Public

Agenda Item

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

CABINET

14 March 2024

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

Performance Monitoring and Budget Monitoring/Forecast Outturn 2023-24 as at Quarter 3 (31 December 2023)
(Strategic Leadership, Culture, Tourism and Climate Change and Corporate Services and Budget)

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is a Key Decision because it is likely to result in the Council incurring expenditure which is, or savings which are, significant, having regard to the budget for the service or function concerned (this is currently defined as £0.500m).

3. Purpose

3.1 To provide Cabinet with an update of Council Plan performance and the Revenue Budget/forecast outturn for 2023-24, as at 31 December 2023 (Quarter 3).

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 31 December 2023.

4.4 Appendices to this report summarise progress on Council Plan deliverables and the controllable budget position by Cabinet Member Portfolio for 2023-24 as at 31 December 2023. Further reports will be considered at Audit Committee and Council in accordance with the Budget Monitoring Policy and Financial Regulations.

Performance Summary

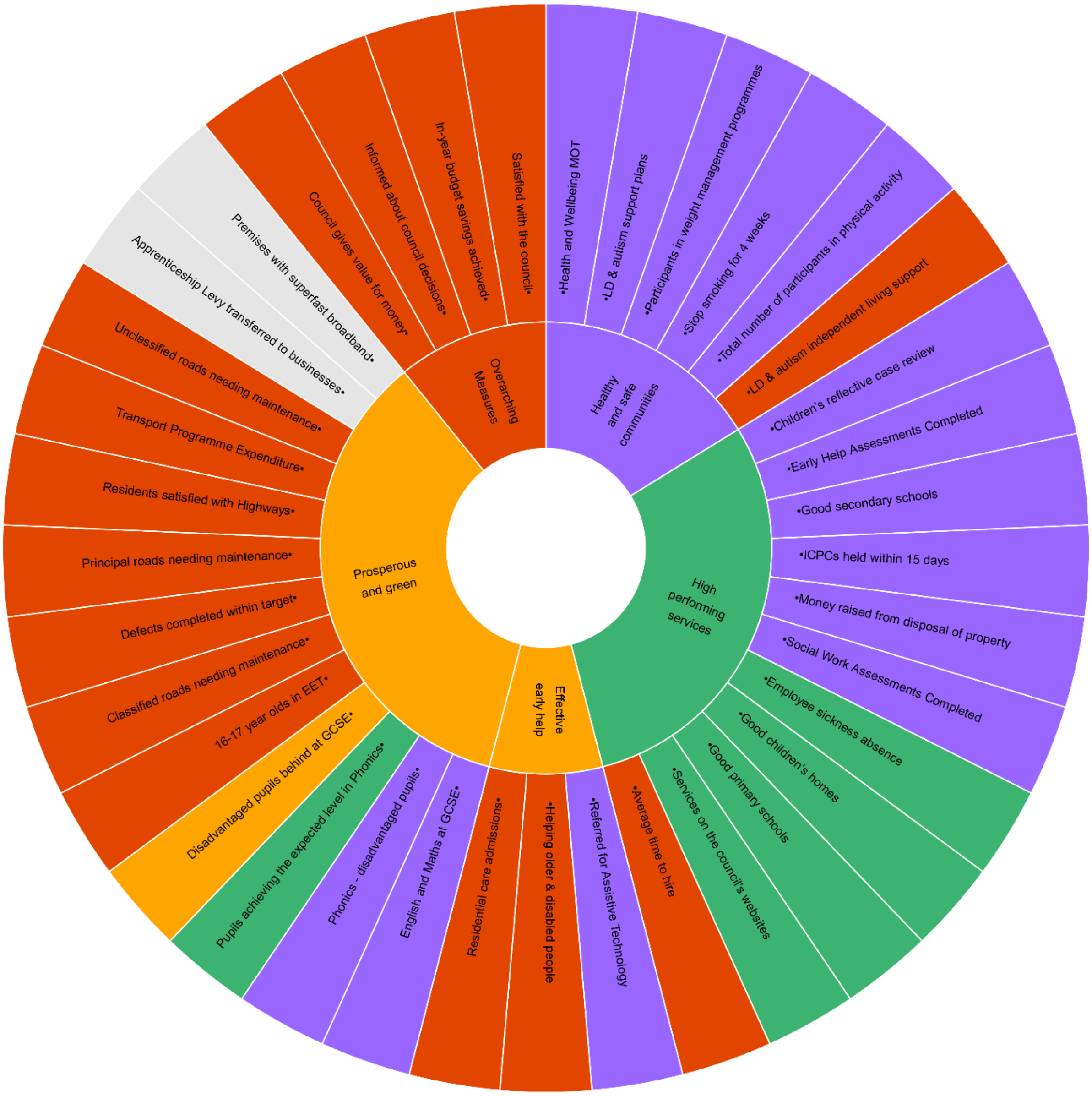
4.5 The Council Plan refresh for 2023-25, which outlines the Council's priorities, key deliverables and performance measures, was approved by Council in March 2023.

4.6 The 2023-24 Performance Report for Quarter 3, attached at Appendix 3, sets out the position in full up to the end of December 2023 for each deliverable and associated key measures set out in the Council Plan. The Council is continuing to address significant in year budget pressures, however good progress has continued to be made during Quarter 3 in delivering the Council Plan, with 82% of the 45 deliverables in the Plan showing "Good" or "Strong" progress. 13% have been rated as "Requiring Review" and 4% have been rated as "Requiring Action.

4.7 Progress in delivering the Plan is shown in the graphic below.

4.8 The graphic below shows performance against target for each key measure identified in the Council Plan by priority. For the 37 key measures where data for 2023-24 against target is available, fourteen are rated as “Strong”, with a further five rated as “Good”. There is one measure rated as “Requiring Review” and fifteen are rated as “Requiring Action”. The two grey measures do not currently have targets set for 2023-24. Measures where data is not yet available for 2023-24 are not displayed in the wheel.

Key Measures Against Target



4.9 There have been many key areas of success over the last quarter including:

- A range of evidence from the Council's quality assurance and performance framework shows consistency of approach and strong practice across the children's social care system. This is in the context of increasing demand and activity throughout the system.

- The publication of the final report from the Council's recent full Ofsted inspection of Children's Services confirms a grading of good for all four of the graded judgements (impact of leaders, children who need help and protection, children in care and care leavers) and a grading of good for overall effectiveness.
- Implementation of our Asset Management Strategy is ongoing, this sets out the programme and process for reviewing every asset, challenging why we are holding it and ensuring that we have a robust plan in place for it. To date 576 assets have been reviewed, with 185 scheduled for disposal with disposals amounting to £4.659m to the end of December 2023. Disposals in 2023-24 alone have also resulted in removing a backlog of maintenance which would have cost £4.164m, energy savings of 22%, running costs of £211,000 per annum and reduction in debt charges of £249,000 per annum. Rationalisation of the estate to an affordable and manageable size also results in outcomes such as the creation of the new Chesterfield Hub, one modern and fit for purpose asset replacing 10 smaller assets which were beyond their serviceable life.
- A faster rate of improvement has been achieved for the percentage of children and young people attending good or better schools, compared to national figures. Proportions remain below comparators however, and further improvement will remain a priority for the 2023-24 academic year.
- Provisional data shows that the proportion of pupils achieving a standard pass (grades 4-9) in English and Maths at GCSE has met the target of maintaining an outcome significantly better than national figures.
- Good progress has been made to aid bus operations across the highways network to improve passenger journeys. Improvement to numerous bus services across the county, increasing the frequency and extension of routes, are now in place.

4.10 Budget pressures are impacting on progress in some areas, and a further factor is the impact of adverse and unpredictable weather, as set out below:

- As a result of Storm Babet in October 2023, 1,400 properties have experienced internal flooding and there have been a high number of additional enquiries generated. As a result, work on the delivery of flood mitigation schemes and with communities to support and develop flood resilience measures has been paused. The Flood Team is managing the Property Resilience Grant Scheme, which will enable properties to claim grant funding to make their home more resilient and resistant to future floods.

- Due to the series of adverse and unpredictable weather conditions experienced recently, the volume of new road defects reported continues to rise and the demand outweighs the resources available. The additional pothole grant of £7.2m received from the Department for Transport during 2023-24 will be used to help to mitigate the impact of the increased demand, with the intention of providing permanent repairs at identified locations.

4.11 Further detail regarding each of the deliverables in the Council Plan and the key measures is set out in Appendix 3.

Revenue Outturn Summary

4.12 The Council's forecast outturn for 2023-24 as at Quarter 3 (31 December 2023), 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 £397.167m and Public Health grant of £45.232m, other ring-fenced grants and income from other third parties and their associated spend.

<u>Table 1: Portfolio Forecast Outturn</u>

	Budget £m	Forecast Actuals £m	Projected Outturn Over/ (Under) Spend £m	Budget Performance ⚑ Overspend ✔ Underspend
Adult Care	307.636	314.567	6.931	⚑
Children's Services and Safeguarding and Education	162.500	183.596	21.096	⚑
Clean Growth and Regeneration	1.370	1.050	(0.320)	✔
Corporate Services and Budget	73.090	72.825	(0.265)	✔
Health and Communities	11.408	10.789	(0.619)	✔
Highways Assets and Transport	57.345	61.989	4.644	⚑
Infrastructure and Environment	50.077	49.367	(0.710)	✔
Strategic Leadership, Culture, Tourism and Climate Change	11.085	10.947	(0.138)	✔
Total Portfolio Outturn	**674.511**	**705.130**	**30.619**	⚑
Risk Management	0.294	0.322	0.028	⚑
Debt Charges	38.019	48.206	10.187	⚑
Interest and Dividend Income	(5.139)	(14.300)	(9.161)	✔
Levies and Precepts	0.373	0.373	0.000	⚑
Corporate Adjustments	3.838	6.236	2.398	⚑
Total	**711.896**	**745.967**	**34.071**	⚑

4.13 The overall Council forecast overspend at 31 March 2024 is £34.071m. This is a deterioration of £1.124m on the forecast reported at Quarter 2 (£32.947m), the reasons for which are set out in paragraphs 4.14 to 4.15.

Changes since Quarter 2

4.14 The increase in the forecast overspend since Q2 is shown in Table 2. Some favourable movements have been seen due to a combination of additional income, reductions to expenditure and use of reserves. Cost control measures, including a vacancy freeze, were implemented from September 2023. However, demand and cost pressures remain high in Adult and Children's Social Care. Further detailed explanations follow in paragraph 4.15.

Table 2: Projected Outturn change Q2 to Q3

	Q2 Projected Outturn Over/(Under) Spend £m	Q3 Projected Outturn Over/(Under) Spend £m	Q2 to Q3 Movement (Favourable) /Adverse £m	Budget Performance ✓ Improvement / ⚑ Deterioration
Adult Care	5.721	6.931	1.210	⚑
Children's Services and Safeguarding and Education	17.901	21.096	3.195	⚑
Clean Growth and Regeneration	(0.274)	(0.320)	(0.046)	✓
Corporate Services and Budget	0.942	(0.265)	(1.207)	✓
Health and Communities	(0.288)	(0.619)	(0.331)	✓
Highways Assets and Transport	7.327	4.644	(2.683)	✓
Infrastructure and Environment	(0.206)	(0.710)	(0.504)	✓

Strategic Leadership, Culture, Tourism and Climate Change	0.232	(0.138)	(0.370)	
Total Portfolio Outturn	**31.355**	**30.619**	**(0.736)**	
Risk Management	(1.619)	0.028	1.647	
Debt Charges	9.928	10.187	0.259	
Interest and Dividend Income	(8.242)	(9.161)	(0.919)	
Corporate Adjustments	1.525	2.398	0.873	
Total	**32.947**	**34.071**	**1.124**	

4.15 The reasons for the movements between Q2 and Q3 (summarised in Table 2 above) are summarised as follows:

- Adult Care: Continued growth in demand and cost for homecare and reablement services.
- Children's Services and Safeguarding and Education: Continued demand for services combined with rising costs are resulting in a significant forecast overspend, which has deteriorated by £3.2m since Q2. The number of children in care has increased from 1043 in September 2023 to a height of 1070 in December 2023 and this accounts for a significant element of the increase in placement spend since Q2. As at the end of January 2024 there are 1060 children in Local Authority care in Derbyshire. This has followed extensive work to reduce the numbers of children in care (in accordance with individual children’s care plans) and the implementation of stronger families’ services which are strengthening the support to reduce admissions to care and also work with children and families to return more children to family care arrangements.
- Corporate Services and Budget: Additional vacancies in the Strategy and Policy service and reductions in training expenditure.
- Highways, Assets and Transport: Drawdown of an additional £2.3m from departmental Earmarked reserves.

- Infrastructure and Environment: Drawdown of an additional £0.7m from departmental Earmarked reserves.
- Risk Management: Allocation of an additional £1.6m from contingency budgets to departments for Property inflation, over and above that which had previously been forecast.
- Interest and Dividend Income: Additional £0.6m income from investments renewed at higher rates of interest and on working capital invested in money market funds. Also, a £0.3m improvement in dividend receipts from the Council's investments in Scape Ltd and strategic pooled funds.
- Corporate Adjustments: An additional cost of £0.9m is now forecast as a result of anticipated reserve movements attributable to the ring-fenced Dedicated Schools Grant.

Use of Reserves

4.16 The overall forecast Council overspend of £34.071m is after substantial one-off support from the use of £37.997m 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. An additional £14.290m (£9.816m at Q2) of Earmarked reserves is now expected to be drawn down from departmental reserves to support the Adult Care (£7.308m), Childrens Services Safeguarding and Education (£1.544m), Corporate Services and Budget (£2.035m), Highways Assets and Transport (£2.664m) and Infrastructure and Environment (£0.739m) portfolio outturn positions.

4.17 The forecast overspend in 2023-24 follows the outturn position for 2022-23, which resulted in the Council utilising £55m of its reserves in order to manage its budget to meet inflationary, demand and pay award cost pressures. The Council continues to face significant inflationary cost pressures across all services, combined with continued growth in demand for Adults Services, Children's Social Care and Education, and increasing reactive and planned maintenance requirements on the Highways Infrastructure.

4.18 At the time of setting the budget in February 2023, substantial investment was made in all service areas to support anticipated inflationary and demand pressures. However, despite this investment, inflation has continued to result in cost pressures in excess of budget across all service areas. In addition, the Local Government pay award for 2023-24 was higher than estimated.

4.19 The forecast at Q1 (30 June 2023) was for an overspend of £46.376m, which if left unmitigated would have depleted the Council's General Reserve. Whilst the latest forecast of £34.071m is an improved position from earlier in the financial year, this level of overspend will still result in a significant additional use of reserves. The Council has taken and continues to take 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.

4.20 The forecast overspend has reduced considerably since Q1. It is anticipated that further reductions can be achieved as the cost control measures, which were introduced in September 2023 and are identified above, continue to take effect. The achievement of mitigating actions to reduce the overspend is being closely monitored by Chief Officers and senior leaders across the Council. The following are some examples of where costs are already being reduced, or are forecast to be reduced, in 2023-24:

- Reduction in grounds maintenance £0.300m.
- Reduction in spend on tree strategy £0.150m.
- Reduction in spend on conservation and heritage £0.070m.
- Reduction in spend on Cultural Recovery Framework £0.500m.
- Reduction in spend on Digital Derbyshire £0.500m.
- Reduction in spend on Elvaston Masterplan £0.050m.
- Change in Trading Standards laboratory testing £0.003m.
- Highways efficiency savings (tighter cost control, use of fleet, better procurement).
- Reduction in spend on performance, governance and improvement £0.076m.
- Pause on and reduction of project work relating to carbon reduction, including feasibility work.
- Pause on any maintenance work to buildings, which is not directly related to a health and safety risk. Holding of vacancies in the maintenance team.
- Change to the way in which the Council delivers the valuations of the estate for its accounts £0.050m (Ongoing) and £0.240m (One-off).

- Pause in recruitment to vacancies in the facilities management and grounds maintenance teams and a reduction in the use of overtime to fill the gaps in rotas.
- Reduction in utility costs £0.251m and reduction in debt charges £0.253m to date, due to disposal of surplus assets. Savings in business rates.
- Rent reviews on industrial units leading to increased income.
- Exploration of opportunities to find in-year savings (one-off) over and above the savings that have been previously identified for 2023-24 and seek alternative savings for historical savings that have been brought forward into the current financial year - compensatory efficiencies of £2.7m identified in Adult Social Care.
- Review of all high cost care packages in Adult Social Care. Jointly with Health partners, Adult Social Care have introduced the Safe, Effective, Affordable and Legal framework to ensure good outcomes for local residents under the age of 65 requiring residential care and best value for the system.
- Reduced overtime, additional hours and allowances for non-business critical roles.
- Consideration of all areas of departmental budgets where spending can be temporarily reduced or ceased e.g. spend on travel, purchase of equipment including ICT equipment, training and conferences.
- Reduction in ICT related spend of over £0.20m from initiatives including an unused equipment amnesty, cessation of mobile phone and telephone line contracts and reclaiming unused software licences.
- Reduction in expenditure across the Council on meetings and conferences.

4.21 The Council continues to work 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. Cost pressures and demand for services are expected to remain high in 2024-25.

Forecast Budget Variances

4.22 Of the overall forecast £34.071m overspend, the significant variances (summarised in Table 1 earlier in this report) are set out below. Further detail for all Portfolios is included in Appendices 4 to 11.

Adult Care

4.23 The forecast £6.931m overspend on the Adult Care portfolio relates mainly to Purchased Services costs (£16.4m overspend) and allocated savings targets which are not expected to be achieved this financial year. 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 short-term placements into residential homes whilst people await the availability of care at home. As a result, expenditure on independent sector placements has increased further in excess of budget.

4.24 Pressures on residential care and reablement services budgets are being partially mitigated by underspends in other areas, including Direct Care (home care) staffing vacancies and reduced usage of Day Centres. The forecast underspend on Direct Care is £6.4m.

4.25 There are shortfalls in the delivery of the Best Life Derbyshire efficiencies for Working Age and Older People, which is being mitigated in part through the use of reserves.

4.26 The forecast outturn for this portfolio includes the anticipated draw down of £7.308m of departmental Earmarked reserves.

Children's Services and Safeguarding (£16.833m overspend) and Education (£4.263m overspend)

4.27 The forecast £21.096m overspend on the Children's Services and Safeguarding and Education portfolios is mainly due to continued high demand for placements for children who are in care or unable to remain at home (£16.671m overspend) and demand for safeguarding services (£3.276m overspend). There are also significant pressures on Education budgets relating to Home to School Transport (£1.683m overspend) and School and Learning Services (£2.580m overspend). One-off factors such as non-recurrent grant income and drawdowns from Earmarked reserves have been used to reduce the forecast portfolio overspend.

4.28 Expenditure on placements for children in care or alternatives to care is continuing to rise, primarily due to an increase in the cost of placements. Inflationary pressures have led to higher average costs whilst a shortage of foster care places has exacerbated the position by requiring the need to make more higher cost placements with independent providers. The number of children requiring support is also growing and there are a greater number of children in arrangements which are alternatives to care, such as Special Guardianship Orders, many of which require long-term financial support. With the best interests of the child at the heart of decision-making, on-going work is being undertaken to maximise the capacity of places and care packages available. This choice should ensure children are given the most appropriate placement and mitigate some of the rising cost pressures.

4.29 Demand for Children's Social Care services are high, which has resulted in a forecast £3.276m overspend primarily on support for children and families. A 32% increase in contacts to the service this year has led to a 4% increase in child protection plans, a 6% increase in children in care and a 2% increase in children in need. Overall, the service works with around 5,000 children. To respond to the high level of demand, an appropriate level of skilled workforce is required, which has necessitated the use of agency workers to cover vacancies and has contributed £0.940m to the overspend.

4.30 The SEND and Educational Psychology (EP) Services have seen an unprecedented rise in demand, resulting in significant increases in assessments and Education Health Care Plans (EHCPs), as shown in Table 3 below.

Table 3: SEND and Educational Psychology Services Increased Demand

EHCPs	2022	2023	Percentage Increase %
Assessment Requests	1,528	2,034	33%
EHCPs	4,997	6,325	27%

The rise in demand has resulted in an overspend for EP assessments and SEND officers to administer the statutory assessment process. As a consequence of the growth in EHCPs issued this has also resulted in an increase in staffing for the Annual Review Teams. Schools and Learning budgets are forecast to overspend by £2.580m, which includes financial pressures on the SEND team of £1.050m and financial pressures on the EP team of £0.665m. Transport demand is directly impacted by SEND and EP demand. As such the demand on Home to School transport is high, resulting in a forecast overspend of £1.683m.

4.31 The forecast outturn for this portfolio includes the anticipated draw down £1.544m of departmental Earmarked reserves.

Highways, Assets and Transport

4.32 The forecast £4.644m overspend on the Highways Assets and Transport portfolio reflects a number of areas of pressure, including:

- Increased activity and costs on reactive highways maintenance work on the County's roads and footpaths due to increased deterioration of the network and bad weather and flooding causing more potholes (£2.4m overspend after the use of £1.4m of Earmarked reserves).
- The cost of the Accelerated Capital Delivery Team (£0.5m overspend).
- Winter maintenance costs are expected to exceed the allocated budget, with increasing cold conditions happening later in the year, along with increased inflation (£1.2m overspend after £0.3m from the Winter Maintenance Earmarked reserve has been utilised).
- Prior year savings targets not achievable (£2.2m overspend).

4.33 Overspends in Highways services are partially offset by a forecast underspend (£2.228m) in Public and Community Transport due to the receipt of additional grant funding.

4.34 The forecast outturn for this portfolio includes the anticipated draw down £2.664m of departmental Earmarked reserves, including the Winter Maintenance reserve.

Corporate Services and Budget

4.35 The forecast £0.265m underspend on the Corporate Services and Budget portfolio is a net position, reflecting both under and overspends across different service areas.

4.36 There is a forecast overspend of £2.8m on Property and Property Operations due to multiple factors including:

- The Property budget has a structural overspend, made up of historic differences in the cost of running assets and the allocated budget transferred to the Corporate centre, plus savings measures which have not been practically implementable. The Property budget is under review to ensure that structural overspends, which cannot be practically addressed by the Property Division through additional savings measures, at least in the short term, are understood.
- Reductions in property operations external contract income, noting that assumptions around external income need to be revisited for the reasons described above.
- The Cabinet agreed a change from a Property Maintenance and Construction Service as a Traded Service, to an internal Property Maintenance Service, sized to the delivery of essential maintenance to the Council's assets, against a backdrop of asset rationalisation where the number of assets the Council holds is reducing. Whilst the changes to the Council's service are underway, and its asset base is reducing, the assumptions in the Council's budget still relate to the Traded Service model, and the future Property Maintenance Service's budget has not yet been agreed. Whilst the current financial model remains, it will report under-recovery of property operations overheads, because less work is being conducted without a corresponding reduction in fixed costs.
- Unrealised savings targets for Cleaning and Caretaking from site rationalisation.

4.37 The overspend on Property of £2.8m, along with an overspend of £0.4m relating to an unachievable Channel Shift savings target, has been partially offset by the following:

- Capitalisation of Azure Cloud costs as part of the SAP HANA project £1.5m, with an overall underspend impact on Finance & ICT of £0.670m.
- Underspends on the training budgets (£0.3m in Human Resources and £0.2m in Transformation and Strategy).
- Underspends on salaries resulting from vacancies in multiple services areas including Finance (£0.4m), Legal Services and Transformation and Strategy (over £1m).

4.38 The forecast outturn for this portfolio includes the anticipated drawdown of £2.035m of departmental Earmarked reserves.

Corporate Budgets

4.39 There is a net forecast overspend of £3.452m on corporate budgets in 2023-24, the corporate budgets being:

- Risk Management
- Debt Charges
- Interest and Dividend Income
- Levies and Precepts
- Corporate Adjustments

Risk Management

4.40 There is a forecast net overspend on the Risk Management budget. It is anticipated that budget allocated to departments for the Local Government Pay award and other pay related pressures will exceed the budgeted contingency by £5.7m and budget allocated to Children's Services for inflation was £3.9m in excess of the budgeted contingency. This is offset by £1.5m of specific contingency and £3.6m of general contingency not allocated and £5.3m of additional non-ringfenced grant income received. Further detail on the allocation of the risk management budget is set out in Table 4 below.

Table 4: Risk Management Budget	**Budget £m**	**Forecast Expenditure £m**	**Over / (Under) Spend £m**
Pay Pressures	(5.348)	0.322	5.670
Departmental Specific Service Pressures	(2.431)	0.000	2.431
General Contingency	3.557	0.000	(3.557)
Savings Targets not achievable/duplicated	(0.773)	0.000	0.773
Total Contingency Funding	**(4.995)**	**0.322**	**5.317**
Extended rights to home to school transport	0.171	0.000	(0.171)
Services Grant 2023-24	0.181	0.000	(0.181)
Business Rates Relief Grant Adjustment	4.937	0.000	(4.937)
Additional Non-ringfenced Grants	**5.289**	**0.000**	**(5.289)**
Total Risk Management Budget	**0.294**	**0.322**	**0.028**

4.41 The Risk Management Budget has reduced since Q2 due to pay and inflation contingency budgets being allocated to Departmental budget lines. At Q3 the budget allocated to departments had exceeded the budgeted contingency by £5m, which was offset by the receipt of £5.3m of additional non-ring fenced grants that had not been announced when the 2023-24 Revenue Budget was approved by Council on 15 February 2023.

4.42 The forecast expenditure of £0.322m on the Risk Management Budget relates to the anticipated allocation of budget to fund Members' Allowances and Soulbury employee pay increases.

4.43 The 2023-24 pay award for Local Government Service Employees (effective from 1 April 2023) was agreed on 1 November 2023. The National Employers' final one-year offer proposed to the unions representing the main local government workforce was as follows, with effect from 1 April 2023:

- An increase of £1,925 on all pay points covered by the Council's Pay Grades up to and including Grade 13, which is equivalent to a 9.5% increase for employees on pay point 1 and 4.0% for employees on pay point 35.
- An increase of 3.88% on all pay points covered by the Council's Pay Grades on Grades 14 to 16.
- An increase of 3.50% on all pay points covered by the Council's Pay Grades on Grades 17 to 21.
- An increase of 3.88% on all allowances, except for travel rates.

The final 2023-24 pay offer equates to a total ongoing cost to the Council of £15.990m. For 2023-24 budget purposes a sum of £10.456m was set aside, based on a 4% flat pay award increase. The agreed pay increase for 2023-24 leaves the Council with a shortfall of £5.534m in 2023-24 and an ongoing pressure of that amount in each subsequent year.

Debt Charges (Cost of Borrowing)

4.44 The Debt Charges budget is forecast to be overspent by £10.187m in 2023-24 of which £6.4m relates to interest payable on short-term loans and £3.8m to the Minimum Revenue Provision (MRP) for the repayment of debt principal as a result of additional borrowing.

4.45 Forecast interest payable on short-term loans has increased due to rising interest rates and the increased need to borrow to maintain working capital after the payment of the Derby and Derbyshire Waste Treatment Centre legal settlement (£2.3m of interest costs relating to the increased need to borrow because of the legal settlement). MRP has increased as the Council's Capital Financing Requirement (CFR) has risen following the trend of switching capital financing from Revenue Contributions to borrowing in recent years as part of its risk management strategy.

Interest and Dividend Income

4.46 A favourable variance of £9.161m is forecast on the Interest and Dividends budget. The Council utilises a range of investments to maximise its income on cash balances. As interest rates have risen, forecast income from short-term lending has increased, but this is offset by an increase in the interest the Council is expected to pay to meet its temporary borrowing needs.

Corporate Adjustments

4.47 There is a forecast overspend of £2.398m on Corporate Adjustments in 2023-24. This is due to an expected credit loss in respect of interest receivable on a loan advanced to an organisation which is now in doubt due to economic conditions (£0.9m), anticipated reserve movements attributable to the ring-fenced Dedicated Schools Grant (£1.7m), amortisation of premiums and interest on restructured loans (£0.3m), less £0.5m in respect of interest receivable on schools' balances.

Dedicated Schools Grant

4.48 In addition to the Council's general fund revenue budget, the Council manages the Dedicated Schools Grant. The Dedicated Schools Grant (DSG) is the ring-fenced grant from Government that provides each local authority with an allocation of funding for schools and services for pupils. The DSG contains four blocks determined by a separate national funding formula which calculates the total funding due to Local Authorities:

- The Schools Block: provides funding for individual mainstream schools and academies using an agreed funding formula.

- The High Needs Block: provides funding for the education of pupils subject to Education, Health and Care Plans from age 0 – 25 in a range of provision including special schools, mainstream schools, alternative provision, independent specialist provision and council centrally retained expenditure for high needs support and inclusion.
- The Early Years Block: provides funding for two-year olds, early years funding in schools and in the Private, Voluntary and Independent (PVI) sector as well as centrally retained expenditure for under 5s.
- The Central Schools Services Block: provides funding for the local authority to carry out central functions on behalf of pupils in both maintained schools and academies.

4.49 At the end of 2022-23, there was a net deficit on the Council's DSG balances of £4.775m, which represented an accumulated overspend against the allocated grant of £8.042m, partially offset by other Earmarked DSG Reserves. This deficit had arisen due to expenditure pressures on the High Needs Block.

4.50 In 2023-24 there is forecast to be a further in-year deficit on the High Needs block of £11.476m due to ongoing increases in the numbers of children and young people requiring support. As referred to in paragraph 4.30, there has been an unprecedented rise in demand, resulting in significant increases in Education Health Care Plans (EHCPs). This has resulted in a significant increase in top up funding to support children (also known as element 3 funding), which is estimated to be £11.268m overspent. Within this figure the most significant overspend is £6.055m relating to those children educated within independent and non-maintained special schools. This forecast deficit is being partially offset by some small underspends on other DSG blocks but will result in a net forecast deficit of £10.723m in 2023-24, which will increase the cumulative deficit to £15.498m, as shown in Table 5 below.

Table 5: Forecast Movement in DSG Deficit 2023-24

	£m
DSG Net Deficit at 1 April 2023	**4.775**
2023-24 Forecast (Surplus)/Deficit:	
Schools Block	(0.434)
High Needs Block	11.476
Early Years Block	(0.044)
Central Block	(0.275)
Total Net (Surplus)/Deficit in 2023-24	**10.723**
Cumulative Forecast Net DSG Deficit at 31 March 2024	**15.498**

4.51 The DSG income and expenditure does not form part of the Council's general fund revenue budget, but any surplus or deficit on the DSG funding held by the Council forms part of the Council's reserves. Whilst previously any deficit on these balances was funded by the Council, temporary regulations introduced in 2020 require that these balances are held separately. These regulations expire in 2026, at which point any deficit on the DSG balances will need to be funded by the Council. Local authorities with a DSG deficit are required to have a DSG management plan. This plan should identify the strategy, key areas and decisions that are required to bring spending back in line with funding and to repay the deficit. The plan will be designed to bring the DSG back into balance and will be shared and discussed with the Education and Skills Funding Agency (ESFA) and with the Schools Forum.

General and Earmarked Reserves

4.52 The General Reserve stands at £27.684m as at 31 December 2023 (Q2 report, £27.734m). This is considered to be around the minimum level of general reserve for an organisation the size of the Council. The current forecast £34.071m overspend for 2023-24 would more than deplete the existing General Reserve balance. Further corrective action as outlined in this report needs to be undertaken to reduce this overspend.

4.53 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 2023 and was reported to Cabinet on 1 February 2024. Following this review, it was agreed to release £31.803m from Earmarked reserve balances to the General Reserve. Given the scale of the forecast overspend in 2023-24 it is anticipated that this funding will be needed to ensure that the Council's General Reserve position remains at the minimum required level. Table 6 below shows the forecast balance on the General Reserve at 31 March 2024.

Table 6: General Reserve Forecast Balance at 31 March 2024

	£m
Balance at 31 December 2023	**27.684**
From Earmarked Reserves Release	31.803
Projected Outturn 2023-24	(34.071)
Forecast Balance at 31 March 2024	**25.416**

4.54 The next review of Earmarked reserve levels is scheduled to be reported in January/February 2025.

4.55 A summary of outstanding balances on the Council's Earmarked reserves as at 31 December 2023 is set out in Appendix 13.

Budget Savings

4.56 A summary of the achievement of budget savings targets for 2023-24 is provided at Appendix 14. The budget savings target for 2023-24 is £16.190m, with a further £12.038m target brought forward from previous years. Of the in-year savings target, £5.351m is forecast to be delivered in the current financial year, with delays in the delivery of Adult Care savings being mitigated through the use of Earmarked reserves. There has been an improvement in the forecast achievement of the in-year savings target since Q2 of around £1.4m because of higher forecast one-off savings in Adult Care resulting from an increase in forecast one-off additional income relating to recovery of direct payment balances and a review of customers making no contribution to their care.

4.57 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. If a savings initiative is not delivered this will also have ongoing financial implications, including for future financial years.

4.58 The Council has reviewed all of its savings initiatives and has developed a programme of savings proposals to address the estimated funding gap over the medium term. This has helped in identifying substantial additional savings proposals, which were reported to Cabinet on 1 February 2024 and Full Council on 14 February 2024. In many cases the proposals will be subject to consultation and equality analysis processes. Including potential cost savings no assumptions have been made as to the outcome of those consultations or the outcome of final decisions which have yet to be made. With regard to the savings proposals which have not yet been considered by Cabinet for approval to consult, the necessary consultation exercises will be undertaken, and any equality implications will be assessed before final decisions are made. Throughout the process it will be essential to ensure that the Council continues to meet its statutory and contractual obligations. However, in headline terms the Council has now identified measures which should help achieve the budget gap over the period of the FYFP.

Debt Age Profile

4.59 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.

Traded Services

4.60 A trading area is where the Council receives income in return for providing discretionary services to external organisations and/or individuals.

4.61 '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 and a contribution made to general overheads. The latest forecast position on fully traded services is for a net deficit position of £1.942m. This is mainly due to Property Direct Service Organisation (DSO) Operations and the Schools Catering Service. The Property DSO has lost some key income streams and are also holding vacancies pending a staffing review. This is reducing the number of available productive hours and therefore the absorption of overheads.

4.62 '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 surplus of £1.087m compared to the budgeted income target is forecast for 2023-24 on partially traded areas across the Council as a whole. In particular, Fleet Services has generated significant additional income above its budgeted target; this service will have a higher income target for 2024-25, which will assist the Council in meeting its savings targets.

4.63 Appendix 12 summarises the financial performance of the separate trading areas.

5. Centralised Training Budget

5.1 It is proposed to centralise departmental training expenditure budgets, to create a single training budget which will be managed by the Learning and Development team within the Human Resources function, with effect from 1 April 2024.

5.2 The current devolved budget arrangement is problematic for several reasons and centralising it would mitigate the following risks:

- Inequity of spend on learning and development across departments, functions, and teams.
- Lack of visibility and understanding of Council-wide learning needs, impacting on the Council's ability to spend on priority needs across the organisation.
- Duplicating procurement of learning interventions, decreasing the likelihood of the Council achieving best value outcomes.
- Non-Learning and Development budgets being used to procure training, or devolved budgets being reallocated for non-L&D spend, meaning that the true Council-wide spend on learning and development is unknown.
- Lack of a central fund for leadership development across the organisation.

5.3 A robust learning needs and validation process would be introduced to ensure that spend is allocated against priority needs.

5.4 The Council's combined learning and development budget for 2023-24 is £0.950m. Some of this is currently used for training non-employees and/or not for training purposes. Therefore, the budget and spend will be reviewed with budget holders prior to April 2024, to gain an understanding of any exceptions to spend for training employees before the final centralised budget is agreed.

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 2023-24 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 2023-24

9.15 Appendix 15 – Aged Debt

10. Recommendations

That Cabinet:

10.1 Notes and agrees the update of Council Plan performance and the Revenue Budget position/forecast outturn for 2023-24 as at 31 December 2023 (Quarter 3).

10.2 Notes the position on General and Earmarked 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. Cabinet will be kept informed on the implementation and progress of these actions.

10.4 Approves the virement of devolved training budgets from departments to a centralised training budget managed by the Learning and Development team within the Human Resources function, with effect from 1 April 2024.

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 Consideration of the balances of both the General and Earmarked Reserves supports good financial planning.

11.3 A centralised budget will allow better value for money to be achieved from training expenditure and more equitable access to training opportunities across the Council. The Council's Financial Regulations require that budget virements over £0.100m are approved by Cabinet.

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

12.1 No

Report Authors:	**Contact details:**
Sam Holmes	Samuel.Holmes@derbyshire.gov.uk
Eleanor Scriven	Eleanor.Scriven@derbyshire.gov.uk
Heather Green	Heather.Green@derbyshire.gov.uk
Simon Pape	Simon.Pape@derbyshire.gov.uk
Matthew Walters	Matthew.Walters@derbyshire.gov.uk
Esther Croll	Esther.Croll@derbyshire.gov.uk

Appendix 1

Implications

Financial

1.1 An overall Council overspend of £34.071m is forecast, which is a deterioration on the forecast reported at Q2 (£32.947m). This position is already after substantial one-off support from the use of £37.997m 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 £14.290m of Earmarked reserves (£9.816m at Q2) is now expected to be drawn down from departmental reserves to support the Adult Care (£7.308m), Childrens Services and Safeguarding and Education (£1.544m), Corporate Services and Budget (£2.035m) and Highways Assets and Transport (£2.664m) and Infrastructure and Environment (£0.739m) 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 Paragraphs 4.22 to 4.47 describe the reasons for the overspend. There continues to be inflationary and demand pressures, particularly for adults and children's social care. Costs and activity on reactive highways maintenance are high in response to an increased incidence of potholes resulting from deterioration of the network, bad weather and flooding.

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 considerably 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 and senior leaders.

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.

Appendix 2

<u>Key to Performance Ratings</u>

	Strong	Good	Review	Action	Not Updated
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.	
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 for 2023-24.
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.	