



Agenda Item

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

31 January 2023

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

**Performance Monitoring and Budget Monitoring/Forecast Outturn
2022-23 as at Quarter 2 (30 September 2022)**

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is not a Key Decision.

3. Purpose

3.1 To provide Members with an update of Council Plan performance and the Revenue Budget/forecast outturn for 2022-23, as at 30 September 2022 (Quarter 2).

4. Information and Analysis

Integrated Reporting

4.1 This report presents both Council Plan performance and financial budget monitoring and forecast outturn data.

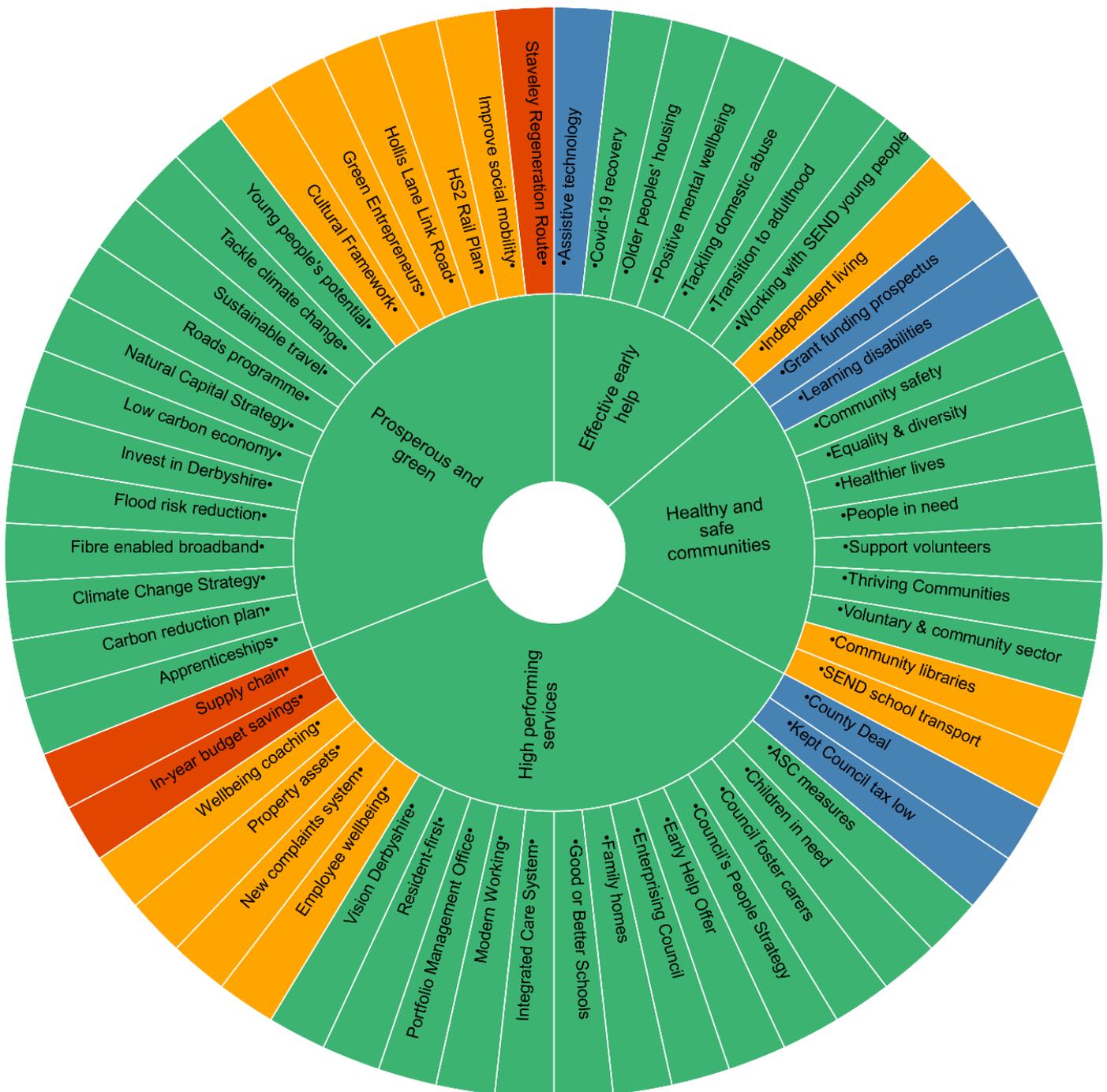
- 4.2 The Performance Summary sets out the progress the Council is making on delivering the Council Plan with a focus on the achievement of the Council Plan priorities.
- 4.3 The Revenue Budget Position and Financial Summary provides an overview of the Council's overall budget position and forecast outturn as at 30 September 2022.
- 4.4 Appendices to this report summarise progress on Council Plan deliverables and the controllable budget position by Cabinet Member Portfolio for 2022-23 as at 30 September 2022. Further reports will be considered at Audit Committee and Council in accordance with the Budget Monitoring Policy and Financial Regulations.

Performance Summary

- 4.5 The Council Plan for 2022-25, which outlines the Council's priorities, key deliverables and performance measures, was developed and approved by Council in March 2022.
- 4.6 The 2022-23 Quarter 2 Performance Report, attached at Appendix 3, sets out the position in full, up to the end of September 2022, for each deliverable and associated key measures set out in the Council Plan.

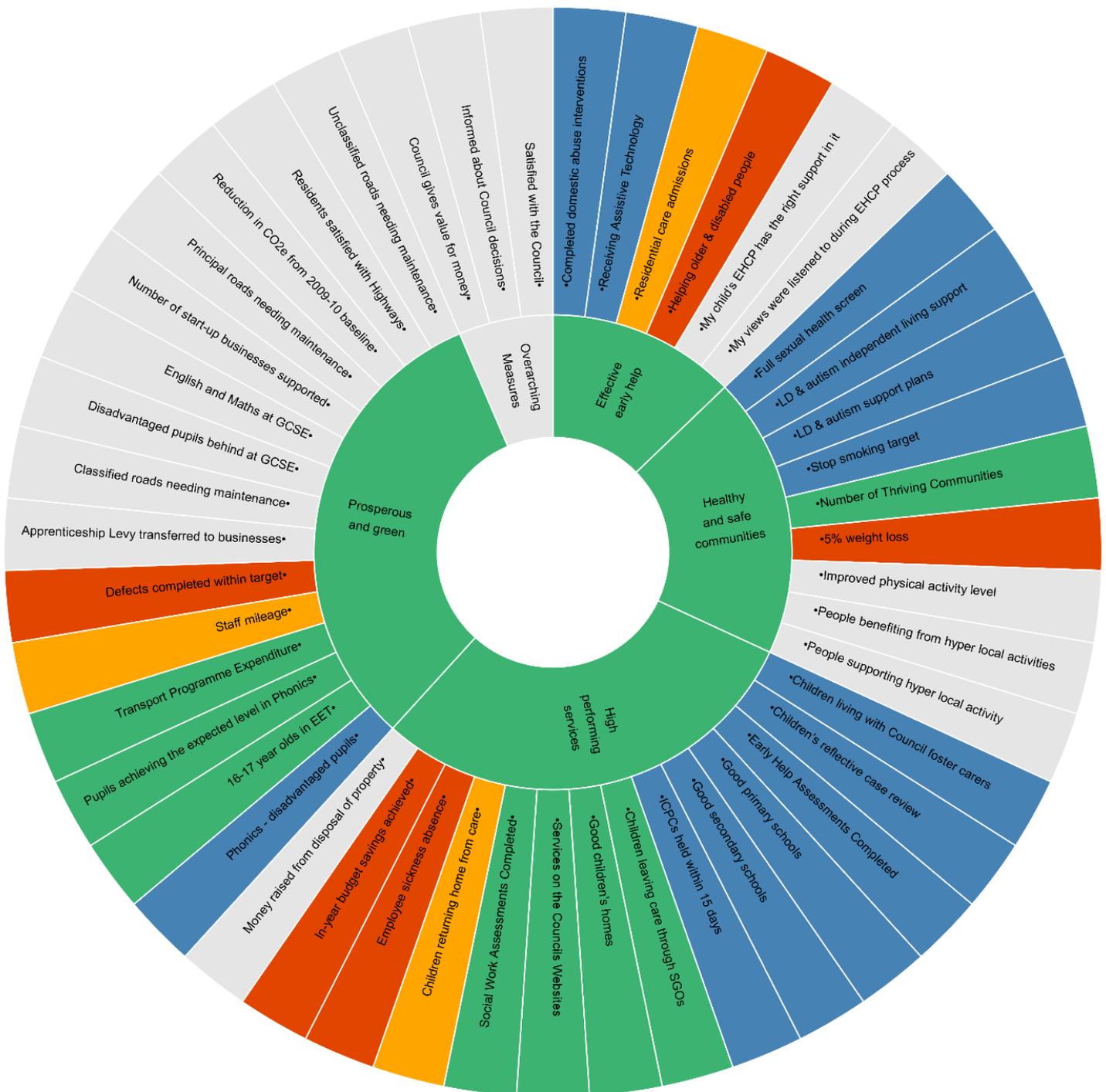
4.7 The Council is performing well in delivering the Council Plan, with 74% of the 58 deliverables in the Plan showing 'Good' or 'Strong' progress. Only 21% have been rated as 'Requiring Review' and three deliverables have been rated as 'Requiring Action'. Progress in delivering the Plan is shown in the graphic below.

Deliverable Progress



4.8 The graphic below shows performance against target for each measure by priority. For the 38 key measures with data at this point in the year, thirteen have been rated as ‘Strong’, with a further eight rated as ‘Good’, while three have been rated as ‘Requiring Review’ and five as ‘Requiring Action’.

Key Measures Against Target



Performance by priority

4.9 The resilient, healthy and safe communities priority shows overall 'Good' performance for both the deliverables and the measures.

4.10 Key areas of success are as follows:

- Continued to make good progress in ensuring people with a learning disability and/or who are autistic have an outcome focussed support plan, with 489 plans in place to date, ensuring access to more community-based opportunities.
- Continued to provide support to people and communities in need via the Derbyshire Discretionary Fund, making 7,112 awards during the quarter, totalling over £0.775m.
- Supported the development of open and welcoming spaces in communities and during the quarter recorded 3,478 instances of people benefitting from activity stemming from the Council's Thriving Communities approach.
- Made grants totalling £0.462m to community groups, promoting positive behaviours, improving local networks, helping people to feel safer and encouraging sustainable and green activity.

4.11 An area for consideration under this priority is as follows:

- Work to review how the Council delivers home to school transport for children with special educational needs continues to be delayed, with a number of new risks and challenges in this area. However, some mitigation of these risks has enabled some progress to be made. The focus of activity during Quarter 2 has been on the decision-making process and how Children's Services can best assess the need for home to school transport to enable Place to plan the most effective use of resources.

4.12 The high performing, value for money and resident-focused services priority shows overall 'Good' performance for both deliverables and measures.

4.13 Key areas of success include:

- The Government signed a devolution deal with Derbyshire, Derby, Nottinghamshire and Nottingham Councils on 30 August 2022, which will see the East Midlands receiving £1.14 billion over 30 years to invest in the region and the establishment of an East Midlands Mayoral County Combined Authority, subject to formal agreement and public consultation.

- Ranked as the lowest council for Council Tax for 2022-23, when comparing the average council tax per dwelling against comparator authorities who provide similar services.
- The proportion of children and young people attending good or better schools in Derbyshire during the academic year 2021-22 has seen a faster rate of improvement than that seen nationally, for both primary and secondary pupils. Although the gap with the national position has narrowed, proportions remain lower than comparators, particularly at secondary level, and the deliverable will remain a priority for the 2022-23 academic year.

4.14 Areas for consideration under this priority are as follows:

- Work to develop a longer-term preventative wellbeing coaching model has been delayed, partly due to the Covid-19 pandemic and partly due to Human Resources processes taking longer than anticipated. Revised timescales have been agreed and plans are being established to complete all outstanding pieces of work by the end of March 2023.
- Progress in implementing a new complaints and feedback system has been delayed. The level of work to integrate Adult Social Care and Health (ASCH) systems may be significant. The completion date has been put back to December 2023, and developments are being kept under review to identify any issues and manage timescales.
- Whilst progress has been made in supporting wellbeing, employee sickness absence has risen to 5.7% for the quarter up to the end of September 2022, compared with 4.7% for the same period last year. The target for the year is 4.6%. Work has continued on refreshing the Council's Wellbeing Strategy which is ready for formal agreement. Work is also underway to break down further the sickness absence data to better understand the underlying causes of sickness across the largest identified primary causes of sickness. The impact of spikes in Covid-19 infections rates is also being explored. Teams where the sickness levels are higher than the Council average have been identified for further investigation.
- Property rationalisation targets have been impacted due to the uncertain market and economic conditions, their impact on Council and partner resources, market interest in land sales and value over the term. These influencers are structural in nature and the Council will continue to monitor impact as national and regional conditions unfold.

- It is forecast that of the in-year savings target of £8.057m, £7.037m will be achieved in the current financial year. The Council is reviewing all of its savings initiatives and developing a programme of savings proposals to address the estimated funding gap over the medium term. Where savings have not been achieved in previous years and brought forward into the current financial year, mitigations and alternative savings delivery is being considered.
- The implementation of a contract and supply chain management regime across the Council has been delayed due to difficulties and delays in recruiting the contract compliance team. Various recruitment campaigns continue to be run, combined with changes to the recruitment process to make it easier for candidates to apply. While this is being addressed, some work is being progressed where possible.

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:

- Referred 215 people for Assistive Technology during the quarter, contributing towards reducing the need for formal support and promoting safety and independence in their own homes.
- Worked with local partners to support mental wellbeing. Over 500 "talking benches" have been set up across the county, allowing people to begin conversation with others and talk openly about their health and wellbeing.
- The Derby and Derbyshire Violence against Women and Girls Strategy has been launched and the first meeting of the new Board was held in September 2022.

4.17 An area for consideration under this priority is as follows:

- Progress on the Better Lives programme to support older people and people with a disability to increase their independence continues to be impacted by the shortage of homecare. The Better Lives programme has been reconfigured into the "Best Lives Derbyshire" programme to support mitigation of this issue and work is now underway to review the Short Term Service, which helps older and disabled people to regain their independence, to increase capacity and to create a wider workforce plan.

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:

- The spend on the Local Transport Programme has met the target and the planned surface dressing programme has been completed.
- Total carbon emissions for 2021-22 were 15,399 tCO₂e, which is a reduction of 64% since 2009-10 and a reduction of 3% from the 2020-21.
- The Renishaw Property Flood Resilience scheme benefiting thirteen properties has been completed. 80 properties separately have benefitted from £0.400m from the Department for Food, Environment and Rural Affairs grant scheme.
- Provisional 2021-22 data for the percentage of pupils reaching the required standard in Phonics suggest improved comparator performance and a narrowing of the gap between disadvantaged and non-disadvantaged pupils. The percentage of Derbyshire 16 to 17 year olds in education, employment and training continues to be in the top 25% of council areas nationally.

4.20 Areas of consideration under this priority are as follows:

- So far in 2022-23, 9,252 defects have been completed, with 80.4% being completed within target timescales. Whilst this is below the target of 90% it is higher than at the same point in 2021-22, when 73.5% of defects were completed in target timescales. During Quarter 2, 94.1% of defects were completed in target timescales, which is higher than target. It is considered that through the implementation of the Local Transport Plan Capital delivery scheme a reduction in defects will be seen throughout the year which should have a positive impact on the amount of defects, and customer satisfaction levels, by the year end.
- Whilst preparation work on planning and procurement for the Hollis Lane Link Road has continued during the quarter, the cost uncertainty will remain until a construction contractor is appointed.
- Whilst there is still no confirmation from the Department for Transport (DfT) on the northern leg of HS2, the development study is ongoing and consultation on the electrification of the Midland Mainline through the Derwent Valley Mills World Heritage Site is taking place with both Network Rail and the DfT.

- The costs of the Chesterfield to Staveley Regeneration Route remains an issue, and discussions are underway with both Government and private sector stakeholders over project funding.
- Take up of the Green Entrepreneurs small grants fund for businesses has not been as anticipated as a result of the current market conditions and rising inflation costs which seems to be affecting business confidence. Work is taking place with the University of Derby to intensify networking opportunities to engage further with businesses and raise the awareness of the Green Entrepreneur Fund.
- There have been difficulties in recruiting to the Vision Derbyshire programme team which will take forward the social mobility work. Work is taking place to review current hosting arrangements for the programme team alongside a light touch review of the Vision Derbyshire approach which will consider the resourcing of the approach and recruitment to the vacant posts
- An outline prospectus has been produced for the Derwent Valley Mills World Heritage Site Development Framework, however this requires wider partnership buy in. The Prospectus will be presented to Chief Executive Officers and Councillors from each of the Local Planning Authorities in the World Heritage Site by the Council's Head of Conversation and Executive Director of Place in the next calendar year.

4.21 With 74% 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.

Revenue Outturn Summary

4.22 The Council's forecast outturn for 2022-23 as at Quarter 2 (30 September 2022), compared to controllable budget, is summarised below. The forecast outturn table shows the position net of the impact of the ring-fenced Dedicated Schools Grant (DSG) of £389.554m and Public Health grant of £43.803m, other ring-fenced grants and income from other third parties and their associated spend.

Public

	Budget	Use of DLUHC Covid-19 Grant Funding	Adjusted Budget	Forecast Actuals	Projected Outturn	Budget Performance
	£ Millions	£ Millions	£ Millions	£ Millions	£ Millions	
Adult Care	264.780	0.000	264.780	280.400	15.620	
Children's Services and Safeguarding and Education	146.161	0.000	146.161	150.016	3.855	
Clean Growth and Regeneration	0.848	0.000	0.848	0.679	-0.169	
Corporate Services and Budget	59.928	0.695	60.623	63.110	2.487	
Health and Communities	9.925	0.000	9.925	9.158	-0.767	
Highways Assets and Transport	37.792	0.000	37.792	39.626	1.834	
Infrastructure and Environment	45.984	0.000	45.984	48.111	2.127	
Strategic Leadership, Culture, Tourism and Climate Change	13.493	0.000	13.493	13.736	0.243	
Total Portfolio Outturn	578.911	0.695	579.606	604.836	25.230	
Risk Management	24.598	0.000	24.598	7.244	-17.354	
Debt Charges	38.185	0.000	38.185	37.361	-0.824	
Interest and Dividend Income	-4.600	0.000	-4.600	-6.458	-1.858	
Levies and Precepts	0.363	0.000	0.363	0.363	0.000	
Corporate Adjustments	3.424	0.000	3.424	3.102	-0.322	
Unfunded Pay Award	0.000	0.000	0.000	13.000	13.000	
Total	640.881	0.695	641.576	659.448	17.872	
Use of Earmarked Reserves	17.872	0.000	17.872	0.000	-17.872	
Total After Use of Earmarked Reserves	658.753	0.695	659.448	659.448	0.000	

4.23 An overall Council overspend of £17.872m is forecast, after accounting for the use of £0.695m of non-ringfenced grant funding provided by the Department for Levelling Up Housing & Communities (DLUHC) to support local authorities with the impacts of the Covid-19 pandemic.

This is funding from the remaining balance of the Covid-19 general emergency funding at 31 March 2022, amounting to £15.370m, which has been carried forward to 2022-23 in an earmarked reserve. The forecast also includes the use of £7.651m from departmental reserves to support the Highways Assets and Transport and Infrastructure and Environment portfolios. However, the Council will use some of the balances on its Budget Management, Covid-19 and Inflation Earmarked Reserves to report a break-even position as shown in the table below. It is anticipated that, after these amounts have been drawn, a balance on the Covid-19 reserve will remain available for future use. Whilst the use of earmarked reserves, in-year, will result in the Council reporting a break-even position, the impact of the unfunded pay offer, demand pressures and inflationary costs will need to be addressed as part of the budget setting process for 2023-24 as the effect will be an ongoing cost pressure.

Reserve	Balance Available	Use to fund identified Covid impacts	Use to fund overspend	Residual
	£m	£m	£m	£m
Inflation Risks	10.000	0.000	6.200	3.800
Budget Management	10.000	0.000	10.000	0.000
Covid Emergency Grant	15.370	0.695	1.672	13.003
	35.370	0.695	17.872	16.803

4.24 Of the forecast £25.230m portfolio overspend, the significant variances are:

- an overspend of £15.620m on the Adult Care portfolio;
- a £1.834m overspend on the Highways Assets and Transport portfolio, after the use of £4.884m of departmental earmarked reserves;
- a £2.127m overspend on the Infrastructure and Environment portfolio, after the use of £2.767m of departmental earmarked reserves;
- a £3.855m overspend on the Children's Services and Safeguarding and Education portfolios; and
- a £2.487m overspend on the Corporate Services and Budget portfolio.

- 4.25 The forecast £15.620m overspend on the Adult Care portfolio relates to Purchased Services costs. There has been an increase in demand in relation to hospital discharges 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. As a result, expenditure on independent sector placements has increased. The forecast includes inflationary pressures of £1.700m in respect of Direct Care utilities and catering supplies.
- 4.26 The forecast £1.834m overspend on the Highways Assets and Transport portfolio mainly relates to unachieved savings from previous years, additional costs arising from an increase to the workforce assigned to routine highways maintenance, and under-recovery of highways staff and overheads recharged to schemes. The forecast includes £1.200m of inflationary pressures. This forecast is after the use of £4.884m of departmental earmarked reserves.
- 4.27 The forecast £2.127m overspend on the Infrastructure and Environment portfolio has mainly arisen due to unachieved savings from previous years, £1.500 of inflationary pressures in the Waste Management service and unfunded posts of staff working on the Elvaston Master Plan. This forecast is after the use of £2.767m of departmental earmarked reserves.
- 4.28 The forecast £3.855m overspend on the Children's Services and Safeguarding and Education portfolios is partly due to a continued high demand for placements for children who are in care or unable to remain at home. The number of children requiring support is growing because the rate at which children enter care is greater than the rate at which children exit care, and because alternatives to care often require long-term financial support, leading to a growing number of arrangements to fund. Average cost increases are due to inflation and the need to make more higher cost placements with independent providers. Other factors contributing to the overspend include the impact of the 2022-23 pay award and inflation on traded and grant funded services within Education Support Services, the cost of covering vacancies in Children's Safeguarding services with agency social workers and supporting children with complex needs to remain with their families or maintain their current care placement. There is also an increase in the number of children who are eligible for Council-funded transport and an increase in average cost, with the increase in cost being due to both economic factors affecting contractors, and an increased need for more specialised vehicles to transport individual children.

- 4.29 The Children's Services and Safeguarding and Education portfolios forecast includes inflationary pressures of £0.898m, comprising £0.476m of energy costs, £0.335m of food costs and £0.087m of transport and fuel costs, excluding Home to School Transport which is covered by specific contingency budgets. Not all of these costs will be met from Council budget, as a number of services are funded by trading or grant income, however potentially this may impact on the contribution those services can make to corporate overheads.
- 4.30 The Council plans to support the Children's Services and Safeguarding and Education portfolios through allocations of a combination of ongoing budget growth and one-off funding to put these services on a sustainable financial footing by the time mitigation measures are able to stabilise the demand pressures on looked after children. Recent modelling suggests that demand pressures on looked after children are likely to level off by 2023-24. Analysis of current placement commitments, demographics and historic trends gives placements cost estimates ranging from £0.7m below to £2m above this forecast. There is also the potential for further increases in the number of children requiring placements or increases in average placement costs, giving an upper estimate of £4m above the forecast. A contingency budget is held to meet these potential pressures, and a balance of £1.182m would remain if the current forecast overspend of £2.040m is funded from this budget. It is considered likely that placement costs will increase during 2022-23 and may exceed the contingency budget. A contingency budget is also held to meet the potential pressures of a further increase in number of children eligible for transport, or further increases transport costs, and a balance of £1.919m would remain for mainstream and special needs Home to School Transport costs, if the current forecast overspend of £0.561m is funded from this budget. It is considered likely that costs will increase during the year but that it is unlikely these would exceed the contingency budget.
- 4.31 The forecast £2.487m overspend on the Corporate Services and Budget portfolio has mainly arisen in the Corporate Property division, primarily because of delays in achieving previously allocated savings. These savings are expected to be achieved over the coming years through rationalisation of the property base, with a consequent reduction in property running costs, and borrowing savings through use of the capital receipt to offset the need to borrow to fund the capital programme. PSP Derbyshire LLP will be the principle vehicle for delivering the savings. There is underachievement of the Industrial Development income target, which is based on full occupancy. Full occupancy cannot be achieved as vacancies occur during the turnover of lettings, and some units are offered at rents below market rates for occupying charities.

There is a further cost pressure related to incurring running costs on buildings that are awaiting disposal or repurpose. The forecast also includes estimated gas and electricity inflation, at 300% and 100% respectively, of £1.806m.

- 4.32 There is a forecast underspend on corporate budgets in 2022-23. The underspend on the Risk Management budget relates mainly to £7m of contingency funding shown as available to support expenditure which has been included in portfolio forecasts. There was also a £5m adjustment for Business Rates income. Business Rates income in 2021-22 was significantly reduced because of the impact of Covid-19 and the extent of recovery was uncertain at the time the Revenue Budget 2022-23 was set, with amounts finalised after. In addition, £4m relates to additional non-ringfenced grants and £1m to service pressure funding returned by a portfolio following receipt of grant income, all announced after the 2022-23 Revenue Budget was set. An underspend on the Debt Charges budget is forecast as the portfolio of the Council's long-term loans is repaid and interest on this debt reduces. A favourable variance is forecast in the Interest and Dividends budget. The Council utilises a range of investments to maximise its income on cash balances. Interest income includes interest accrued on the loan advances to Buxton Crescent Ltd. A small underspend on Corporate adjustments is forecast.
- 4.33 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 is being closely monitored, with a programme of action underway involving the Council's Corporate Management Team. 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 and other factors.
- 4.34 The delivery of the Council's Five Year Financial Plan (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.

- 4.35 The General Reserve stands at £32.133m at 30 September 2022. There are commitments against the General Reserve and the balance will be further reduced by the measures required to deliver the Council's FYFP noted in paragraph 4.34 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 2026-27. The adequacy of the Council's General Reserve balance is considered at paragraphs 4.62 to 4.64 below.

Portfolio Costs

- 4.36 There is a forecast Council portfolio overspend of £25.230m, after the use of £7.651m of departmental earmarked reserves and £0.695m of non-ringfenced grant funding provided by DLUHC from the remaining balance of the Covid-19 general emergency funding at 31 March 2022, carried forward to 2022-23 in an earmarked reserve. Budget of £0.695m is forecast to be allocated to portfolios to match the forecast additional cost and lost income of the Council's response to Covid-19 up to the end of March 2023, 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.
- 4.37 Portfolio costs are explained in more detail in Appendices 4 to 11.

Risk Management Budget

- 4.38 There is a forecast underspend on the Risk Management Budget of £17.354m in 2022-23.

Public

	Budget £m	Forecast Expenditure £m	Over / (Under) Spend £m
Pay Award 2022-23	6.789	6.789	0.000
National Insurance Social Care Levy	0.441	0.441	0.000
Local Government Pension Scheme Employer Contributions	0.014	0.014	0.000
Energy/Food	1.000	0.000	(1.000)
Pay and Price Issues	8.244	7.244	(1.000)
Street Lighting Energy	0.415	0.000	(0.415)
Children in Care Placements	1.222	0.000	(1.222)
Special Needs Home to School Transport	1.962	0.000	(1.962)
Mainstream Home to School Transport	0.518	0.000	(0.518)
Children in Care Placements (one-off)	2.000	0.000	(2.000)
Departmental Specific Service Pressures	6.117	0.000	(6.117)
General Contingency	0.116	0.000	0.000
Remaining Contingency Funding	14.477	7.244	(7.233)
Adjustment for Business Rates income	4.791	0.000	(4.791)
Business Rate Relief Grant	2.262	0.000	(2.262)
Revenue Support Grant adjustment	0.018	0.000	(0.018)
Food Info Allergen Labelling Grant	0.019	0.000	(0.019)
Extended Rights to Home to School Transport Grant	1.614	0.000	(1.614)
Additional Non-ringfenced Grants	3.913	0.000	(3.913)
Domestic Abuse Service Pressure	1.417	0.000	(1.417)
One-off Funding Returned from Departments	1.417	0.000	(1.417)
Total Risk Management Budget	24.598	7.244	(17.354)

4.39 The Risk Management Budget of £24.598m includes:

- £14.476m of remaining contingency funding set aside in the 2022-23 Revenue Budget. This comprises remaining pay and price issue elements of £8.244m, departmental specific service pressures of £6.117m and general contingency of £0.115m:
 - £6.789m for a 2022-23 pay award, considered at paragraphs 4.40 to 4.43 below;
 - £1.000m to support Departments with the rising cost of energy and food in non-school budgets, considered at paragraph 4.46 below;
 - £0.441m remaining balance of the forecast additional cost of a 1.25% increase in National Insurance contributions relating to the contingency amount for a 2022-23 pay award, though see paragraph 4.45 below;
 - £0.415m for an ongoing increase in street lighting energy costs;
 - £0.014m remaining balance for additional Local Government Pension Scheme employer pension contributions;
 - £5.702m additional funding for Children's Services, potentially required for rising costs, corporately held until the actual cost is known, with £3.222m for children in care placements, £1.962m for special needs home to school transport and £0.518m for mainstream home to school transport, and
 - £0.115m general contingency.
- £4.791m adjustment for Business Rates income. The amounts were finalised after the 2022-23 Revenue Budget was approved by Council on 2 February 2022.
- £3.913m of additional non-ringfenced grants that had not been announced when the 2022-23 Revenue Budget was approved by Council on 2 February 2022. This comprises:
 - £2.262m Business Rates Relief Grant;
 - £1.614m Extended Rights to Home to School Transport Grant;
 - £0.019m Food Allergen Labelling Grant; and
 - £0.018m Revenue Support Grant adjustment.
- £1.417m approved in the Council's 2022-23 Revenue Budget to fund ongoing service pressures managing additional statutory duties in relation to the Domestic Abuse Act 2021. These funds were returned unused from the Health and Communities portfolio as the portfolio was able to alternatively finance this pressure from a Domestic Abuse Grant for 2022-23, which had not been announced when the 2022-23 Revenue Budget was approved by Council on 2 February 2022.

4.40 The forecast expenditure of £7.244m on the Risk Management Budget is:

- £6.789m draw-down of contingency funding for a 2022-23 pay award;
- £0.441m draw-down of the remaining balance of contingency funding for the forecast additional cost of a 1.25% increase in National Insurance contributions relating to the contingency amount for a 2022-23 pay award; and
- £0.014m draw-down of the remaining balance of contingency funding for additional Local Government Pension Scheme employer pension contributions.

The following contingency amounts are shown as available to support expenditure which has already been included in portfolio forecasts:

- £1.000m to support Departments with the rising cost of energy and food in non-school budgets;
- £0.415m for an increase in street lighting energy costs; and
- £5.702 for Children's Services required for rising costs, with £3.222m for children in care placements, £2.480m for special needs and mainstream home to school transport.

4.41 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 left the Council with a shortfall of £1.876m in 2021-22 and a £1.896m ongoing pressure in each subsequent year. It was 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. This is considered below.

4.42 Negotiations in respect of the 2022-23 pay award for Local Government Service Employees concluded on 1 November 2022. The National Employers' final one-year offer was agreed with the unions representing the main local government workforce as follows:

- With effect from 1 April 2022, an increase of £1,925 on all pay points covered by the Council's Pay Grades up to and including Grade 16, which is equivalent to a 10.5% increase for employees on pay point 1 and 4.0% for employees on the highest pay point, and an increase of 4.0 per cent on all allowances, except for travel rates.
- With effect from 1 April 2023, an increase of one day to all employees' annual leave entitlement and the deletion of pay point 1.

The final 2022-23 basic salary pay offer is equivalent to an average pay increase of 7.3% across the Council's workforce. Initial modelling suggests that the cost to the Council of the basic pay offer is around £19.866m in 2022-23.

- 4.43 The forecast additional 2022-23 budget pressure arising from the agreed 2021-22 pay award and the proposed 2022-23 pay award for basic pay is £21.762m. This will be an ongoing budget pressure in each subsequent year. In the 2022-23 Revenue Budget, the Council set aside contingency funding of £6.789m for the 2022-23 pay award and £0.446m for the associated additional on-cost from a 1.25% increase in employer's contributions. This leaves the Council with a forecast ongoing budget shortfall of £14.527m, in addition to the impact of the proposed 2022-23 increase in allowances and the proposed one day additional annual leave from 2023-24, which will put severe pressure on those services already deeply impacted by staffing availability and cost of provision, such as social care.
- 4.44 Not all of this ongoing pressure will fall to the Council. Some employees work in areas wholly funded by grants and it is essential that these grants take up their fair share of additional costs in line with their workforce cost, however, this may be too late for 2022-23 in respect of the Dedicated Schools Grant. A review of sales, fees and charges will identify amendments required in the short term to reflect additional associated workforce cost. An ongoing review of Traded Services, where the Council receives income in return for providing discretionary services to external organisations and/or individuals, will be accelerated, and should capture additional workforce cost, to accurately inform discussions and decisions regarding services' sustainability, as cost increases cannot be supported by base budget.

- 4.45 The reversal of April's 1.25% rise in National Insurance took effect from 6 November 2022 across the UK. It is estimated that this will result in an ongoing saving of £1.9m from 2023-24 and a £0.8m one-off saving in 2022-23. There will therefore be £0.7m of contingency funding for this purpose which is not required, after excess budget which has already been allocated to departmental budgets has been returned to the Risk Management budget. These changes have not yet been incorporated into the forecasts within this report; therefore, it is expected that the reported forecast outturn position before the use of earmarked reserves will improve by £0.8m after they are factored in.
- 4.46 Total inflationary pressures of around £7m have been identified and are included in portfolio forecasts.
- 4.47 The Council is lobbying the Secretary of State for Levelling Up, Housing and Communities, to reinforce the unaffordability in the medium term of the proposed local government 2022-23 pay award and general inflation on budgets. The £17.354m forecast underspend on the Council's in-year risk management budget is already fully depleted in reducing the portfolio overspend in this forecast. The Council's Revenue Budget 2022-23 set aside £1.000m to support Departments with the rising cost of energy and food in non-school budgets and the Outturn Report 2021-22 set aside a further £10m in an Earmarked Reserve to meet increasing inflation risks. These funds will be used on a one-off basis for 2022-23 support, where approved. Other one-off budget management earmarked reserves are also potentially available corporately and from departmental underspends, although the corporate reserve ordinarily supports one-off funding in the Council's annual Revenue Budget. As a last resort, there is also the Council's General Reserve. The adequacy of the General Reserve balance is considered below.
- 4.48 A decision on what, if any, additional budget will be available for allocation to departments to support these pressures on a one-off basis in 2022-23 and on an ongoing basis will not be made until more information is known in respect of the latest inflation and funding expectations, in respect of the agreed pay award, other inflationary costs and in respect of proposed mitigations. Consideration will be given to a new programme of in-year savings and review of the use of in-year growth items awarded to departments in the 2022-23 Revenue Budget, if it is decided that additional funds are required corporately for a fairer redistribution which better reflects in-year changes to budget pressures.

Debt Charges

- 4.49 The Debt Charges budget is forecast to be underspent by £0.824m in 2022-23.
- 4.50 Debt charges are based on interest payments, the Capital Financing Requirement (CFR) and a Minimum Revenue Provision (MRP) of 2.5% (in keeping with the policy reported to Cabinet on 22 November 2016).
- 4.51 The Council has paid off a number of external loans, which were used to support the Council's Capital Programme, in recent years, and has not undertaken further borrowing. This has led to lower interest payments, resulting in a forecast underspend for 2022-23.

Interest and Dividend Income

- 4.52 Interest and dividend income budgets are forecast to achieve income £1.858m higher than budgeted in 2022-23.
- 4.53 The interest base rate rose from 0.75% to 1.00% on 5 May 2022, to 1.25% on 16 June 2022, 1.75% on 4 August 2022, 2.25% on 22 September 2022 and to 3.00% on 3 November 2022. However, the Council utilises a range of investments, including pooled funds, to maximise its interest and dividend income on balances
- 4.54 The forecast underspend mainly relates to interest receipts on the Council's temporary loans to other local authorities, which are anticipated to exceed the expectation at the time the 2022-23 Revenue Budget was approved. Increases in base rate impacts favourably when the Council loans money to other local authorities, however this is offset by higher interest costs on its temporary borrowing from other local authorities.

Corporate Adjustments

- 4.55 There is a forecast underspend of £0.322m on Corporate Adjustments in 2022-23.
- 4.56 The forecast underspend reflects an anticipated saving of £0.449m from the Council paying its Local Government Pension Scheme 2022-23 employer contributions early.

Budget Savings

4.57 A summary of the achievement of budget savings targets for 2022-23 is provided at Appendix 14. The budget savings target for 2022-23 is £8.057m, with a further £14.905m target brought forward from previous years. Of the in-year savings target, £7.037m will be delivered in the current financial year. The Council is reviewing all of its savings initiatives and developing a programme of savings proposals to address the estimated funding gap over the medium term. Where savings have not been achieved in previous years and brought forward into the current financial year, mitigations and alternative savings delivery is being considered. Where there is non-achievement of savings brought forward, the resulting base budget overspend is offset to some extent by one-off underspends, one-off funding from earmarked reserves and additional grant funding received.

Debt Age Profile

4.58 The age profile of debts owed to the Council and the value of debts written off is disclosed in Appendix 15. This information is collected on a departmental rather than on a portfolio basis.

Earmarked Reserves

4.59 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. The next review is scheduled to be reported in January 2023.

4.60 A summary of outstanding balances on the Council's earmarked reserves as at 30 September 2022 is set out in Appendix 13.

4.61 The Council's response to the Covid-19 pandemic and its effects on the Council's finances are expected to continue into 2022-23. Any funding received to support Covid-19 impacts, 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, or to meet other cost pressures if needed and grant rules allow.

General Reserve

4.62 The General Reserve stands at £32.133m at 30 September 2022. The level of General Reserve is £32.133m, after the forecast outturn for 2022-23, which is 5% of the Council's Net Budget Requirement for 2022-23. This assumes the forecast overspend in 2022-23 is funded from earmarked reserves, as detailed in paragraph 4.23.

General Reserve

	£m
Balance at 30 September 2022	32.133
Projected Outturn 2022-23	0.000
Forecast Balance at 31 March 2023	32.133

Net Budget Requirement 2022-23	618.581
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General Reserve Balance as % of NBR at 31 Mar 2023	5.19%
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4.63 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 30 September 2022, after the commitments above, the figure for the Council stood at 5.2%. However, it is necessary to consider this indicator over the medium term to gain a better understanding of its adequacy.

4.64 In the Council's 2022-23 Revenue Budget Report, in a reasonably pessimistic forecast, the General Reserve was predicted to decrease to 1.4% (£9.522m) of the Council's Net Budget Requirement by 2026-27. However, this forecast did not anticipate that inflation would be at current levels. It is now recognised that whilst the Council should be able to use one-off funding to balance its budget in the short term, the General Reserve is likely to be under too great a pressure in the medium term if additional funding is not received to support the Council through this period of high inflation. If additional funding is received, the Council would aim to use restorative measures over the Five Year Financial Plan to build back up the balance of the General Reserve to a reasonable, risk assessed level.

Portfolio Summaries

- 4.65 A summary of each of the individual portfolio performance and outturn positions for 2022-23 is detailed in Appendices 4 to 11.
- 4.66 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 Five-Year Financial Plan (FYFP) and its overall level of reserves.

Traded Services

- 4.67 A trading area is where the Council receives income in return for providing discretionary services to external organisations and/or individuals.
- 4.68 '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. An overall deficit of £1.113m is forecast for 2022-23 on fully traded areas across the Council as a whole.
- 4.69 '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. An overall excess of £1.277m compared to the budgeted income target is forecast for 2022-23 on partially traded areas across the Council as a whole.
- 4.70 Appendix 12 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 forecast revenue outturn position to ensure compliance with good financial management principles and to support the development of short and medium-term financial planning. Not producing a budget monitoring report would be contra to the Council's Financial Regulations which requires the reporting of variances of income and expenditure against budget allocation to be reported to Cabinet in line with the Budget Monitoring Policy.

7. Implications

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

8. Background Papers

- 8.1 None identified.

9. Appendices

- 9.1 Appendix 1- Implications.
- 9.2 Appendix 2 – Key to Performance Ratings
- 9.3 Appendix 3 – Performance Report 2022-23 Council Overview
- 9.4 Appendix 4 – Adult Care - Portfolio Summary
- 9.5 Appendix 5 – Children’s Services and Safeguarding and Education - Portfolios Summary
- 9.6 Appendix 6 – Clean Growth and Regeneration - Portfolio Summary
- 9.7 Appendix 7 – Corporate Services and Budget - Portfolio 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 – Traded Services
- 9.13 Appendix 13 – Earmarked Reserves
- 9.14 Appendix 14 – Budget Savings Monitoring 2022-23
- 9.15 Appendix 15 – Aged Debt

10. Recommendations

That Audit Committee:

- 10.1 Notes the update of Council Plan performance and the Revenue Budget position/forecast outturn for 2022-23 as at 30 September 2022 (Quarter 2).
- 10.2 Notes the position on General and Earmarked Reserves.

11. Reasons for Recommendations

- 11.1 The forecast outturn report provides a summary of the expected overall financial performance and use of resources against the Council's approved budget for the financial year 2022-23. 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 The balances of both the General and Earmarked Reserves support good financial planning.

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

- 12.1 No

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Appendix 1

Implications**Financial**

- 1.1 An overall Council overspend of £17.872m is forecast, after accounting for the use of £0.695m of non-ringfenced grant funding provided by the Department for Levelling Up Housing & Communities (DLUHC) to support local authorities with the impacts of the Covid-19 pandemic. The forecast also includes the use of £7.651m from departmental reserves to support the Highways Assets and Transport and Infrastructure and Environment portfolios. However, the Council will use some of the balances on its Budget Management, Covid-19 and Inflation Earmarked Reserves to report a break-even position, as shown in the table below. Whilst the use of earmarked reserves, in-year, will result in the Council reporting a break-even position, the impact of the unfunded pay offer, demand pressures and inflationary costs will need to be addressed as part of the budget setting process for 2023-24 as the effect will be an ongoing cost pressure.

Reserve	Balance Available £m	Use to fund identified Covid impacts £m	Use to fund overspend £m	Residual £m
Inflation Risks	10.000	0.000	6.200	3.800
Budget Management Covid Emergency Grant	10.000	0.000	10.000	0.000
	15.370	0.695	1.672	13.003
	35.370	0.695	17.872	16.803

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 High inflation and the proposed pay award for 2022-23 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.	