



FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

COUNCIL

WEDNESDAY, 29 NOVEMBER 2023

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

**Performance Monitoring and Budget Monitoring/Forecast Outturn
2023-24 – Quarter 1 and Quarter 2**

1. Purpose

- 1.1 To provide Full Council with an update on Council Plan performance monitoring and the Revenue Budget/forecast outturn for 2023-24.

2. Information and Analysis

Background

- 2.1 The Council reports on both the Council Plan and Annual Budget performance on a quarterly basis. These quarterly reports provide:
- A Performance Summary, setting out the progress the Council is making on delivering the Council Plan with a focus on the achievement of the Council Plan priorities; and
 - A Revenue Budget Position and Financial Summary, providing an overview of the Council's overall budget position and forecast outturn for the end of the financial year.
- 2.2 The Quarter One report (as at the end of June 2023) was reported to Cabinet in September 2023. The Quarter two report (as at the end of September 2023) was reported to Cabinet in November 2023. These quarterly reports are appended to this summary report.

Financial Summary

- 2.3 The budget for 2023/24 was set in the context of a period of economic uncertainty, high inflation and continuing growth in demand for Council services, particularly in respect of Children's and Adults Social Care. These challenging circumstances are not unique to Derbyshire and are common to many Local Authorities across the country.
- 2.4 At the time of setting the budget in February 2023, substantial investment was made in all service areas to support anticipated inflationary and demand pressures. However, despite this investment, inflation has continued to result in cost pressures in excess of the budget across all service areas, and the pay award for 2023-24 is higher than estimated in the budget.
- 2.5 The Quarter One report identified a forecast revenue budget overspend of £46.4m by 31 March 2024. This forecast position reflected higher than anticipated inflation in respect of pay, fuel, energy and materials, resulting in budget pressures across all areas. Continued increases in demand for Adult Social Care and Children's Services, combined with inflationary pressures on the cost of services, is resulting in particularly significant budget pressures in these areas.
- 2.6 In September 2023, in recognition of the scale of the financial challenge facing the Council, a series of additional financial controls were implemented with the intention of reducing the forecast expenditure through vacancy management and tight control of non-essential spend. These controls remain in place.
- 2.7 The Quarter Two report sets out the progress being made to reduce expenditure, with the forecast to 31 March 2024 now anticipating an overspend of £32.9m. This improved position reflects the impact of strict cost control measures in place since mid-September, departmental savings and the use of additional funding. It is anticipated that further reductions can be achieved during the second half of the year to reduce the overspend further, but the financial position remains challenging, with inflationary pressures continuing in some areas, and demand for services remaining high or growing.
- 2.8 If the forecast overspend is not addressed, the Council's General Reserve balance will be depleted. The General Reserve stands at £27.734m as at 30 September 2023 (Q1 report, £28.025m). This is considered to be the minimum level of general reserve for an organisation the size of the Council. The current forecast £32.947m overspend for 2023-24 would more than deplete the available General Reserve balance.

- 2.9 Further detail on the forecast financial position and the cost pressures of the Council are detailed in the Quarterly Reports appended to this report.

Performance Summary

- 2.10 The Council Plan refresh for 2023-25, which outlines the Council's priorities, key deliverables, and performance measures, was approved by Council in March 2023.
- 2.11 The 2023-24 Performance Reports for Quarter 1 and 2, set out the position in full up to the end of June (Quarter 1) and September (Quarter 2) 2023 for each deliverable and associated key measures set out in the Council Plan. Good progress has continued to be made in delivering the Council Plan, with 78% of the 45 deliverables in the Plan showing "Good" or "Strong" progress at the end of September.

3. Consultation

- 5.1 At the Cabinet meeting on the 21 September 2023 a report on the Preparation of Budget 2024-25 was included as part of the agenda. The report covered how during October and November the Council will consult residents and other stakeholders in relation to the Council's 2024-25 budget, including asking for views on the Council's savings proposals. Given the financial challenges the organisation faces, it is now proposed that the Council will consult residents on specific budget options for 2024-25 as they are finalised over the coming months. This is to ensure the detail of each proposal is sufficient to enable full and appropriate Consultation. The budget consultation commenced on 6 November 2023.

5. 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 – Quarter 1 2023/24 Performance and Budget Monitoring Report.

9.3 Appendix 3 – Quarter 2 2023/24 Performance and Budget Monitoring Report.

10. Recommendations

That Full Council:

10.1 Notes the update of Council Plan performance and the Revenue Budget position/forecast outturn for 2023-24 as reported in the Quarter 1 and Quarter 2 reports.

10.2 Notes the position on General Reserves.

10.3 Notes significant actions are required and will be undertaken across the Council to reduce the significant revenue overspend detailed in this report.

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 2023-24. The outturn position supports the development of budgets in both the short and medium term.

11.2 The balances of both the General and Earmarked Reserves support good financial planning.

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Appendix 1

Implications

Financial

- 1.1 An overall Council overspend of £32.947m is forecast at Quarter 2. This is an improvement on the forecast reported at Quarter 1 (£46.376m) but is already after substantial one-off support from the use of £33.523m of the Council's Earmarked reserves. The 2023-24 Budget approved by Council in February 2023 included the planned use of £23.707m from the Budget Management reserve for planned service pressures. A further £9.816m of earmarked reserves is now expected to be drawn down from departmental reserves to support the Adult Care (£7.091m) and Highways Assets and Transport (£2.725m) portfolio outturn positions.
- 1.2 The forecast overspend is in addition to the overspend reported for 2022-23 which resulted in the Council utilising £55m of its reserves in order to balance the budget to meet inflationary, demand and pay award cost pressures. This was an additional sum of £23m over and above that originally budgeted for at the time of setting the budget in February 2022.
- 1.3 The detailed reports at Appendix 2 and 3 describe the reasons for the overspend. There continues to be inflationary and demand pressures, particularly for adults and children's social care.
- 1.4 At the time of setting the budget in February 2023, substantial investment was made in all service areas to support anticipated inflationary and demand pressures. However, despite this investment, inflation has continued to provide cost pressures to all service areas and the pay offer for 2023-24 is higher than estimated.
- 1.5 If the forecast overspend is not addressed, the Council's General Reserve balance will be depleted. Therefore, the Council is taking a number of actions to mitigate the overspend. This includes:
 - Finding alternative in year savings proposals.
 - Looking at high-cost placements to find more suitable and cost effective options.
 - Stopping or delaying projects until the next financial year to reduce planned expenditure in year.
 - Implementing a vacancy freeze to reduce in year expenditure.
 - Limiting expenditure on agency staffing to cover essential roles only.
 - Introducing expenditure controls across non staffing budgets.

The forecast overspend has reduced since Q1. It is anticipated that further reductions can be achieved as the cost control measures

identified above take effect. The achievement of mitigating actions to reduce the overspend is being closely monitored by the Council's Chief Officers.

- 1.6 A number of local authorities are reporting substantial overspends, with some indicating that they may have to issue Section 114 Notices, this meaning that no new expenditure is permitted with the exception of funding to provide statutory services.
- 1.7 The Council works with partners such as the Local Government Association and the Society of County Treasurers to lobby government for additional funding to support vital services and to highlight the continued financial pressures facing the Council.

Legal

- 2.1 By law the Council must set and deliver a balanced budget, which is a financial plan based on sound assumptions which shows how income will equal spend over the short- and medium-term. This can take into account deliverable cost savings and/or local income growth strategies as well as useable reserves. However, a budget will not be balanced where it reduces reserves to unacceptably low levels and regard must be had to any report of the Chief Finance Officer on the required level of reserves under section 25 of the Local Government Act 2003, which sets obligations of adequacy on controlled reserves.
- 2.2 By virtue of section 114(3) of the Local Government Finance Act 1988, the Chief Finance Officer is required to issue a report where he considers that the expenditure to be incurred by the Council during a financial year is likely to exceed the available resources. The issue of a section 114(3) report would trigger a short term statutory prohibition on entering into 'any new agreement which may involve the incurring of expenditure' without the permission of the Chief Finance Officer.

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 delay in agreeing the pay award for 2023-24 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 reserves.

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

7.1 None.