

Time began: 4.00pm
Time ended: pm

**COUNCIL CABINET
20 December 2023**

Present Councillor Shanker (Chair)
 Councillors Dhindsa, Hezelgrave, S Khan, Martin, Peatfield,
 Swan and Whitby

In attendance Councillors Poulter and Smale
 Paul Simpson – Chief Executive
 Emily Feenan - Director of Corporate Governance, Property
 and Procurement and Monitoring Officer
 Alison Parkin – Director of Finance
 Andy Brammall – Director of Digital & Physical Infrastructure
 and Customer Engagement
 Lee Haynes – Head of Digital Enablement and Automation
 Muhammad Muntasir – Youth Mayor
 Harman Kaur – Deputy Youth Mayor
 Alyson Koe – Communications Officer

This record of decisions was published on 22 December 2023. The key decisions set out in this record will come into force and may be implemented on the expiry of five clear days unless a key decision is called in.

105/23 Apologies

An apology for absence was received from Councillor Hassall.

106/23 Late Items

There were no late items

107/23 Receipt of Petitions

There were no petitions.

**108/23 Identification of Urgent Items to which Call In will not
 apply**

There were no items.

109/23 Declarations of Interest

Councillor Whitby declared an interest in item 9 Medium Term Financial Plan 2024/25 to 2026/27 – Update and Proposed Consultation because he was a foster carer.

110/23 Minutes of the meeting held on 6 December 2023

The minutes of the meeting held on 6 December 2023 were agreed as a correct record.

Matters Referred

111/23 Recommendations from the Executive Scrutiny Board

The Council Cabinet considered a report on Recommendations from the Executive Scrutiny Board. The Executive Scrutiny Board met and discussed items contained within the Council Cabinet Agenda. The report enabled the views and recommendations resulting from these discussions to be formally shared with Council Cabinet.

Decision

To receive the report and consider the recommendations alongside the relevant report.

Key Decisions

112/23 Transforming the Council Using AI Technology

The Council Cabinet considered a report which stated that Derby City Council and Derby Homes partnered with a leading AI company in January 2023 and in April 2023, Derby City Council launched Darcie and Derby Homes launched Ali as web Digital Helpers. In May 2023, Derby City Council and Derby Homes launched Darcie and Ali on the contact centre telephony solution, becoming the first council in the UK to replace its main switchboard with a phone-based AI assistant proficient in council services.

Following on from the implementation of Darcie and Ali, the Council commissioned the AI Partner to conduct a number of discovery workshops, tasked with compiling further specific business cases where the application of AI technology could enhance efficiency, reduce operational costs, and support the Council's objective of delivering cumulative cost savings.

The business cases, supported by huge and continuing advancements in AI had identified a minimum savings total combined of £12.25m, and would contribute towards the Council's MTFP, as included in the draft budget proposals being presented to Council Cabinet.

The Executive Scrutiny Board resolved

- 1. to recommend to Council Cabinet that a troubleshooting point of contact be established between Councillors and an appropriate IT officer; and**
- 2. to note the long-term potential of AI to transform services but urge caution in terms of outcomes and financial savings during financial year 24/25. Robust performance and financial reports and updates on the use and roll out of AI need to be taken, as a standing agenda item, to all relevant Overview and Scrutiny Boards throughout the 24/25 financial year. Personnel Committee and Unions should be engaged in regard to how the council workforce may change in the future as a result of AI.**

Options considered

AI represented an unprecedented generational opportunity swiftly advancing globally. Consequently, Derby was at the forefront of pioneering solutions, with limited alternatives currently available in the market.

Decision

1. To approve an addition to the 2023/24 and 2024/25 ICT Capital programme the AI project of £2.561m to fund Phase 1 and 2 of the project. Profiled £1.140m in 2023/24 to be funded from Capital Receipts and £1.421m in 2024/25 to be funded from reserves (£0.294m to be funded from the Flexible use of Capital Receipts Reserve and £1.127m to be funded from the Cost of Change Reserve). If other funding sources become available in 2024/25 these would be used in the first instance to fund the 2024/25 scheme costs.
2. To approve the use of the Capital Flexibility Reserve and the Flexible use of Capital Receipts Reserve to fund the 2024/25 Capital costs.
3. To approve the use of the Flexible use of Capital Receipts Reserve to fund the one-off revenue costs of £0.318m in 2023/24.
4. To note the annual revenue costs of up to £1m for AI (when fully delivered) from 2024/25 onwards which had been included in the proposals in the consultation report on the MTFP on this Cabinet agenda.
5. To note that Phase 2 of the scheme was subject to successful completion of Phase 1 and would not commence until the outcomes of Phase 1 had been realised.
6. To note that Phase 3 (£0.690m Capital funding) was subject to successful completion of Phase 1 and 2 and would be presented to a future Council Cabinet for approval.
7. To seek approval under Contract and Financial Procedure rules for the following:

Award a new £7m contract to enable both Derby City Council and Derby Homes to continue on their AI journey over the life of the contract following the introduction of Darcie and Ali, as outlined in section 4 of the report. The Council would work with Derby Homes to agree the apportionment of shared costs as appropriate on the specific AI projects involving both parties.

8. Final contract and business case details were still under discussion and therefore:

To delegate authority for the Chief Executive to negotiate and finalise the contract terms, agree to any other third-party integration costs and proceed to contract award.

9. **To accept recommendation 1 from the Executive Scrutiny Board that a troubleshooting point of contact be established between Councillors and an appropriate IT officer.**

10. **To note recommendation 2 from the Executive Scrutiny Board because where appropriate these suggestions would happen anyway.**

Reasons

1. The level of the minimum savings total combined was significant and would make a very large contribution to support the Council's MTFP. Generative AI was a new technology that was able to understand complex information in a way that mirrors human capability, in addition it could respond with either original AI generated content, prescribed content or mixture of both, taking the Council's AI journey to the next level.
2. The Council was deriving confidence from this emerging technology through its successful pilot application, working with leading industry in its development and monitoring the work wide momentum of generative AI development and its impact on all sectors. However, as an early adopter, Derby would be pioneering this technology so there was some inherent risk in doing this as well as the significant reward.
3. Risk would be mitigated by introducing a fixed price contract including phased payments based on outcomes.

Budget and Policy Framework

113/23 Medium Term Financial Plan 2024/25 to 2026/27 – Update and Proposed Consultation

The Council Cabinet considered a report which outlined proposals for the Council's new three-year Medium-Term Financial Plan (MTFP) including detailed plans for a balanced budget for 2024/25. The Council's ambitions were set out in the Council Plan. (An update to this was included in Appendix 6 of the report).

The MTFP for 2024/25 to 2026/27 continued to be managed within extremely challenging circumstances. The reform of local government funding had long been in the planning but had failed to materialise. This continued uncertainty, coupled with over a decade of funding reductions makes delivering a balanced budget over the medium term impossible without significant impact on service delivery. The Council had made the £226m of savings since 2010.

The financial situation facing local government in England was the most perilous in living memory. In 2018, Northamptonshire County Council issued the first S114 Notice in the sector in 20 years. A briefing paper issued by the House of Commons Library in January 2023 showed that since 2018, ten councils had issued s114 notices, including Birmingham City Council, the largest local authority in Europe, and had then gone on to pass an amended budget reducing spending on services. More recently Nottingham City Council had issued a s114 notice.

Settlement figures would not be confirmed until the provisional draft local government finance settlement is issued later in December. There was therefore insufficient time to incorporate into the report. The report was based on our assumptions of the likely financial settlement for the Council.

The key objectives of the report were:

- To consult with the citizens of Derby on the budget proposals
- To ensure that the Council was financially resilient, stable, and sustainable in the short term and to highlight medium term challenges to financial sustainability
- To ensure that effective financial planning contributes to the delivery of the Council Plan.

The report sought approval to start appropriate consultation to support the 2024/25 Revenue Budget. It also outlined the proposed Capital programme for 2024/25 and the plan for the medium term.

The report commented on the key assumptions included and risks that were facing the Council in the next three years.

The Executive Scrutiny Board resolved

- 1. to agree that it has been unable to fully and effectively scrutinise item 9, the MTFP 24/27 on the Council Cabinet agenda. Officers were unable to provide the meeting with any details of the proposals contained in the report. Details will not be provided until the next Scrutiny meeting on the 15th of January. The report clearly lacks sufficient detail on some of the proposals, there is a distinct lack of new proposed savings, the use of reserves and the over reliance on unproven AI are of very serious concern and need to be scrutinised in considerable detail. The timing and depth of the Scrutiny function of the Council should not be restricted and at a time when the finances are in such a precarious position, the MTPF should be fully examined. It is not appropriate that Scrutiny should be limited to questions put in advance**

to enable a suitable response to be prepared. The report and proposals contained in the MTFP item, does not represent an adequate consultation report for the public to be able to consider and give an informed response to the process; and

- 2. to note that regional LGA scrutiny training recommended that good budget scrutiny should be throughout the year, including scrutiny of the budget development process during the summer and autumn and requested that for the coming year Council Cabinet engage much more closely with the Scrutiny function throughout the year in the development of the 25/26 Budget.**

Options considered

The Council was required to set a balanced revenue and capital budget for 2024/25 by 11th March 2024.

Decision

1. To approve the start of appropriate consultation with citizens/stakeholders, including collective consultation (if appropriate), to consider the savings outlined in Appendix 2 of the report.
2. To note:
 - (a) Revenue Budget
 - The current medium-term financial position as outlined in section 4.5 and detailed in Appendix 1 of the report, including the balanced position for 2024/25.
 - The current list of savings options outlined in Appendix 2 of the report with an associated estimated reduction in posts by 12.00 full time equivalent (FTE).
 - The current estimated service pressures outlined in Appendix 3 of the report.
 - The MTFP modelling assumptions outlined in section 4.4 of the report.
 - (b) Capital Budget
 - The indicative capital programme as outlined in section 4.9 and Appendix 5 of the report.
 - (c) Reserves
 - The reserves position outlined in section 4.8 and Appendix 4 of the report.
 - (d) Council Tax

- Proposal to levy a Council Tax increase of 2.99% for 2024/25 for Council Services outlined in section 4.10 of the report.
- Proposal to levy an additional Council Tax increase of 2% for 2024/25 in respect of the permitted Social Care Precept outlined in section 4.10 of the report.

3. To note the recommendations from the Executive Scrutiny Board.

Reasons

1. To consult on budget proposals for the next three years to support the delivery of a legally balanced budget for 2024/25 and consult with citizens of Derby on the budget proposals prior to the setting of the 2024/25 Council Tax.
2. The Council is required to set a balanced revenue and capital budget for 2024/25 by 11th March 2024. The report outlined the proposals so far, for 2024/25.
3. The Council, under the Prudential Code, established by the Local Government Act 2003, must demonstrate the affordability of its revenue budget for the next financial year and two subsequent years, after considering plans for capital expenditure.

MINUTES END