

**FOR PUBLICATION**

**DERBYSHIRE COUNTY COUNCIL**

**IMPROVEMENT AND SCRUTINY COMMITTEE - RESOURCES**

**14 December 2023**

**Report of the Director of Finance & ICT**

**PRODUCTION OF 2024-25 BUDGET**

**1 Purpose of the Report**

- 1.1 To consult Members of the Improvement and Scrutiny Committee – Resources as part 2024-25 Revenue and Capital budget process and provide Members with details of the process followed to prepare the budget(s) and the proposed consultation approach to be adopted.
- 1.2 In addition, the paper provides an initial summary of the Chancellor’s Autumn Statement in so far as it is expected to impact upon the Council’s financial position.

**2 Information and Analysis**

**Background**

- 2.1 The budget for 2023-24 was set against a period of economic uncertainty, high inflation and the continuing growth of demand for Council services particularly in respect of Social Care.
- 2.2 During 2023-24 the Council’s revenue position has remained challenging with the latest revenue monitoring report at Quarter 2 forecasts a £32.947mm overspend.
- 2.3 In September 2023, in recognition of the Council’s revenue forecast, the Council announced a series of financial controls including vacancy management and tight control over non-essential spend to improve the projected outturn position. These controls remain in place.
- 2.4 The key cost pressures and outlook influencing the revenue budget position are summarised at sections 2.12 to 2.17 of this report.
- 2.5 The key announcements in the recent Autumn Statement, relevant to Local Government, are also set out in paragraphs 3.1 to 3.8 below. More

details and Council-specific information are unlikely to be available until the Provisional Local Government Finance Settlement is announced, which is expected around late December 2023.











- 2.6 The production of the Council's budget is undertaken in accordance with the requirements of the Council's Constitution. The report to Cabinet on the 21 September 2023 detailed a timetable for the Council's 2024-25 budget preparation.

### Forecast Revenue 2023-24 Summary

- 2.7 The overall Council forecast overspend for full year 2023/24 is £32.947m. This is an improvement of £13.429m on the forecast reported at Quarter 1 (£46.376m).
- 2.8 The reduction in the forecast overspend since Quarter 1 is shown in Table 1. The reduction is due to a combination of additional resources and reductions to expenditure. Cost control measures, including a vacancy freeze, were implemented from September but demand and cost pressures remain high in Adult and Children's Social Care.
- 2.9 The Q2 monitoring report was considered by Cabinet on 23 November 2023 and Full Council on 29 November 2023.

**Table 1: Projected Outturn change Q1 to Q2**

	Q1 Projected Outturn	Q2 Projected Outturn	Q1 to Q2 Movement (Favourable)/ Adverse	Budget Performance ✔Improvement ❑Deterioration
	£m	£m	£m	
<b>Adult Care</b>	7.226	5.721	(1.505)	✔
<b>Children's Services and Safeguarding and Education</b>	13.137	17.901	4.764	❑
<b>Clean Growth and Regeneration</b>	(0.298)	(0.274)	0.024	❑
<b>Corporate Services and Budget</b>	4.237	0.942	(3.295)	✔

				<b>Public</b>
<b>Health and Communities (exc. Public Health)</b>	(0.613)	(0.288)	0.325	
<b>Highways Assets and Transport</b>	9.354	7.327	(2.027)	
<b>Infrastructure and Environment</b>	1.424	(0.206)	(1.630)	
<b>Strategic Leadership, Culture, Tourism and Climate Change</b>	0.391	0.232	(0.159)	
<b>Total Portfolio Outturn</b>	<b>34.858</b>	<b>31.355</b>	<b>(3.503)</b>	
<b>Risk Management</b>	7.845	(1.619)	(9.464)	
<b>Debt Charges</b>	9.323	9.928	0.605	
<b>Interest and Dividend Income</b>	(5.733)	(8.242)	(2.509)	
<b>Corporate Adjustments</b>	0.083	1.525	1.442	
<b>Total</b>	<b>46.376</b>	<b>32.947</b>	<b>(13.429)</b>	

### Forecast Capital 2023-24 summary

2.10 The 2023-24 capital programme is £313.436m, approved adjustments to this figure have increased this to £316.881m.

The main reason for this increase is additional funding sources, including an additional grant of £4.213m for Pothole works. This is offset by some minor reductions in other funding.

The budget for schemes being monitored this year (which includes schemes from prior year programmes) total £719.283m, of these, £663.611m are currently open schemes. There is a forecast underspend of £13.638m over the life of these projects.

- 2.11 The Quarter 2 capital monitoring report was considered at Cabinet on the 7 December 2023.

### **2024-25 Cost Pressures and budget outlook**

- 2.12 Significant cost pressures face the Council over the short to medium term. Inflation, whilst falling from peak levels seen last year remains significantly above the Bank of England's target level of 2%.
- 2.13 Pay pressure is expected to remain high reflecting inflationary pressures impacting on the cost of living.
- 2.14 The ongoing pressure related to the costs for the provision of social care packages for both adults and children is expected to remain for 2024-25 as a consequence of ongoing demographic shifts and inflationary linked cost rises.
- 2.15 Budget pressure is expected in relation to children's home to school transport services and SEND demand.
- 2.16 Contract price inflation will place pressure on the Place budget, notably in respect of bus services and waste disposal.
- 2.17 Changes to interest rates are expected to have both a positive and negative impact on the Council's financial outlook. Increased interest rates charged on borrowing will lead to cost pressure in revenue to fund the capital programme. However, this pressure can be expected to be offset to an extent by increased returns on the Council's cash and near cash investments.

### **Budget preparation**

- 2.18 The preparation the budget has engaged all departments of the Council.
- 2.19 All departments were requested to identify cost pressures deriving from current or expected activity levels and cost saving or efficiency opportunities.
- 2.20 The derived budgetary position of base spend plus cost pressures less cost savings was subject to scrutiny via the Managing Director and the Section 151 Officer challenge sessions with relevant Executive Directors.

- 2.21 Further challenge sessions were held between the Executive Directors and the Leader and Deputy Leader of the Council to explore opportunities for cost reductions / mitigations and understand the pressures identified.
- 2.22 A full review of all Council reserves will be undertaken in Quarter 3 to inform the budgetary position in advance of the budget being considered by the County Council in February 2023.

### **Proposed Governance process**

- 2.23 To set a balanced budget for 2024-25 it is critical that the savings proposals and efficiency improvement measures are agreed and implemented.
- 2.24 Given the importance of the measures to be implemented a programme management approach will be adopted with an appropriate governance framework to provide increased assurance over delivery.
- 2.25 Savings and efficiency measures will be categorized as low, medium or high risk and appropriate governance and process applied according to the category applied.
- 2.26 The programme management approach will bring together all proposals to ensure that Council resources are directed appropriately and to minimize the risk of conflicts between individual elements of the overall programme.
- 2.27 It is proposed that a Budget Savings Board is established, chaired by the Director of Finance and ICT and coordinated by the portfolio management office, reporting to the Portfolio Direction Group on the delivery of savings alongside monthly financial monitoring.

### **Consultation process**

- 2.28 The production of the Council's budget is undertaken in accordance with the requirements of the Council's Constitution. A key element of the Council's budget setting process is consultation with stakeholders. For the preparation of the Council's budget for 2024-25 the following consultation activities are being undertaken:
- The annual online "Your Council, Your Voice Survey", which will be available in hard copy on request. The consultation will run for six weeks during from 6 November 2023 to 17 December 2023. The survey will build on previous surveys which have been undertaken over the last three

years, combining both budget and residents' consultation and enabling the tracking of residents' perception on a range of key issues.

- Statutory consultation with business ratepayers, corresponding with representatives of the East Midlands Chamber of Commerce, the Confederation of British Industry (CBI) East Midlands and the Nottinghamshire and Derbyshire Federation of Small Businesses (FSB) on the Council's budget proposals. The Council will write to the above consultees in January in accordance with established practice.
- Consultation with the trade unions at a Corporate Joint Committee.

2.29 Specific savings proposals are currently being considered with a view to presenting these at the Cabinet meeting on the 11 January 2024 in relation to the content of the 2024/25 budget. All savings proposals will follow the necessary consultation before any service changes are made along with any Equality Impact Assessments.

2.30 The budget will be considered by the Improvement and Scrutiny Committee – resources at its meeting on 22 January 2024. This will enable scrutiny to take place and provide feedback to Cabinet on the budget proposals.

2.31 Cabinet will take account of the results of the consultations above and the outcomes from the budget scrutiny when drawing up firm proposals to the Council.

### **3. Autumn Statement 2023**

3.1 On 22 November the Chancellor announced the details of the Autumn Statement 2023. The Statement was accompanied by the Office of Budgetary Responsibility's Economic and Fiscal Outlook in the usual way.

3.2 The Chancellors statement contained few new measures that will have direct impact on the Council's financial planning for 2024/25.

3.3 There was no additional funding for Local Government announced, other than from increases in Council Tax that was announced as part of the local government finance settlement in December 2022.

3.4 The Small Business Rates multiplier will be frozen whilst the standard multiplier will increase with inflation, with Local Authorities compensated for the loss of income.

- 3.5 The Office of Budgetary Responsibility now forecasts that inflation will fall more gradually over the next few years. The Bank of England expects that inflation will return to circa 2% by the end of 2025.
- 3.6 On 17 November further funding for Highways and pothole funding for 2023/24 was announced, it is expected that allocations for 2024/25 will be “cash flat” to the amended 2023/24 allocations.
- 3.7 Local Government Department Expenditure Limit (LG-DEL) is intended to rise to £17 billion in 2024/25, 11% higher than forecasted a year ago, however this includes additional business rate relief and under indexing compensation (see 3.4).
- 3.8 Increase in National Living Wage (9.8%) will impact upon sectors of the Council’s costs, particularly for Social Care.

#### **4. Summary**

- 4.1 The ongoing inflationary and demand cost pressures means the Council continues to experience a challenging financial environment against which it must set its budget for 2024/25.
- 4.2 There are no new substantive measures announced in the Autumn Statement that materially ease the financial pressures expected next year.
- 4.3 To achieve Budget next year the Council will need to deliver significant cost savings and efficiency improvements, implementation of which are likely to lead to changes to service delivery.
- 4.4 Cabinet is undertaking a series of consultation exercises to inform its decision making over the most appropriate course of action to balance financial pressures against the demands for service delivery.
- 4.5 Following Cabinets consideration a detailed consultation will be issued on savings options and other material aspects of the budget.
- 4.6 A review of earmarked reserves is underway. This review seeks to identify balances that may be surrendered and released to bolster reserve levels which may be required to support revenue spending if sufficient cost saving or efficiency measures are not implemented.

#### **5. Recommendations**

That Members:

- 5.1 Note the Revenue Budget Forecast Outturn for 2023-24, as at Quarter 2 (30 September 2023).
- 5.2 Note that the Council faces a significant financial challenge to produce a balanced Revenue Budget for 2024-25 based on currently known information.
- 5.3 Note that cost savings and efficiency options are being developed.
- 5.4 Note the intention to consult on savings and efficiency options and other material aspects of the budget to inform decisions required to deliver a balanced budget.
- 5.5 Note the key announcements in the Autumn Statement 2023 relevant to Local Government.

MARK KENYON  
Director of Finance & ICT