund.
- Further developed the Thriving Communities programme including re-establishing Connected Teams in four existing Thriving Communities areas so that organisations and sectors work together to respond to local opportunities and challenges. Work has also taken place to set up new Connected Teams focused on Langley Mill, Staveley and Ashbourne and to apply the Thriving Communities approach to the challenges faced by the homeless community.
- Provided over £0.600m in grants from the Covid-19 Response Fund to businesses and communities to support their recovery from the pandemic.
- Worked with people with a learning disability, or who are autistic, to put in place 373 new outcome-focused plans during 2021-22.
- Successfully transferring Woodville Library to Community Management.
- Developed and launched the Council's new Equality, Diversity and Inclusion Strategy.

4.11 Areas for consideration are as follows:

- In 2021-22, 33 people with a learning disability moved from 24 hour care to a more independent setting, against a target of 60. The programme remains behind target due to the impact of Covid-19. However there are plans in place to move a further fifteen people, and a key priority for the forthcoming year will be embedding outcome-focused support plans for those in supported living accommodation, to release capacity for further moves.
- The results from the Your Council Your Voice Survey within the established Thriving Communities areas were below target. The response figures are too low to provide any meaningful analysis. However, the information is being used to help shape Thriving Communities activity and development. New measures have been developed from 2022-23 onwards to provide more meaningful performance information which will reflect activity.

4.12 The high performing, value for money and resident-focused services priority shows overall 'Good' performance for deliverables, however measures are rated as 'Review' overall.

4.13 Key areas of success are as follows:

- Increased the number of children's homes in Derbyshire rated as outstanding from two to five, with the remaining seven homes all rated as good, including two first-time inspections.
- Successfully implemented the Customer Relationship Management system, with 140 services made available online in the first phase.
- Achieved 52% satisfaction with Highways and Transport services in the National Highways and Transport annual survey, one of the highest performing County Councils, and in line with the national average of 52%.
- Exceeded quality and timeliness targets for the four key measures relating to consistent, high quality early help and safeguarding services for children, with social work assessments and child protection measures well above national benchmarks.

4.14 Areas for consideration are as follows:

- The 2021-22 outturn budget savings were £11.154m, against a target of £26.907m. Budget savings achieved are lower than planned due to the impact of Covid-19 on services and finances. However, these are being actively managed to ensure the Council remains within its agreed budgetary position.
- The number of approved fostering households has seen a downward trend during 2021-22. The number of foster carers being approved is not keeping pace with foster families leaving the service for a variety of reasons, including retirement and the impact of the Covid-19 pandemic on family life. There were 33 approvals during 2021-22, however, there were 62 de-registrations during the same period, resulting in a net loss of 29 fostering households across the year. The total number of approved fostering households at the end of 2021-22 is 283, below the target of 350. Specific actions to improve performance are being taken forward as part of the Achieving Great Futures programme, to improve recruitment and retention as well as the utilisation of foster care placements.
- The percentage of children in 'Good' or 'Outstanding' secondary schools at 31 March 2022 was 56.9%, compared to 55% at the end of the previous year, and 81.2% nationally. Whilst this shows an improvement from 31 March 2021, the rate of improvement has not kept up with the rate nationally, resulting in performance significantly below the national average. This deliverable will remain a priority for the forthcoming year and schools will continue to be supported, with a focus on improving the implementation of the curriculum.
- Whilst progress has been made during the year in supporting wellbeing, the figures for both measures of sickness absence are higher than for 2020-21. Sickness as a percentage of available

hours has increased from 4.1% to 5.1% and the average absence for the year has risen from 8.71 to 10.66 days, above the target of 9 days for the year. The Wellbeing Strategy and Action Plan implemented in 2021-22 will continue to be monitored and reviewed as part of Council Plan reporting during 2022-23. More detailed analysis of sickness is currently being undertaken and work is underway to identify areas of significant concern, so that appropriate support can be provided to help departments and teams manage absence levels.

- A total of £2.783m was raised from the sale of land and property, below the target for the year of £3.621m. The shortfall of £0.828m was because of delays to sales expected in the quarter ended 31 March 2022. These will now take place in 2022-23 and the resulting target for 2022-23 of £3.200m is expected to be met or slightly exceeded.
- The impact of Covid-19 on services and resources has delayed progress on the following three deliverables: establishing a new Portfolio Management Office, developing a medium and long-term organisational recovery and renewal strategy and identifying and implementing a programme of strategic transformation as part of Phase 2 of the Enterprising Council Strategy. Work to progress all of these has been built into the refreshed Council Plan for 2022-23.

4.15 The effective early help for individuals and communities priority shows overall 'Good' performance for both deliverables and measures.

4.16 Key areas of success are as follows:

- Published the Domestic Abuse Support in Accommodation Strategy in line with Government deadlines.
- Supported a record number of 1,757 people to stop smoking, with the quit rate of 67% above the national average.
- Continued to perform well in assisting people to lose weight, with the projected year end figure of 240 people achieving a 5% weight loss above the target of 228 for 2021-22.
- Provided 900 people with assistive technology throughout 2021-22 to support independent living.

4.17 Areas for consideration are as follows:

- In 2021-22, 2,911 people were supported to regain their independence, against a target of 3,588 people. The Better Lives programme is being redesigned and wider system work is under way to seek further mitigation. A review of homecare has been undertaken and a plan is in place to tackle workforce challenges.

- During 2021-22, 89% of women received an antenatal contact. This is slightly below the target of 93% and the previous year's performance of 93.5%. Priority is given to first time mothers and those families where there are known concerns, to ensure needs are being met. Performance is being monitored and explored via contract management meetings.

4.18 The priority for a prosperous and green Derbyshire shows overall 'Good' performance for both deliverables and measures.

4.19 Key areas of success are as follows:

- Delivered the £40m Highways Capital Programme of improvements across a range of highway assets, including work to address 22,748 highways defects, with the number of highways jobs outstanding reducing by a third from the figure at 31 March 2021.
- Secured £1.990m in funding from the Community Renewal Fund to support the Covid-19 economic recovery.
- Developed and published the Climate Change Strategy and Action Plan.
- Provided over £0.405m from the Green Entrepreneur Fund in grants and scholarships.
- Reduced streetlight emissions in 2021-22 by 24% from the 2020-21 level.
- Supported achievement in Phonics, with children in Derbyshire schools achieving the expected level of 79.9%. This figure was 66.6% for disadvantaged pupils, with both measures being just above national averages.
- Supported 16-17 year olds to access education, employment and training, with the Derbyshire figure for 2021-22 at 96.1%, higher than previous years and above national and regional averages
- Supported 1,744 residents during 2021-22 through the Adult Careers Service, with 280 going into employment and 257 undertaking learning to help them progress them into employment.

4.20 Areas for consideration are as follows:

- The proactive work to reduce the backlog of highway defects by a third from March 2021 should improve the percentage of defects completed within target timescales going forwards but this has impacted the March 2022 figure of 75%, which is below the target of 90%. The amount of outstanding reactive jobs is being closely monitored so that resources can be managed appropriately, to keep the winter 'spike' in defects and workload as low as possible. During the year 95% of urgent defects were completed within the target timescales.

- Whilst the target for principal roads needing maintenance was not achieved, the targets for classified and unclassified roads needing maintenance were exceeded. The Council has continued to deploy additional resources to address highway defects and deliver the capital programme during 2021-22, focusing on priority areas such as drainage improvements, carriageway and footway surfacing and surface dressing. However, this investment will not impact on the road maintenance measures, which will be reflected in the results of the next annual survey, which will take place in June 2022.
- Progress on the Government Gigabit Voucher scheme remains slow. Six new projects were registered in the last quarter but six existing projects were cancelled due to lack of progress by the supplier/community. Whilst the administrative issues at the Department for Culture, Media and Sport appear to have been resolved, Openreach suspended the progressing of new Gigabit Voucher projects in January and have not indicated when this will resume. Progress will continue to be monitored and reported during 2022-23.
- Key activity to improve social mobility is being identified, however, the development of a new approach was delayed, awaiting additional capacity being made available through the Vision Derbyshire programme team. Capacity is being identified and the County Deals process provides an opportunity to develop this area at a regional level. The approach will be progressed as part of the Vision Derbyshire programme and will be monitored and reported as part of the updated 2022-23 Council Plan.

4.21 The annual Your Council Your Voice survey included three measures to indicate overall resident perception.

4.22 Areas for consideration are as follows:

- 42.3% of residents were satisfied with the Council, against a target of 58% and the national benchmark figure of 56% for the same period from the LGA survey;
- 42.7% of residents felt informed about Council decisions, against a target of 52% (no comparable national benchmark figure);
- 29.3% of residents agree the Council gives value for money, against a target of 43% and the the national benchmark figure of 43% for the same period from the LGA survey.

An action plan to proactively address the issues raised from the survey has been developed. Specific actions include addressing the overall perception of the Council by ensuring performance, value for money and information on priorities is provided through a variety of channels, increasing engagement with decision making within targeted groups and further improving the quality of consultation and engagement activity.

- 4.23 With 82% of deliverables rated as “Strong” or “Good”, there is much to celebrate in the progress the Council has made in delivering the Council Plan. Further detail regarding each of the deliverables in the Council Plan and the key measures is set out in Appendix 3.

Financial Context

- 4.24 The Council’s Five Year Financial Plan (FYFP) is reviewed and updated at least annually. It was last updated during the annual budget setting process for 2022-23, earlier in 2022. A number of risks regarding the assumptions made in developing the FYFP were highlighted in the Revenue Budget Report, these being:

- **Achievement of Savings** – there is a reliance on the achievement of a programme of budget savings. Any delays in implementation result in departmental overspends under normal circumstances, which result in reserves being used to cover the shortfall. Various scenarios for reserves have been modelled and the pessimistic General Reserve forecast results in a balance which is just 1.4% of forecast FYFP spending in 2026-27. Other earmarked reserves available for budget management are also forecast to reduce. The General Reserve needs to be preserved across the medium term to maintain financial sustainability, preserve the ability to soft land budget cuts and provide funding for Covid-19 recovery.
- **Service Pressures** – there is a commitment to support budget growth where necessary, and in particular within children’s social care. However, if current trends continue regarding placements and there is inadequate funding to support this, there will be further pressure on budgets in later years. However, there is analysis underway to consider how to mitigate demand pressures on the number of looked after children, which has the potential to help control some of these financial pressures, but they are unlikely to be effective in the short-term. Demographic growth continues to affect Adult Social Care costs. Predictions show that the Council will experience further annual growth, with significant additional annual costs estimated over the period of the FYFP.

- **Pay** – the FYFP assumes that the Council's bottom pay-point reaches £10.69 an hour by 2024-25, which is based on the Government's NLW target to reach two thirds of median earnings by 2024. However, this wage is not calculated according to what employees and their families need to live, instead taking into account what is affordable for organisations. Under current Living Wage Foundation 'Real Living Wage' forecasts this would mean a rise to £10.50 per hour by 2024. In line with this forecast it is the Council's ambition that the Council's bottom pay-point will be £10.50 an hour by 2024. However, this pay ambition is not currently affordable within the constraints of the Council's funding. The Council would welcome Government support for local authorities in the 2022-23 Settlement, or if that is not possible, in future settlements, to address the serious issue of increasing pay award pressures in a period of rising inflation. Additional funding would assist the Council in its recruitment and retention of staff, which is becoming increasingly difficult at this key time for local authorities, when services are competing with rising demand and the impacts of the Covid-19 pandemic, as well as capacity issues across the sector.
- **Economic Climate** – the Covid-19 pandemic has resulted in a significant economic shock, from which the economy has partly bounced back, but it has taken some time to recover Gross Domestic Product to pre-pandemic levels. Rising inflation means there is the potential for reductions in the Council's income for discretionary services.
- **Spending Reviews** – the Government has issued single year spending reviews for the last three financial years. Despite the signals, 2022-23 will be the fourth continuous single-year settlement. At the Local Government Association (LGA) conference on 28 June 2022, the Secretary of State for Levelling Up, Housing and Communities announced that councils will receive two-year funding settlements from 2023-24. A multi-year settlement provides local authorities with some certainty, supporting medium-term financial and service planning, and financial sustainability. There is also a risk that the Government's investment in the Covid-19 pandemic may result in further austerity measures in future years, as savings are required to repay the debt incurred by Government.
- **Fair Funding and Business Rates Reviews** – the reviews have been delayed for a number of years and the planned implementation for April 2021 was again postponed. A transparent, fair funding system is required, which reflects need and ability to fund services locally. The FYFP is predicated on the basis that mainstream funding continues as it is now.

- **Public Health Grant** – the Council’s allocation for 2022-23 is £43.803m, which is a 2.81% increase on the 2021-22 allocation. The ring-fence and grant conditions will remain in place for 2022-23, but at some point in the future it is expected that the funding for Public Health will form part of revised funding mechanisms for local authorities following funding reviews, levelling up communities and addressing health inequalities exposed by Covid-19.
- **Devolution** – the Levelling Up White Paper was published in February 2022. The paper sets out how Government will spread opportunity more equally across the UK. Levelling up is a long-term endeavour. It is a programme of change that requires a fundamental shift in how central and local government, the private sector and civil society operate. The Government will embark on a process of sustained and systematic engagement and consultation with a wide range of stakeholders, including devolved administrations, on the White Paper. Further detail on a number of these policy commitments will be set out in future publications. In addition, legislation will be introduced to Parliament to underpin in statute the changes fundamental to levelling up, alongside wider planning measures.
- **Brexit** – whilst a deal has been agreed and implemented between the UK and the EU, there remains elements of uncertainty as to how the agreement will work in practice over the medium to long term.
- **Covid-19 Financial Pressures** – the more infectious Omicron BA.2 sub-variant of concern has become dominant worldwide and new wave cases have dramatically increased. Cases in the UK peaked in January 2022 and declined in early 2022, however since May 2022 have again started to rise, but hospitalisations have remained much lower than the levels in January 2021. No additional Covid-19 funding was announced in the Local Government Finance Settlement, although Government might review this, if further variants of concern arise. Covid-19 pressures for the Council remain, as do additional costs. Given the uncertainty around new variants and the potential for further restrictions, the Council would welcome confirmation from Government of the extension of Covid-19 outbreak funding and confirmation that previously issued Covid-19 funding will not be clawed back. This would give some certainty and allow the Council to plan accordingly.

- 4.25 By 2026-27, the Council needs to have reduced expenditure by at least a further £67m in real terms, of which measures amounting to £27m have been identified. This is in addition to £317m of budget reductions the Council has already made to services since 2010. The shortfall between target and identified savings has grown over the course of 2021-22 and now stands at £40m, around £5m higher than reported in 2020-21. A sum of £2m of additional savings have been identified as part of the budget preparation process for 2022-23. There have been £22m additional forecast pressures on the budget from 2022-23 to 2025-26. Despite this, the total forecast shortfall has reduced by £13m over these years due to an increase in forecast income from Council Tax receipts and an expectation that the higher levels of grant funding announced in the 2022-23 Local Government Financial Settlement will continue for the foreseeable future. However, there is an expectation that budget pressures will continue into 2026-27, which is the final year of the FYFP, when a further £20m of savings are now forecast as being required.
- 4.26 There is a clear and significant challenge to identify savings to bridge the remaining savings gap and plan the best approach to achieving those savings over the next few years, if additional funding is not received over and above that forecast. Additional funding may come from further increasing Council Tax in 2023-24 onwards, over and above the 2% increases forecast, up to referendum limits, further Government grants over and above those predicted or from increased business rates growth. There is a planned use of General and Earmarked Reserves from 2023-24 to 2026-27 in order to achieve a balanced budget.
- 4.27 The Council set its net budget requirement for 2021-22 on 3 February 2021 and originally planned to spend £572.475m, with funding coming in the form of Government non-ring-fenced grants of £189.838m, Council Tax of £348.822m, business rates collected locally of £17.679m and the use of Earmarked Reserves of £16.136m. In 2021-22 the Council has spent £584.773m, against a final net budget of £611.624m. The increase in net budget is because additional general grant income of £38m, of which £16.810m relates to general Covid-19 grants, £7.127m to Business Rates Reconciliation Grant, £6.000m to Local Council Tax Support Scheme Grant, £2.534m to additional former Independent Living Fund Grant and £2.357m to Business Rates Relief Grant, and £3m less business rates income than expected, plus additional net transfers from Earmarked and General Reserves of £5m.

Revenue Outturn Summary

4.28 The Council's revenue outturn for 2021-22, compared to controllable budget, is summarised below. The outturn table shows the position net of the impact of the ring-fenced Dedicated Schools Grant (DSG) of £373.432m and Public Health grant of £42.607m, other ring-fenced grants and income from other third parties and their associated spend. The outturn is reported on the basis of the Council's portfolios operating in 2021-22.

	Budget £ Millions	Actuals £ Millions	Outturn £ Millions	Budget Performance
Adult Care	262.812	260.228	-2.584	✓
Children's Services and Safeguarding and Education	138.906	140.582	1.676	✗
Clean Growth and Regeneration	1.108	1.005	-0.103	✓
Corporate Services and Budget	54.276	58.096	3.820	✗
Health and Communities	10.553	9.010	-1.543	✓
Highways Assets and Transport	32.539	33.764	1.225	✗
Infrastructure & Environment	43.061	42.661	-0.400	✓
Strategic Leadership, Culture, Tourism and Climate Change	12.899	12.010	-0.889	✓
Total Portfolio Outturn	556.154	557.356	1.202	✗
Risk Management	24.449	0.000	-24.449	✓
Debt Charges	29.882	29.151	-0.731	✓
Interest and Dividend Income	-3.453	-5.417	-1.964	✓
Levies and Precepts	0.354	0.354	0.000	✓
Corporate Adjustments	4.238	3.329	-0.909	✓
Total	611.624	584.773	-26.851	✓

4.29 The Covid-19 pandemic has had a significant impact on the Council's finances in 2021-22. A summary of these impacts is provided at Appendix 19.

4.30 There was an overall Council underspend of £26.851m for 2021-22, after accounting for the use of £12.688m of non-ringfenced grant funding provided by the Department for Levelling Up, Housing and Communities (DLUHC) to support local authorities with the impacts of the Covid-19 pandemic. This includes funding from:

- £1.473m of compensation for lost sales, fees and charges income claimable under the Government scheme announced on 2 July 2020, which was extended to 30 June 2021; and
- £11.215m from Covid-19 emergency grants of £15.337m awarded in 2021-22 and £11.248m awarded and brought forward from 2020-21.

- 4.31 Of the £1.202m portfolio overspend, the significant variances were an overspend of £3.820m on the Corporate Services and Budget portfolio, a £2.584m underspend on the Adult Care portfolio, a £1.676m overspend on the Children's Services and Safeguarding and Education portfolio, a £1.543m underspend on the Health and Communities portfolio and a £1.225m overspend on the Highways Assets and Transport portfolio.
- 4.32 The £3.820m overspend on the Corporate Services and Budget portfolio is mainly because of Corporate Property savings which have not been achieved, running costs of buildings awaiting disposal or repurpose, and overspends in Industrial Development, as full occupancy cannot be achieved and some units are offered at rents below market rates for occupying charities, or including rent-free periods in exchange for tenants undertaking essential repairs and maintenance work. Contributions of £0.010m to an earmarked reserve to support the modernisation of the ICT traded services function and £0.200m to provide temporary agency resources for the Operations team have been approved. These amounts have already been accounted for in the Corporate Services and Budget portfolio's outturn position.
- 4.33 The £2.584m underspend on the Adult Care portfolio is mainly due to underspends on staff travel and increased Clinical Commissioning Group (CCG) funding within Social Care Activity, and underspends within the Healthy Homes, Advocacy and Carer Services. There is a £2.571m overspend on Purchased Services due to an increase in placements to the independent sector, which has significantly increased the level of voids within the Direct Care service, leading to double running costs; this has been mitigated by £2.855m of unallocated budget held as contingency.

- 4.34 The £1.676m overspend on the Children's Services and Safeguarding and Education portfolio has resulted from an increase in the number of journeys that are being provided and an increase in average cost per journey for Home to School Transport for children with special educational needs (SEN), the high cost of packages to support children with disabilities with complex needs to remain with their families or maintain their current placement, and high demand for placements for Children who are either in care, or who are unable to remain at home, due to increases in the number of children in care and a greater number in more expensive types of provision because of complexity of care need, or lack of availability of less costly alternatives. These pressures have been partially offset by around £5m of underspends or one-off funding, which may not be available on an ongoing basis.
- 4.35 The £1.543m underspend on the Health and Communities portfolio has resulted from costs which would ordinarily have been funded from the Prevention budget being met from alternative sources such as the Household Support Fund and Public Health Grant supporting Covid-19 responsibilities, an increase in registration income following the easing of Covid-19 restrictions around events such as weddings leading to an increase in the number of events held, and vacancy control within the Trading Standards service.
- 4.36 The £1.225m overspend on the Highways Assets and Transport portfolio is mainly due to unachieved savings targets not yet allocated to specific services, under-recovery of salaries and overheads recharged to capital schemes due to staff shortages, and lower than anticipated Highways related income. These overspends have been partially offset by a reduction in the cost of concessionary fares in respect of demand from Gold Card holders.
- 4.37 The overspends on the Children's Services and Safeguarding and Education, Corporate Services and Budget and Highways Assets and Transport portfolios have been funded from the Council's General Reserve in 2021-22.

- 4.38 There has been an underspend on corporate budgets in 2021-22. The underspend on the Risk Management budget relates to unutilised contingency amounts, additional general grant income and one-off funding returned from portfolios. There is a small underspend on the Debt Charges budget. The Council utilises a range of investments to maximise its interest and dividend income on balances. Interest income includes interest accrued on the loan advances to Buxton Crescent Limited. The underspend on Corporate Adjustments reflects the presentation of a deficit relating to the Property Direct Service Organisation within the Corporate Services and Budget portfolio and the phasing of project expenditure within the Corporate Services and Budget and Highways Assets and Transport portfolios.
- 4.39 The Council continues to look at ways to save money and generate income, whilst trying to protect and deliver services suitable for the residents of Derbyshire. Significant consultation and planning timeframes are required to achieve many of these savings. Delays in agreeing proposals could result in overspends by departments, which would then deplete the level of General Reserve held by the Council, decreasing its ability to meet short term, unforeseeable expenditure. In many cases the proposals will be subject to consultation and equality analysis processes. Progress against budget savings targets will be closely monitored, however there is a heightened risk of not achieving a balanced budget, as a result of both cost pressures and savings slippage as a result of the Covid-19 pandemic.
- 4.40 At 31 March 2022 there were £2.315m of portfolio ring-fenced commitments. These commitments were:
- £1.650m (Health and Communities), to establish an earmarked reserve to support the Council's new Grant Funding Prospectus and Framework 2022-23 reported to Cabinet on 13 January 2022.
 - £0.240m (Highways Assets and Transport), which is the remainder of a £0.250m allocation of funding from Challenge Fund Reserves provided to commission and undertake feasibility studies relating to The Derwent Valley Cycle Route and Access to Shirebrook. This was reported to the Cabinet Member for Highways, Transport and Infrastructure on 11 March 2021. It is proposed to establish an earmarked reserve for this funding.
 - £0.200m (Highways Assets and Transport), for Highways Commuted Sums – developer funding to be earmarked for future maintenance or improvement of the highway (Sections 38 and 278 of the Highways Act 1980).
 - £0.150m (Strategic Leadership, Culture, Tourism and Climate Change), funding allocated to the Thriving Communities Project not yet utilised due to delays arising from the Covid-19 pandemic.

- £0.075m (Strategic Leadership, Culture, Tourism and Climate Change), the remainder of the Voluntary and Community Sector (VCS) grant budget growth allocation to be used to complete the project.
- 4.41 In addition to the ring-fenced commitments, portfolio underspends of £3.351m have been approved for allocation to the Adult Care, Clean Growth and Regeneration and Strategic Leadership, Culture, Tourism and Climate Change portfolios. To provide flexibility in meeting budget pressures and budget savings targets, these amounts will be carried forward in departmental earmarked reserves. Any decisions on the use of departmental earmarked reserves containing underspends will continue to be subject to appropriate approvals by the appropriate Cabinet Member.
- 4.42 In addition, the process of detailed review of earmarked reserves will continue and any available balance will be returned to the General Reserve, as appropriate. £10.000m has been approved for allocation from the overall Council underspend to the Budget Management Earmarked Reserve. Furthermore, a sum of £14.000m held in an earmarked reserve as a contingency against further potential funding losses during the Covid-19 recovery period has been approved for release and new earmarked reserves created: £10.000m for inflation risks and £4.000m for Cyber Security. The Council has also received funding from DLUHC following the reconciliation of business rates income; therefore, a sum of £5.251m will be established in a new Business Rates Risks reserve to manage the volatility of business rates income expected as the economy recovers from the Covid-19 pandemic. Further details are set out in paragraphs 4.43 and 4.45 below.
- 4.43 Just as the UK emerges from one crisis in the form of the Covid-19 pandemic, the invasion of Ukraine by Russia has created further economic disruption which has compounded the impact of already rising fuel and food costs, general inflation and fragile supply chains. These impacts will have a direct effect on certain Council services, residents and the wider economy with uncertainty when the situation will stabilise. In these times of great uncertainty, there will be significant risks and challenges in the short to medium term as the Council is not immune from these economic shocks, therefore it is sensible to establish an earmarked reserve to help mitigate some of these anticipated costs.

- 4.44 The Council's insurers have notified us that they are unable to renew the Council's current cyber policy which expired on 30 April 2022. The cyber security insurance market is extremely limited, and cover is becoming increasingly difficult to obtain. Whilst there are a few remaining providers, we are advised that proposal forms set out an extremely long list of conditions, and cover is unlikely if there is any indication of risk in an organisation's cyber security arrangements. Cyber risks are inherently high, but not something that councils can completely avoid, or in the current market transfer the risk. In the absence of suitable insurance cover, it is prudent to establish an earmarked reserve to aid recovery in the event of a cyber-attack. Estimated costs of recovery can vary significantly, however, based on recent attacks to organisations a sum of £4m is considered prudent.
- 4.45 The establishment of an earmarked reserve of £5.251m from the £7.127m of additional Business Rate Reconciliation Grant 2020-21, to mitigate future volatility which may arise in respect of business rates receipts has been approved. The remaining £1.876m of this funding has been used to support departments with additional pay award costs in 2021-22, see paragraphs 4.51 and 4.52 below.
- 4.46 The delivery of the Council's FYFP is heavily dependent on an adequate level of General Reserve. The need to maintain an adequate, risk assessed level of reserves has been a key part of the Council's success in both maintaining its financial standing and continuing to deliver high quality services.
- 4.47 The General Reserve balance has decreased by £17.160m from 31 March 2021, to £60.505m at 31 March 2022. There are commitments of £20.917m against this balance, set out in the table at paragraph 4.69 below, and the balance will be further reduced by the measures required to deliver the Council's FYFP noted in paragraph 4.46 above. In the Council's 2022-23 Revenue Budget Report, in a reasonable pessimistic forecast, the General Reserve was predicted to decrease to £9.522m by 31 March 2027. The adequacy of the Council's General Reserve balance is considered at paragraphs 4.70 and 4.71 below.

Portfolio Costs

4.48 There was a Council portfolio overspend of £1.202m in 2021-22, after the use of DLUHC Covid-19 grant funding for Covid-19 related costs incurred. The table at Appendix 19 shows the Covid-19 related costs across the portfolios as £11.498m. This is the additional cost and lost income of the Council's response for the year ending 31 March 2022, including the impact of slippage to the planned programme of savings which cannot yet be implemented as a result. This amount allows for any specific funding to offset the gross Covid-19 related costs which has already been forecast to be allocated to individual portfolios; these amounts are detailed in Appendix 19. Budget of £11.498m has been allocated to portfolios, from the emergency Covid-19 grant funding and the compensation for lost income from sales, fees and charges received from Government, to match these costs.

4.49 Portfolio costs are explained in more detail in Appendices 4 to 12.

Risk Management Budget

4.50 There was an underspend on the Risk Management Budget of £24.449m in 2021-22.

4.51 The Risk Management Budget of £24.449m includes:

- £9.091m of contingency funding set aside in the 2021-22 Revenue Budget. This comprises:
 - £8.391m general contingency; and
 - £0.700m for 2021-22 County Council election costs that have been confirmed as not required.
- £1.500m of one-off funding approved in the Council's 2021-22 Revenue Budget to pump prime the development of an Assistive Technology service. These funds were returned unused from the Adult Care portfolio as the portfolio was able to alternatively finance this initiative from its underspend in 2020-21.
- £20.571m of additional non-ringfenced grants that had not been announced when the 2021-22 Revenue Budget was approved by Council on 3 February 2021. This comprises:
 - £7.127m Business Rates Reconciliation 2020-21 grant
 - £6.000m Covid-19 Local Council Tax Support grant;
 - £2.534m former Independent Living Fund grant;
 - £2.357m Business Rates Relief grant;
 - £1.405m Extended Rights to Home to School Transport grant;
 - £0.520m Local Reform and Community Voices grant;
 - £0.354m Tax Income Guarantee grant (revised estimate);

- £0.162m War Pension Disregard grant;
- £0.094m Social Care in Prisons grant;
- £0.013m Transparency Code grant; and
- £0.005m Breathing Spaces grant.
- £0.585m of ongoing Transition Funding approved in the Council's 2020-21 Revenue Budget allocation for Demographic Growth, which had not been utilised by 31 March 2021, returned from the Adult Care portfolio.
- Less: £5.422m adjustment for Business Rates income. The amounts were finalised after the 2021-22 Revenue Budget was approved by Council on 3 February 2021.
- Less: £1.876m additional allocation of one-off funding for the 2021-22 pay award. See 4.52 below.

4.52 The 2021-22 pay award for Local Government Service Employees (effective from 1 April 2021) has now been agreed. Employees on pay point 1 received an increase of 2.75%, those on pay point 2 and above an increase of 1.75%, and Chief Officers an increase of 1.50%, which results in a total cost to the Council of £4.189m. For 2021-22 budget purposes a sum of £2.313m was set aside for 'bottom loading' but there was no general increase, with the expectation that portfolios would pick up any additional costs. The agreed pay increase for 2021-22 therefore leaves the Council with a shortfall of £1.876m in 2021-22 and a £1.896m ongoing pressure in each subsequent year. The additional Business Rates Reconciliation 2020-21 Grant of £7.127m, within the £20.571m of additional non-ringfenced grants shown above, has been used in part to support departments with this additional cost for 2021-22. It is proposed to review the in-year position in 2022-23 alongside other demand and inflationary pressures, to ascertain whether additional budget can be allocated to departments to support the 2021-22 pay award on an ongoing basis.

Debt Charges

4.53 The Debt Charges budget was underspent by £0.731m in 2021-22.

4.54 Debt charges are based on interest payments, the Capital Financing Requirement (CFR), a Minimum Revenue Provision (MRP) of 2.5% (in keeping with the policy reported to Cabinet on 22 November 2016) and a £7.000m one-off reduction in the Council's Capital Adjustment Account Reserve. This reduction is made on the basis that the amounts set aside to repay debt over the last ten years are well in excess of what is required to ensure the Council can repay its debts.

Interest and Dividend Income

- 4.55 Interest and dividend income budgets underspent by £1.964m in 2021-22.
- 4.56 The interest base rate was raised from 0.10% to 0.25% on 16 December 2021, to 0.50% on 3 February 2022 and to 0.75% on 17 March 2022. However, the Council utilises a range of investments, including pooled funds, to maximise its interest and dividend income on balances.
- 4.57 A decrease of £0.445m in dividend income on the Council's investments in pooled funds has been supported by use of MHCLG Covid-19 grant funding. Pooled fund investments have been held for the whole of 2021-22.
- 4.58 The interest rate on the loan to Buxton Crescent Limited has been reduced in recognition of the fact that the revenues from the Buxton Crescent hotel are expected to be significantly lower than anticipated because of the impacts of Covid-19. The resulting decrease of £0.163m interest income accruing to this loan in 2021-22 has been funded using DLUHC Covid-19 grant funding.

Corporate Adjustments

- 4.59 There was an underspend of £0.909m on Corporate Adjustments in 2021-22.
- 4.60 The underspend reflects the presentation of a deficit relating to the Property Direct Service Organisation within the Corporate Services and Budget portfolio and the phasing of project expenditure within the Corporate Services and Budget and Highways Assets and Transport portfolios.
- 4.61 Interest income of £0.162m accruing to the loan to Buxton Crescent Ltd for the period 1 April 2021 to 18 July 2021 was written off in recognition of the fact that the revenues from Buxton Crescent hotel were significantly lower than anticipated because of the impacts of Covid-19. This has been funded using DLUHC Covid-19 grant funding.

- 4.62 Only £0.579m of the allocated £1.000m savings target was achieved by the Council paying its Local Government Pension Scheme employer contributions early. This is because of the decision not to pay in advance all the contributions due for the entire period 2020-21 to 2022-23, but rather to make separate early lump sum payments for each year over that period. This decision was made in light of the Covid-19 pandemic, to preserve the Council's liquidity of cash flow, amongst other considerations. A sum of £0.421m of DLUHC Covid-19 grant funding was allocated to reimburse the cost of this savings target which could no longer be achieved.

Budget Savings

- 4.63 A summary of the achievement of budget savings targets is provided at Appendix 17. The budget savings target for 2021-22 is £13.291m, with a further £12.768m target brought forward from previous years. The savings initiatives identified to meet this target fell short by £7.973m, therefore further proposals will need to be brought forward to ensure the Council continues to balance its budget. Of this total target of £26.059m, £11.154m was achieved by the end of the financial year. Therefore, there is a £14.905m shortfall in achievement of budget savings. The resulting base budget overspend is offset to some extent by one-off underspends, or is being met from one-off funding from earmarked reserves and additional grant funding received.

Debt Age Profile

- 4.64 The age profile of debts owed to the Council and the value of debts written off is disclosed in Appendix 18. This information is collected on a departmental rather than on a portfolio basis.

Earmarked Reserves

- 4.65 Earmarked reserves are held to meet known or predicted liabilities and the funds should be used for the item for which they have been set aside. Any funds no longer required are returned to the General Reserve. The Council reviews the level of earmarked reserves at least annually. The last review of earmarked reserves took place in December 2021 and was reported to Cabinet on 24 January 2022.
- 4.66 A summary of outstanding balances on the Council's earmarked reserves as at 31 March 2022 is set out in Appendix 16.

- 4.67 The Council has used funding it has received to support Covid-19 pandemic impacts for relevant expenditure over the last two financial years 2020-21 and 2021-22. Any funding which had not been utilised by 31 March 2022 has been contributed to earmarked reserves or, where appropriate, carried forward as a receipt in advance. These amounts may be used to fund any further relevant expenditure arising as a result of the pandemic in 2022-23.
- 4.68 A register of funding receivable to meet Covid-19 related costs in 2021-22 is disclosed in Appendix 19.

General Reserve

- 4.69 The General Reserve stands at £60.505m at 31 March 2022. The level of General Reserve, before the commitments below, is 9.8% of the Council's Net Budget Requirement for 2022-23. The commitments held against this balance are as follows:

General Reserve at 31 March 2022

	£m
Balance in Pre-Audit Accounts	60.505
Post-Covid Funding Risks Reserve Release	14.000
Less: Allocations to Portfolios* and Corporate Reserves	
Adult Care	(2.584)
Children's Services and Safeguarding and Education	0.000
Clean Growth and Regeneration	(0.103)
Corporate Services and Budget	0.000
Health and Communities	(1.650)
Highways Assets and Transport	0.000
Infrastructure and Environment	(0.440)
Strategic Leadership, Culture, Tourism and Climate Change	(0.889)
Inflation Risks Reserve	(10.000)
Cyber Security Reserve	(4.000)
Business Rates Risks Reserve	(5.251)
Budget Management Reserve	(10.000)
Balance After Commitments	39.588
Anticipated Balance Expected as part of FYFP in Revenue Budget Report 2022-23	41.966

- 4.70 The majority of chief financial officers consider an acceptable level of generally available reserves to be one that reflects a risk-based approach to potential liabilities. A relatively crude measure is to expect the resulting figure to be between 3% to 5% of a council's net spending, representing a prudent level of risk-based reserves. As at 31 March 2022, after the commitments above, the figure for the Council stood at 6%, indicating a suitable balance. However, it is necessary to consider this indicator over the medium term to gain a better understanding of its adequacy.
- 4.71 In the Council's 2022-23 Revenue Budget Report, in a reasonable pessimistic forecast, the General Reserve was predicted to decrease to 1.4% (£9.522m) of the Council's Net Budget Requirement by 2026-27. It is recognised that the forecast General Reserve balance over the medium term is lower than would be preferred, therefore restorative measures will be utilised over the Five Year Financial Plan to build back up the balance of the General Reserve to a reasonable, risk assessed level.

Portfolio Summaries

- 4.72 A summary of the performance and outturn positions of each of the individual portfolios and the ringfenced Dedicated Schools and Public Health grants for 2021-22 is detailed in Appendices 4 to 13.
- 4.73 Whilst budgets are monitored by portfolio, the individual portfolios are not separate entities. All the portfolios operate in conjunction with the others and it is important to consider the Council's budgetary position as a whole in the context of its FYFP and its overall level of reserves.

Traded Services

- 4.74 A trading area is where the Council receives income in return for providing discretionary services to external organisations and/or individuals.
- 4.75 'Fully traded' trading areas are separately identifiable and have a net controllable budget of £0, i.e. there is an expectation that on average all the controllable expenditure within this area will be funded from external income. There was an overall deficit to general overheads of £0.103m for 2021-22 on fully traded areas across the Council as a whole.

4.76 'Partially traded' trading areas do not have a net controllable budget of £0, but they do receive income from external entities which contributes to funding some of the discretionary services they provide. There was an overall excess of £0.107m compared to the budgeted income target for 2021-22 on partially traded areas across the Council as a whole.

4.77 Appendix 15 summarises the financial performance of the separate trading areas.

5. Consultation

5.1 No consultation is required.

6. Alternative Options Considered

6.1 N/A – the Council is required to outline its revenue outturn position to ensure compliance with good financial management to support the development of short and medium-term financial planning. Not producing an outturn report would be contra to the Council's Financial Regulations which requires the reporting of departmental outturn positions to be reported to Cabinet after the end of the Financial Year.

7. Implications

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

8. Background Papers

8.1 Performance papers held electronically by Policy & Research. Finance papers held electronically by Financial Strategy, Finance & ICT.

9. Appendices

9.1 Appendix 1- Implications.

9.2 Appendix 2 – Key to Performance Ratings

9.3 Appendix 3 – Performance Report 2021-22 Council Overview

9.4 Appendix 4 – Adult Care - Portfolio Summary

9.5 Appendix 5 – Children's Services and Safeguarding and Education - Portfolio Summary

9.6 Appendix 6 – Clean Growth and Regeneration - Portfolio Summary

- 9.7 Appendix 7 – Corporate Services and Budget - Portfolios Summary
- 9.8 Appendix 8 – Health and Communities - Portfolio Summary
- 9.9 Appendix 9 – Highways Assets and Transport - Portfolio Summary
- 9.10 Appendix 10 – Infrastructure and Environment - Portfolio Summary
- 9.11 Appendix 11 – Strategic Leadership, Culture, Tourism and Climate Change - Portfolio Summary
- 9.12 Appendix 12 – Dedicated Schools Grant (DSG)
- 9.13 Appendix 13 – Public Health Grant
- 9.14 Appendix 14 – Summary of Underspends
- 9.15 Appendix 15 – Traded Services
- 9.16 Appendix 16 – Earmarked Reserves
- 9.17 Appendix 17 – Budget Savings Monitoring 2021-22
- 9.18 Appendix 18 – Aged Debt
- 9.19 Appendix 19 – Covid-19 Financial Impacts and Funding

10. Recommendations

That Audit Committee:

- 10.1 Notes the Council Plan performance and the revenue outturn position for 2021-22;
- 10.2 Notes the position on General and Earmarked Reserves;
- 10.3 Notes the allocation of underspend amounts and commitments to Portfolios as set out in paragraph 4.41 above.
- 10.4 Notes the release of all the sum of £14.000m held in the earmarked reserve as a contingency against potential funding losses during the Covid-19 recovery period as set out in paragraphs 4.42 above.

- 10.5 Notes the allocation, from the release of earmarked reserves and from underspends, of £10.000m to the Budget Management Earmarked Reserve, £10.000m to a reserve for inflation risks, £5.251m to a reserve for business rates risks and £4.000m to a reserve for cyber security as set out in paragraphs 4.42 to 4.45 above.
- 10.6 Notes contributions from the Finance & ICT budget of £0.010m to an earmarked reserve to support the modernisation of the ICT Traded Services team and £0.200m to provide temporary agency resources for the Operations team as detailed in paragraph 4.32 above.

11. Reasons for Recommendations

- 11.1 The outturn report provides a summary of the overall finance performance and use of resources against the Council's approved budget for the financial year 2021-22. The outturn position supports the development of budgets in both the short and medium term.
- 11.2 Performance information is important as it enables the Council and the public to see how well the Council is delivering services and where it needs to make improvements.
- 11.3 Underspends can be carried forward with the approval of Cabinet as set out in the Council's Financial Regulations.
- 11.4 Releasing the sum of £14.000m, from the earmarked reserve held as a contingency against potential funding losses during the Covid-19 recovery period, enables the Council to refocus the balances it is holding based on the latest assessment of the most significant and immediate financial risks it is facing.
- 11.5 The balance of both the General and Earmarked Reserves supports good financial planning. The allocation of £10.000m to the Budget Management Earmarked Reserve will support the Council in setting a balanced budget in future years, through the use of one-off funding to support services; the creation of a £10.000m inflation risks reserve will support the Council in the short-term to meet the cost of temporary inflationary increases being experienced; the creation of a £5.251m business rates risk reserve will help mitigate future volatility the Council may experience in respect of business rates receipts; and the creation of a £4.000m cyber security reserve will aid the Council's recovery in the event of a cyber-attack, given that adequate and affordable insurance cover is no longer available.

- 11.6 Contributions from the Finance & ICT budget of £0.010m to an earmarked reserve to support the modernisation of the ICT traded services function and £0.200m to provide temporary agency resources for the Operations team will support the ICT service to meet operational demands via alternative means during a period where it is difficult to deliver services via staff in substantive posts.

12. Is it necessary to waive the call in period?

- 12.1 No

Report Author:

Sam Holmes
Eleanor Scriven
Matthew Walters
Simon Pape
Esther Croll

Contact details:

Samuel.Holmes@derbyshire.gov.uk
Eleanor.Scriven@derbyshire.gov.uk
Matthew.Walters@derbyshire.gov.uk
Simon.Pape@derbyshire.gov.uk
Esther.Croll@derbyshire.gov.uk

Appendix 1

Implications

Financial

1.1 As outlined in the body of the report.

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 Plan values commit to spending money wisely, making the best use of the resources that the Council has.






6.2 The Covid-19 pandemic has increased the financial uncertainty for all local authorities. The Council is committed to ensuring that it sets a balanced budget over the medium-term, therefore ensuring good financial management and use of reserve balances to meet the costs of any unforeseeable events arising from the pandemic.

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

7.1 None.

Appendix 2

Key to Performance Ratings

	Strong 	Good 	Review 	Action 	Unknown 
Council Plan Deliverables	On track or complete with outcomes exceeding expectations /requirements.	On track or complete with outcomes in line with expectations/ requirements.	Some risk to achieving timetable and/or outcomes.	Unlikely to achieve timetable and/or not delivering required outcome.	Data measuring the performance of these deliverables continues to be suspended due to Covid-19.
Council Plan Measures	More than 5% better than target.	Less than 5% better than target but not less than 2% worse than target.	Between 2% and 10% worse than target.	More than 10% worse than target.	No data received or no target set.
Service Lines Outturn		Outturn below budget.	Outturn less than or equal to 2% over budget.	Outturn more than 2% over budget.	
Portfolio Outturn		Outturn below budget.		Outturn over budget.	
Budget Savings		Forecast savings better than target.		Forecast savings worse than target.	