

## **Finance Sub-Committee**

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<b>Date of Meeting:</b>	8 March 2022
<b>Report Title:</b>	2022/23 Financial Update
<b>Report of:</b>	Alex Thompson: Director of Finance and Customer Services
<b>Report Reference No:</b>	AH/25/2022-23
<b>Ward(s) Affected:</b>	Not applicable

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### **1. Purpose of Report**

- 1.1.** The report provides Members with an update on financial management for the year 2022/23.
- 1.2.** The in-year forecasts remain the same as reported to the Finance Sub-Committee on 19 January 2023 as part of the draft Medium-Term Financial Strategy 2023-27, which was subsequently presented to Corporate Policy Committee on 9 February, and Council on 22 February 2023.
- 1.3.** This report includes requests for formal approvals of various matters, including fully funded supplementary budgets, as required in line with the Constitution.
- 1.4.** Members are being asked to note the on-going serious financial challenges being experienced by the Council, due to global/ national economic circumstances which are raising prices and demand for services, and where local needs are becoming increasingly complex.
- 1.5.** Mitigating activity continues, to minimise the impact on services and the outturn position.
- 1.6.** Reporting the financial forecast outturn supports the Council's vision to be an open Council, as set out in the Corporate Plan 2021 to 2025 - in particular, the priorities for being an open and enabling organisation, and ensuring that there is transparency in all aspects of Council decision making.

## **2. Executive Summary**

- 2.1.** The Council aims to operate a financial cycle of planning, monitoring and reporting. This update is part of the monitoring cycle providing the forecast outturn position and any impacts on planning for next year's budget. The issues raised in this report are also seriously impacting on the planning cycle of the Council.
- 2.2.** This report supports the Council priority of being an open and enabling organisation, ensuring that there is transparency in all aspects of Council decision making.
- 2.3.** The Council set its 2022/23 annual budget in February 2022. The budget was balanced, as required, and included important planning assumptions about spending in the year. The budget is part of the Medium-Term Financial Strategy (MTFS) 2022 to 2026.
- 2.4.** The provisional financial outturn for 2021/22 was reported in July 2022 and recognised emerging pressure within the final quarter of the year up to 31 March 2022. This was particularly linked to rising inflation and complexity of demand for care. It was also acknowledged specific risks remained unmitigated in respect of the Council's Private Finance Initiative and High Needs within the Dedicated Schools Grant.
- 2.5.** National increasing inflation during 2022/23 is having a significant impact on the cost of Council services as well as on the cost of living for local residents.
- 2.6.** The Council's Medium Term Financial Strategy recognises that the Council has relatively low levels of reserves as funding is instead utilised to manage ongoing service demand. This means mitigation of spending pressures must come from a combination of activities, such as:
  - 2.6.1.** Additional use of grants and balances: Covid-19 grants to be fully utilised alongside appropriate application of Public Health Grants; integrated use of grants with Health Partners; drawing down from MTFS Reserve, General Reserves and specific service and company reserves where practical. Flexible use of capital receipts has also been reviewed, allowing eligible one-off revenue transformation expenditure by services to be funded from the proceeds of asset sales, in accordance with regulations.
  - 2.6.2.** Further efficiencies and income generation: Services are limiting all non-essential spending requirements; efficiencies will be sought beyond the current MTFS; project spending will be delayed where this is cost effective; charging will be reviewed to ensure discretionary services are properly funded.
- 2.7.** The report sets out details of the latest Financial Review of the Council's forecast financial performance for 2022/23:

## Annex 1: 2022/23 Financial Update

- **Financial Stability:** Provides information on the overall financial stability and resilience of the Council. It demonstrates how spending in 2022/23 is being funded, including the positions on overall service budgets, centrally held budgets, council tax and business rates. Further details are contained in the appendices.
- **Appendices:**
  - Appendix 1** Adults and Health Committee.
  - Appendix 2** Children and Families Committee.
  - Appendix 3** Corporate Policy Committee.
  - Appendix 4** Economy and Growth Committee.
  - Appendix 5** Environment and Communities Committee.
  - Appendix 6** Finance Sub-Committee.
  - Appendix 7** Highways and Transport Committee.

### 3. Recommendations

Finance Sub-Committee is asked to:

- 3.1. Note the forecast adverse Net Revenue financial pressure of £7.7m against a revised budget of £328.3m, as previously reported to Finance Sub-Committee on 19 January 2023
- 3.2. Note the forecast Capital Spending of £125.2m against an approved MTFS budget £185.2m.
- 3.3. Note the contents of Annex 1 and each of the appendices.
- 3.4. Approve supplementary revenue estimates for specific grants coded directly to services up to and including £1,000,000 in accordance with Financial Procedure Rules as detailed in **Appendix 6 Finance Sub-Committee, Section 3 Corporate Grants Register, Table 3.**
- 3.5. Approve the drawdown from MTFS reserve for transport detailed in **Appendix 6, Section 5.**
- 3.6. Note that Council will be asked to approve:
  - 3.6.1. Fully funded supplementary revenue estimates for specific grants coded directly to services over £1,000,000 in accordance with Financial Procedure Rules as detailed in **Appendix 1, Section 2 Corporate Grants Register, Table 2, Appendix 2, Section 2 Corporate Grants Register, Table 2** and **Appendix 3, Section 2 Corporate Grants Register, Table 2.**
- 3.7. Recommend to Service Committees to:
  - 3.7.1. Note the financial update and forecast outturn relevant to their terms of reference.

- 3.7.2. Note the delegated decisions relating to supplementary revenue estimates for specific grants coded directly to services in accordance with Financial Procedure Rules as detailed in **Section 2 of each Committee Appendix**.

#### **4. Reasons for Recommendations**

- 4.1. The overall process for managing the Council's resources focuses on value for money, good governance and stewardship. The approach to these responsibilities is captured in the Medium-Term Financial Strategy.
- 4.2. The budget and policy framework sets out rules for managing the Council's financial affairs and contains the financial limits that apply in various parts of the Constitution. As part of sound financial management and to comply with the constitution any changes to the budgets agreed by Council in the MTFS require approval in-line with the financial limits within the Finance Procedure Rules.
- 4.3. This report provides strong links between the Council's statutory reporting requirements and the in-year monitoring processes for financial and non-financial management of resources.
- 4.4. In approving the Cheshire East Council Medium-Term Financial Strategy members of the Council had regard to the robustness of estimates and adequacy of reserves as reported by the s.151 Officer. The s.151 Officer's report highlighted the importance of each element of the MTFS and the requirement to achieve all the proposals within it. The recommendations of this report highlight the need for ongoing activity to manage the financial pressure being experienced by the Council.
- 4.5. Financial plans are predicated on robust estimates and supported by adequate reserves. The issues raised in this report present significant challenges to this assessment due to ongoing uncertainty about costs, achievement of actions and use of reserves. It is therefore important for ongoing effort to be put into achievement of the Action Plans and associated financial targets.

#### **5. Other Options Considered**

- 5.1. None. This report is important to ensure members of the Committee are sighted on the financial pressure the Council is facing and the activity to date to try and mitigate this issue. Activity is required to ensure the Council balances its expenditure and income without serious impact on essential Council services.

#### **6. Background**

- 6.1. Managing performance is essential to the achievement of outcomes. This is especially important in evidencing the achievement of value for money across an organisation the size of Cheshire East Council. The Council is the third largest Local Authority in the Northwest of England, responsible for

approximately 500 services, supporting over 398,000 local people. Gross annual spending is over £700m, with a revised net revenue budget for 2022/23 of £328.4m.

- 6.2. The management structure of the Council is organised into four directorates: Adults, Health and Integration; Children’s Services; Place; and Corporate Services. The Council’s reporting structure provides forecasts of a potential year-end outturn within each directorate during the year, as well as highlighting activity carried out in support of each outcome contained within the Corporate Plan.
- 6.3. The political structure of the Council is organised into six committees, with a single sub-committee, all with financial responsibilities acutely aligned to the management structure. Performance against the 2022/23 Budget within each Committee, and the sub-committee, is outlined in Table 1 below.

6.4. **Table 1 – Revenue Outturn Forecast split by the Six Service Committees and the Finance Sub-Committee**

2022/23  (GROSS Revenue Budget £474.2m)	Revised Budget  (NET) £m	Forecast Outturn  £m	Forecast Variance  £m	Change since Second Review £m
<b>Service Committee</b>				
Adults and Health	121.1	130.0	8.9	0.0
Children and Families	74.2	77.7	3.5	(0.5)
Corporate Policy	40.6	41.0	0.4	(0.0)
Economy and Growth	23.6	22.8	(0.8)	(1.0)
Environment and Communities	44.4	47.3	2.9	1.2
Highways and Transport	13.8	13.6	(0.2)	(0.7)
<b>Sub-Committee</b>				
Finance Sub	(317.7)	(324.7)	(7.0)	-
<b>TOTAL</b>	<b>-</b>	<b>7.7</b>	<b>7.7</b>	<b>(1.0)</b>

- 6.5. The Council set a balanced net revenue budget of £327.7m at its meeting in February 2022. Current forecasts against the revised budget of £328.3m, shows a potential net expenditure of £336.0m. This position is despite significant and challenging mitigation work by staff. All staff were issued with information on spending controls, with ongoing communication planned on this topic.
- 6.6. In December a forecast outturn of £8.7m net overspend was reported at the Corporate Policy Committee. The make-up of the changes in the forecast position to £7.7m is outlined in the following paragraphs:
- 6.6.1. Increased care commitments within Adults, Health and Integration are being offset by further income, for example, from direct payment reimbursements and external grants (no change).

- 6.6.2. Children and Families Directorate (-£0.5m) - Additional costs of home to school transport from increasing SEND demand, fuel costs and contract costs offset by charging additional amounts to transformation costs to capital receipts and additional underspending in Strong Start from holding vacancies. This forecast assumes that £1.6m of resettlement funding can be applied to costs incurred in 2022/23 and that piece of work is ongoing. Pressure remains on the DSG high needs block as a result of the growth in the number of pupils with an education, health and care plan. The Council holds an unusable reserve to manage DSG balances without impacting on the Council's General Reserves. The balance on the DSG reserve is forecast to be £45.6m deficit at 31 March 2023. That position is under review and may be under additional pressure.
- 6.6.3. Environment and Neighbourhood Services (£1.1m) - Company pay pressures of £1.4m are partially offset by a number of vacancies within the Planning service which will not be filled before the year end -£0.2m and lower waste tonnage and premises costs.
- 6.6.4. Growth and Enterprise (-£0.9m) - Cost reduction in Estates of £0.3m due to deferral of some non-essential maintenance work. £0.4m due to release of reserve for the ELENA project and £0.2m grant received relating to Reopening High Streets Safely.
- 6.6.5. Highways and Infrastructure (-£0.7m) - Improved position due to continuing high levels of income which is contributing a further £0.5m in 2022/23, costs of the RJ contract are predicted to be £0.2m lower than budget.
- 6.6.6. Increase in the forecast overspend within the Transactional Service Centre due to additional temporary staff in recruitment and pay, external consultants costs (Agylisis), and additional Governance & Support staff costs. Fall in the underspend being forecast by Customer Services due to test & trace final grant income no longer being received, and back pay costs for staff regrades in the newly formed continuous improvements team (£0.4m).
- 6.6.7. Confirmation of new burdens funding within the Elections Service and lower than previously forecast electoral registrations costs (-£0.2m).
- 6.6.8. Improvement within ICT due to the use of capital reserve for laptop replacement and an improved revenue contracts forecast decreasing the ICT Strategy overspend (-£0.2m).
- 6.6.9. No change in forecast for Central Budgets.
- 6.7.** General Reserve balances are risk assessed and it was highlighted in the MTFs that emerging risks such as inflation and particularly the DSG deficit, have no alternative funding. To address the issue of emerging financial pressure senior officers set up Action Plans, which continued to be

developed to identify activities required to bring spending back in line with the MTFS. Actions may be required in-year to provide financial stability for future years. Such decisions will be appropriately governed and communicated ensuring relevant consultation and impact assessments are addressed.

- 6.8.** There is a clear ambition for each Committee to achieve spending in-line with the approved MTFS for all years. However, in some cases, given the seriousness of the financial pressure being put on the Council, Committee Members should consider options to exceed financial performance targets to retain an overall balanced position.
- 6.9.** Whilst some inflation factors may be temporary, the Action Plans must also consider the medium-term resilience of mitigation activity. For example, the use of one-off balances, to mitigate in-year spend, may be effective in the short term, but would not be effective if spending is likely to recur in later years.

## **7. Consultation and Engagement**

- 7.1.** As part of the budget setting process the Pre-Budget Consultation provided an opportunity for interested parties to review and comment on the Council's Budget proposals. The budget proposals described in the consultation document were Council wide proposals and that consultation was invited on the broad budget proposals. Where the implications of individual proposals were much wider for individuals affected by each proposal, further full and proper consultation was undertaken with people who would potentially be affected by individual budget proposals.

## **8. Implications**

### **8.1. Legal**

- 8.1.1.** The legal implications surrounding the process of setting the 2022 to 2026 Medium-Term Financial Strategy were dealt with in the reports relating to that process. The purpose of this paper is to provide a progress report for 2022/23.
- 8.1.2.** Other implications arising directly from this report relate to the internal processes of approving supplementary estimates and virements referred to above which are governed by the Finance Procedure Rules.
- 8.1.3.** Legal implications that arise when activities funded from the budgets that this report deals with are undertaken, but those implications will be dealt with in the individual reports to Members or Officer Decision Records that relate.

### **8.2. Finance**

- 8.2.1.** The Council's financial resources are agreed by Council and aligned to the achievement of stated outcomes for local residents and communities. Monitoring and managing performance help to ensure that resources are

used effectively, and that business planning and financial decision making are made in the right context.

- 8.2.2. Financial plans are predicated on robust estimates and supported by adequate reserves. The issues raised in this report present significant challenges to this assessment due to ongoing uncertainty about costs, achievement of actions and use of reserves. It is therefore important for ongoing effort to be put into the achievement of the Action Plans and associated financial targets.
- 8.2.3. Reserve levels are agreed, by Council, in February each year and are based on a risk assessment that considers the financial challenges facing the Council. If spending associated with in-year delivery of services is not contained within original forecasts for such activity it may be necessary to vire funds from reserves.
- 8.2.4. The unplanned use of financial reserves could require the Council to deliver a greater level of future savings to replenish reserve balances and / or revise the level of risks associated with the development of the Reserves Strategy in future.
- 8.2.5. As part of the process to produce this report, senior officers review expenditure and income across all services to support the development of mitigation plans that will return the outturn to a balanced position at year-end.
- 8.2.6. Forecasts contained within this update provided important information in the process of developing the Medium-Term Financial Strategy. Analysis of variances during the year identified whether such performance is likely to continue, and this enables more robust estimates to be established.

### **8.3. Policy**

- 8.3.1. This report is a backward look at Council activities and predicts the year-end position.
- 8.3.2. The forecast outturn position, ongoing considerations for future years, and the impact on general reserves will be fed into the assumptions underpinning the 2023 to 2027 Medium-Term Financial Strategy.

### **8.4. Equality**

- 8.4.1. In setting the 2022/23 budget, an Equality Impact Assessment was prepared to show that proposals included positive and negative impacts in headline terms. Any equality implications that arise from activities funded by the budgets will be dealt within the individual reports to Members or Officer Decision Records to which they relate. These will be reviewed, as appropriate in the light of the mitigation actions referred to in this report.



## **8.5. Human Resources**

- 8.5.1. This report is a backward look at Council activities and states the forecast year-end position. Any HR implications that arise from activities funded by the budgets that this report deals with will be dealt within the individual reports to Members or Officer Decision Records to which they relate.

## **8.6. Risk Management**

- 8.6.1. Performance and risk management are part of the management processes of the Authority. Risks are captured at Strategic and Operational levels, both in terms of the risk of underperforming and risks to the Council in not delivering its objectives for its residents, businesses, partners and other stakeholders.
- 8.6.2. Financial risks are assessed and reported on a regular basis, and remedial action taken if and when required. Risks associated with the achievement of the 2021/22 budget and the level of general reserves were factored into the 2022/23 financial scenario, budget and reserves strategy.

## **8.7. Rural Communities**

- 8.7.1. The report provides details of service provision across the borough.

## **8.8. Children and Young People/Cared for Children**

- 8.8.1. The report provides details of service provision across the borough.

## **8.9. Public Health**

- 8.9.1. Public health implications that arise from activities that this report deals with will be dealt with as separate reports to Members or Officer Decision Records as required.

## **8.10. Climate Change**

- 8.10.1. Climate change implications that arise from activities that this report deals with will be dealt with as separate reports to Members or Officer Decision Records as required.

<b>Access to Information</b>	
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Appendices:	<b>Annex 1 including:</b> <b>Section 1</b> provides information on the overall financial stability and resilience of the Council. Further details are contained in the appendices. <b>Appendix 1</b> Adults and Health Committee. <b>Appendix 2</b> Children and Families Committee. <b>Appendix 3</b> Corporate Policy Committee. <b>Appendix 4</b> Economy and Growth Committee. <b>Appendix 5</b> Environment and Communities Committee. <b>Appendix 6</b> Finance Sub-Committee. <b>Appendix 7</b> Highways and Transport Committee.
Background Papers:	The following are links to key background documents: <a href="#">Medium-Term Financial Strategy 2022-26</a> <a href="#">First Financial Review, Item No.14</a> <a href="#">Financial Review 2022/23, Item No. 5</a> <a href="#">Financial Review Update 2022/23, Item No. 52</a> <a href="#">Medium-Term Financial Strategy 2023-27</a>