

OPEN

## **Finance Sub Committee**

**12 September 2024**

**First Financial Review 2024/25**

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**Report of: Adele Taylor, Interim Director of Finance and Customer Services (s151 Officer)**

**Report Reference No: FSC/08/24-25**

**Ward(s) Affected: All**

### **Purpose of Report**

- 1 This report provides the current forecast outturn for the financial year 2024/25 based on our income, expenditure and known commitments as at the end of July 2024. It also identifies actions that are being taken to address adverse variances to urgently address our financial sustainability.
- 2 The report provides the forecast outturn for all services, to provide Members with contextual information on the position for the whole Council. Members are asked to focus their scrutiny on the forecasts and supporting information relating to services within the remit of the Committee whilst understanding the overall context as a whole.
- 3 The report highlights any changes and external pressures that are impacting the Council since setting the budget in February 2024. Annex 1, Section 2 of the report highlights what the Council is forecasting to achieve as part of the 2024/25 approved budget changes per line (growth and savings).
- 4 It is clear that further actions need to be identified to bring the Council back to a position where we are living within our means, and it will be important that these actions are closely monitored, and appropriate action taken to manage our resources. This report includes information on the actions that are currently underway.
- 5 Reporting the financial forecast outturn at this stage, and in this format, supports the Council's vision to be an open Council as set out in the Cheshire East Council Plan 2024-25. In particular, the priorities for an open and

enabling organisation, ensure that there is transparency in all aspects of council decision making.

- 6 The report also requests member approval for amendments to the Council’s budget in line with authorisation levels within the Constitution.

## Executive Summary

- 7 The Council operates a financial cycle of planning, review, management and reporting. This report ensures that we review where we are and provides a forecast **outturn** position for the 2024/25 financial year whilst also identifying the actions that need to be taken to manage our overall resources. The information in this report also supports planning for next year’s budget by identifying issues that may have medium term impacts.
- 8 The Council set its 2024/25 annual budget in February 2024. The budget was balanced, as required by statute, with planned use of reserves of £22m, plus £30m of savings to achieve in year, and included important assumptions about spending in the year. The budget is part of the Medium-Term Financial Strategy (MTFS) 2024 to 2028.
- 9 The First Financial Review (FR1) forecast revenue outturn is an **adverse variance of £26.5m**, (prior to application of any Exceptional Financial Support) as detailed below in **Table 1**:

<b>Table 1 2024/25</b>	<b>Revised Budget</b>	<b>Forecast Outturn</b>	<b>Forecast Variance</b>
	<b>(NET)</b>		
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Service Committee</b>			
Adults and Health	138.0	158.7	20.7
Children and Families	91.5	98.8	7.3
Corporate Policy	41.7	41.7	0.0
Economy and Growth	28.1	25.5	(2.6)
Environment and Communities	48.4	49.1	0.6
Highways and Transport	16.0	15.5	(0.5)
<b>Sub-Committee</b>			
<b>Finance Sub:</b>			
Central Budgets	23.9	24.8	0.9
Funding	(387.6)	(387.6)	-
<b>TOTAL</b>	<b>-</b>	<b>26.5</b>	<b>26.5</b>

- 10 The FR1 forecast reserves, after agreed movements budgeted for in the 2024-28 MTFS, are currently £14.0m, being £4.5m of General Fund Reserve and £9.5m of Earmarked Reserves. The Council’s level of reserves is

therefore insufficient to cover the current forecast revenue outturn for the year without further action.

- 11 This forecast does not assume use of the Exceptional Finance Support (EFS) that was requested in 2023/24 and 2024/25 that was agreed in principle, subject to a number of conditions being satisfied, including the submission of a transformation plan at the end of August 2024. It also does not assume the cost of accepting that EFS support which would impact on the cost of borrowing over the medium term.
- 12 The FR1 forecast position indicates that further urgent action to reduce the overspend, and bring spending back in line with budget, is required. Failure to do so would require the Council to use the existing conditional Exceptional Financial Support (£17.6m) which would be the only way for the S151 Officer to avoid having to issue a S114 notice to the Council.
- 13 The level of EFS support would need to be agreed and finalised with the government and the financial impact of this would need to be built into the overall financial modelling for the Council. As reported to members in June 2024 in the 'Medium Term Financial Strategy Assumptions and Reporting Cycle for 2024/25 to 2028/29' the Council faces a significant four-year funding gap, with the shortfall in 2025/26 currently estimated at £41.9m. There is a risk that pressures leading to the FR1 forecast position may increase that shortfall figure if rapid action doesn't take place to stabilise our financial position.
- 14 The FR1 forecast position for capital spending for 2024/25 indicates forecast capital expenditure of £164.5m against the MTFFS budget of £215.8m. Re-profiling of Capital expenditure to future years to match scheme delivery as well as an ongoing capital review to ensure that our capital borrowing remains affordable is underway and there will be further reporting on this at FR2.
- 15 **Table 2** sets out the capital programme profiling changes:

<b>Table 2</b>	2024/25	2025/26	2026/27	2027/28	2024/28
	Estimate	Estimate	Estimate	Estimate	Total
	£000s	£000s	£000s	£000s	£000s
Capital Programme MTFFS	215,779	177,633	66,772	132,054	592,238
Funded by:					-
Borrowing	55,199	53,218	19,318	30,215	157,950
Grants and other contribution:	160,580	124,415	47,454	101,839	434,288
	<u>215,779</u>	<u>177,633</u>	<u>66,772</u>	<u>132,054</u>	<u>592,238</u>
Capital Programme FR1	164,545	141,232	109,679	231,837	647,293
Funded by:					
Borrowing	51,878	53,566	10,180	27,779	143,403
Grants and other contribution:	112,667	87,666	99,499	204,058	503,890
	<u>164,545</u>	<u>141,232</u>	<u>109,679</u>	<u>231,837</u>	<u>647,293</u>
Movement from MTFFS	(51,234)	(36,401)	42,907	99,783	55,055

16 **Table 3** sets out the summary revised capital programme:

<b>Table 3</b>	<b>MTFS</b>	<b>C/Fwd</b>	<b>SCEs</b>	<b>Virements</b>	<b>Budget</b>	<b>Revised</b>
	<b>Budget</b>	<b>from</b>	<b>in Quarter</b>	<b>in Quarter</b>	<b>Reductions</b>	<b>FR1</b>
	<b>2024/28</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2024/25</b>	<b>2024/25</b>	<b>Budget</b>
	<b>£m</b>		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>2024/28</b>
						<b>£m</b>
Adults and Health	0.8					0.8
Children and Families	86.8	1.9	21.6	(1.4)		108.9
Highways & Transport	270.2	8.1	9.8		(1.1)	287.0
Economy & Growth	175.6	9.9	1.3	2.1	(4.2)	184.7
Environment & Corporate Policy	39.4	2.2	0.4	0.1	(0.1)	42.0
	19.4	4.4				23.8
	<b>592.2</b>	<b>26.5</b>	<b>33.1</b>	<b>0.8</b>	<b>(5.4)</b>	<b>647.2</b>

17 As part of the urgent actions required to reduce the overspend a full review of the capital programme is being undertaken. The forecast borrowing that is included in the capital programme will have the following revenue impact:

<b>Table 4</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2024-28</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Forecast borrowing to fund capital programme	51,878	53,566	10,180	27,779	143,403
MRP	-	3,916	5,392	6,854	16,162
Interest	2,610	3,796	3,469	4,302	14,177
<b>Total annual revenue impact</b>	<b>2,610</b>	<b>7,712</b>	<b>8,861</b>	<b>11,156</b>	<b>30,339</b>

18 In order to alleviate the revenue pressure from external borrowing an immediate reduction in capital spend is required. This will reduce the related revenue impact of interest costs and Minimum Revenue Provision (MRP) both of which are charged to revenue through the Capital Financing Budget (CFB). The council must aim to optimise use of all other available sources to fund our capital programme and must minimise the use of borrowing to reduce the pressures on the revenue budget. Identification of any additional capital receipts that can be realised in year would also reduce revenue pressures from borrowing in year or could be used to assist with funding of transformation activity if a capitalisation direction could be agreed to use them in that way with Central Government.

19 Due to the long-term nature of capital investment the revenue implications of decisions taken by the council now will extend well beyond the term of the current year and into the medium term.

20 In the review of the capital programme the long-term capital repayment commitments (MRP) will be the initial area of focus. Reducing the annual MRP associated with any new borrowing on a scheme-by-scheme basis will be a priority. There will be a secondary impact of reducing forecast interest which will also reduce the effect on the revenue account, but it is the reduction

in new borrowing and new commitment to long term capital repayments that will allow the programme to remain affordable and sustainable.

- 21 Reductions in borrowing can be achieved through:
- (a) Reduce, delay or remove schemes funded by borrowing;
  - (b) Focus on exiting contractual commitments, fulfilling statutory services and public safety requirements;
  - (c) Prioritise the capital projects that will have most beneficial impact on the revenue budget in the medium term;
  - (d) Remove forward funding;
  - (e) Reprioritise use of grants and apply appropriate S106 contributions to schemes.
- 22 A Strategic Finance Management Board has been set up to lead on a number of key tasks to urgently reduce spend and identify additional savings, including:
- Line by line reviews of all budgets to further identify immediately any underspends and/or additional funding;
  - Stop any non-essential spend;
  - Actively manage vacancies, particularly agency usage and reduce any overspends on staffing as soon as possible;
  - Review of Section 106 legacy budgets;
  - Review of capital receipts available and potentially surplus assets that can be sold (for best consideration);
  - Identification of any other areas of discretionary spend including grants awarded, where spend can be reduced or stopped.
- 23 In addition, any directorate that is identified as being off target by more than 5% is now subject to a detailed finance and performance review on a weekly basis through a financial recovery review process. This includes a detailed action plan, identifying what can be done to sustainably reduce the pressure and gaining assurance over the management of those actions to deliver improved financial outturns. This process has been put in place for Adults Services and Children and Families and is being chaired by the S151 Officer.
- 24 Paragraphs 58-60 below provides a summary overview of the forecast against the approved 2024/25 budget change items, including RAG rating. In addition, there is further detail per change item with accompanying commentary, as reviewed by the Council's Corporate Leadership Team, in respect of each item within **Annex 1, Section 2**.
- 25 **Annex 1: Detailed First Financial Review 2024/25**
- **Section 1** 2024/25 Forecast Outturn
  - **Section 2** 2024/25 Approved Budget Change Items
  - **Section 3** Revenue Grants for approval

- **Section 4 Capital**
- **Section 5 Reserves**

## RECOMMENDATIONS

The Finance Sub Committee to:

1. Review the factors leading to a forecast adverse Net Revenue financial pressure of £26.5m against a revised budget of £387.6m (6.8%). To scrutinise the contents of **Annex 1, Section 2** and review progress on the delivery of the MTFs approved budget policy change items, the RAG ratings and latest forecasts, and to understand the actions to be taken to address any adverse variances from the approved budget.
2. Consider the in-year forecast capital spending of £164.5m against an approved MTFs budget of £215.8m, due to slippage that has been re-profiled into future years.
3. Note the available reserves position as per **Annex 1, Section 5**.
4. Note the Capital Virements above £500,000 up to and including £5,000,000 as per **Annex 1, Section 4, Table 3** will be approved in accordance with the Council's Constitution.
5. Note that Council will be asked to approve Supplementary Revenue Estimate Requests for Allocation of Additional Grant Funding over £1,000,000 as per **Annex 1, Section 3, Table 1**.
6. Note that the Adults and Health Committee will be asked to approve the Supplementary Revenue Estimate Request for Allocation of Additional Grant Funding over £500,000 up to £1,000,000 as per **Annex 1, Section 3, Table 2**.
7. Note that the Highways and Transport Committee will be asked to approve the Supplementary Capital Estimate above £500,000 up to and including £1,000,000 as per **Annex 1, Section 4, Table 3**.

## Background

- 26 This single view of the financial picture of the Council provides the overall financial context.
- 27 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. Budget holders are responsible for ensuring they manage their resources in line with the objectives of the Council and within the approved budget.

- 28 For the purposes of each committee, these directorate budgets are aligned to a specific committee and the appendices to this report provides information at a level that the committee should have the ability to be able to scrutinise what is causing any variations in budget and appropriate actions to bring the council back into line in terms of managing its resources.

### **Key issues causing the pressures**

- 29 There are a number of key issues causing the forecast revenue overspend, including:
- Ongoing adverse effects of the extended period of high inflation and interest rates;
  - Continued increasing demand and complexity of care beyond the levels that had been previously identified;
  - Increase in staff costs, including use of agency staff and impact of National Living Wage which also impacts on our third party commissioned contracts;
  - Increased borrowing costs associated with the unfunded Dedicated Schools Grant (DSG) deficit;
  - Non delivery of some previously agreed savings and/or income targets;
  - The financial impact of investment in transformation and improvement activity over the medium term.

### **Specific commentary on the forecast outturn position by Committee**

#### **Adults and Health adverse variance of £20.7m**

- 30 The Adults, Health and Integration budget is forecast to overspend by £20.8m. This is in part a consequence of the full year impact of activity levels identified in the 2023/24 year-end outturn. The department started 2024/25 with a higher level of commitment than originally planned for when the MTFS was set in February 2024, and therefore unfunded. An additional £7m of in-year savings would be required to off-set one-off funding received in 2023/24 that will not be received in 2024/25.
- 31 The key drivers of forecast expenditure remain price increases, staff costs and increase in complexity, however, at the beginning of this year we have seen an unusual increase in the number of former self-funders seeking local authority funding to meet the ongoing cost of their care.
- 32 As set out in the 2024/25 to 2027/28 MTFS, the forecast anticipates several serious and significant risks, including pressure on prices due to unfunded increases in the National Living Wage. The department is currently in negotiations with a number of providers who are seeking above inflation increases. The department has recently acquired a negotiation tool to ensure

full cost and price transparency which will be used before agreeing increases, to ensure greater fairness and consistency.

- 33 As in previous years, increases in discharge activity in the NHS continues to drive additional price and activity in adult social care. A reduction of over 50 acute beds across the local NHS trusts is intensifying the impact on adult social care. A review by specialist consultants, commissioned by the Department of Health and Social Care is attempting to analyse the impact.
- 34 The department is undertaking significant work to address the budget pressures. This includes:
- The financial impact of changes agreed to the charging policy for this financial year;
  - Reviewing our pricing strategy;
  - Reviewing our use of agency members of staff;
  - Whole system review of supported living operations to reduce the number of under-utilised placements;
  - Considering transformation options that may be able to be delivered earlier;
  - Reviewing use of technology to support service delivery.

### **Children and Families adverse variance of £7.3m**

- 35 At the end of the last financial year the outturn for Children and Families was an overspend of £8.2m. The Medium-Term Financial Strategy included growth to address the pressures that were emerging throughout 2023/24. The costs of children's social care are a concern for many local authorities and not unique to Cheshire East. The First Financial Review for 2024/25 reflects a £7.3m in-year pressure.
- 36 The key pressure areas for the directorate include:
- 37 Children's social care agency placements where the complexity of children in care has continued to increase and also the number of children in care has increased from 528 at April 2024 to 534 at June 2024 (compared to a decrease from 586 at April 2023 to 576 at June 2023). Placement costs are increasing by significantly more than inflation and more than was projected for growth in-year. This has in part been affected by the disproportionate number of asylum seeking children in Cheshire East.
- 38 The use and cost of agency staff in children's social care to cover vacancies, sick absence, and maternity leave.
- 39 The number of staff is greater than the planned establishment to ensure we are able to meet our statutory needs.
- 40 Home to school transport costs – where a mix of increasing numbers of pupils with an education, health and care plan (EHCP), driver shortages and increasing fuel costs have seen overall costs rise.



- 41 Schools Catering – where the costs of the service are above the current charged income level and base budget.
- 42 Work is underway in the services to look at mitigating actions which can be taken to reduce this forecast position in-year, and these pressures will be considered as part of the developing MTFS for 2025/26. These include:
- Reviewing costs of placements as more detailed reviews are underway focusing on the expected length that some placements may need to be in place for
  - Staffing establishment reviews now scheduled on a 6 weekly basis including a review of agency staff and alternative working
  - Reunification children to be identified with targeted work in place for individual cases
  - Tracking of similar spend across teams to be held in the same place as residential and supported accommodation spend to increase overall grip and understanding
  - Work on Edge of Care Service proposals to identify early intervention that may reduce admissions and costs

### **Dedicated School Grant (DSG)**

- 43 The key pressure on DSG relates to the high needs block where the SEND service continues to see a significant increase in the number of pupils with an EHCPs, and the associated school placement costs.
- 44 This has placed pressure on the grant used to provide funding for children with SEND in various settings and led to a £31.7m deficit in 2023/24. This adds on to the brought forward deficit of £46.9m to take the DSG Reserve to a £78.6m deficit position at the end of 2023/24.
- 45 This is an improvement on the budget gap as determined by the Council's DSG Management Plan that was reported to Children and Families Committee in April 2024 and set out the planned expenditure and income on high needs over the medium term.

### **Corporate Policy £23,000 overspend**

- 46 The Corporate Services Directorate has a net budget of £41.7m. At First Financial Review, the budget is forecast to overspend by £23,000.
- 47 However, it must be noted that, following a recent review of staffing establishments, there are pending staffing budgets realignments to be actioned which will change individual service forecasts but not the overall figure for Corporate Services.
- 48 Vacancy management in Corporate Services has resulted in the majority of services forecasting underspends on staffing budgets totalling just over £2m.

- 49 This has been combined with tighter control on non-pay spending across all services which is achieving a forecast underspend of £0.7m, and additional income of £0.2m is forecast in the Registrations Service.
- 50 However, these underspends have been offset by:
- a forecast £1.3m under-recovery of Rent Allowances;
  - a forecast overspend of £0.4m on the Transactional Service Centre (TSC), hosted by Cheshire West and Chester, mainly due to the additional costs of the stabilisation programme;
  - a £0.5m shortfall in charging staff time to capital projects within ICT Strategy;
  - and a £0.1m overspend in ICT Shared Service due to lower than budgeted project income and schools recharge income.
- 51 There is a forecast overspend of £0.5m in Revenues and Benefits, and Accountancy due to additional costs including Bank Charges and External Audit fees, and a staffing budget pressure of £0.1m across Corporate Services relating to the estimated impact of the latest pay award offer versus the amount included in the MTFS.

#### **Place Directorate favourable variance of £2.5m**

- 52 Overall, the Place Directorate is reporting an underspend of £2.5m at the first Financial Review against a £92.6m budget. Pressures from reducing planning application income (£0.5m), increased waste collection and disposal costs (£0.7m) and yet to be secured savings against leisure (£0.2m) have been mitigated through vacancy management, reducing expenditure and maximising funding opportunities.

#### **Economy & Growth favourable variance of £2.6m**

- 53 Growth and Enterprise Directorate and Place Directorate have an underspend of £2.6m against a net budget of £28.1m, the key reasons for the underspend are:
- Facilities Management: £1.7m underspend is forecast. This reflects pressures against maintenance budgets of £0.7m (additional pressures and delivery of savings), costs of workplace initiatives and equipment of £0.3m, the transfer of underspends to offset Place MTFS targets across the Directorate £0.6m have been offset by:
    - Savings against gas and electricity compared to much higher budgeted costs £3m.
    - Business rates underspend £0.1m due to revaluations and appeals.
    - Underspends from vacancy management £0.2m.
  - Economic Development: £0.4m forecast underspend from vacancy management, reduced expenditure on supplies and increased income.

- Assets Service: £0.1m underspend from managing vacancies offset by lower property income.
- Housing: £0.2m underspend from vacancy management.

### **Environment & Communities adverse variance of £0.6m**

54 Environment and Neighbourhood Services has an overspend of £0.6m against a net budget of £48.4m. The key reasons for the overspend are:

- Development Management: £0.6m overspend is forecast reflecting pressures from a shortfall in income from planning applications £0.5m plus one-off costs of the new planning system £0.1m. These pressures are offset by vacancy management savings of £0.1m.
- Environmental - Commissioning ANSA: £0.4m overspend comprising pressures of £0.3m relating to the estimated impact of the latest pay award, Ansa Contract pressures of £0.5m (includes £0.1m Emergency HWRC Closures, £0.2m Place Saving Target (MTFS 2023/24), £0.2m waste collection crew costs) and £0.2m Recycling contract pressure. Ansa mitigations £0.1m and additional use of ASDV Reserve £0.5m are offsetting these pressures.
- Libraries: £0.2m overspend. Pressures of £0.5m delivery of MTFS savings offset by £0.2m vacancy management and £0.1m underspend relating to MTFS growth for exploring a charitable trust model.
- Leisure Commissioning: £0.2m overspend relating to delivery of MTFS savings.
- Other service issues: £0.8m net underspend.
  - Building Control: £0.2m building control income pressure offset by £0.3m from vacancy management savings.
  - Local Land Charges and Planning Support: £0.2m underspend from vacancy management savings.
  - Strategic Planning: £0.3m underspend reflecting £0.1m vacancy management plus £0.2m delayed Local Plan costs.
  - Environmental Management Services: £0.1m underspend (capital financing costs offset by Green waste income).
  - Regulatory Services: £0.1m (£0.2m vacancies offset by £0.1m CCTV costs).

### **Highways & Transport favourable variance of £0.5m**

55 Highways & Infrastructure are reporting an underspend of £0.5m against a net budget of £16m. The key reasons for the underspend are:

- Car Parking: £0.4m underspend: through vacancy management £0.1m and increased income £0.3m.

- Strategic Transport: £0.1m underspend from vacancy management.

### **Finance Sub adverse variance of £0.9m**

56 Finance Sub Committee are reporting an adverse variance of £0.9m against a net budget of £23.853m.

- Financing & Investment £0.4m net pressure reflecting £1.6m increased cost of interest payments on borrowing offset by £0.9m increased interest receipts from investments.
- Reserves use (change from MTFS) reflects £0.5m additional Flexible Capital Receipts to offset by £1m reduction in available Capital Financing Reserve at outturn compared to forecast balance reflected in the February 2024 MTFS.

### **Overall mitigations planned to manage pressures**

57 A Strategic Finance Management Board has been set up to lead on a number of key tasks to urgently reduce spend and identify additional savings as noted in paragraphs 22-23 above.

### **Progress on delivery of the 2024/25 approved budget change items**

58 Table 5 presents a summary of the progress on the delivery of the 2024/25 approved budget change items. For items rated as Amber these are for items where there are risks and/or mitigating actions in place. For items rated as red these are for items where services are projecting an adverse variance and there is risk of in year non delivery/achievement. New mitigation items have also been included that have come forward since the approval of the MTFS to help the in year position where identified.

59 As the green and blue columns show, £10.2m of the budget change items are either delivered or on track to be delivered or even exceed in some cases. However, there is also a pressure of £41.4m as shown in the red column that has a high risk of not being achieved within this financial year. There are new in year mitigations of £7.5m, unrelated to the change item rows that has been identified to assist the outturn position. The table below summarises the progress by Committee:

**Table 5: Summary of the progress on the delivery of the 2024/25 approved budget change items**

Committee	Approved Change Budget £'000	Forecast Outturn £'000	Completed £'000	Could Exceed £'000	Green £'000	Amber £'000	Red £'000	Mitigations £'000
Adults & Health	1,136	21,853	-3,223	0	-6,430	0	34,601	-3,095
Children & Families	9,909	17,238	482	0	14,002	295	915	1,543
Corporate Policy	489	512	-507	0	250	-232	1,581	-580
Economy & Growth	3,316	728	-92	0	3,896	33	690	-3,799
Environment & Communities	-52	623	1,130	-1,480	-3,754	2,456	3,310	-1,039
Finance Sub	-19,667	-18,748	600	0	-19,348	0	0	0
Highways & Transport	4,869	4,393	2,638	0	1,647	245	351	-488
<b>TOTAL</b>	<b>-</b>	<b>26,599</b>	<b>1,028</b>	<b>-1,480</b>	<b>-9,737</b>	<b>2,798</b>	<b>41,448</b>	<b>-7,458</b>

60 A complete list of all approved budget change items, with progress noted against each item, can be found in **Annex 1, Section 2**.

### Revenue Grants for Approval

61 Approvals for Supplementary Revenue Estimates for allocation of additional grant funding are detailed in **Annex 1, Section 3**.

### Reserves Position

62 On 1 April 2024, Earmarked Reserves totalled £32.278m and the General Fund Reserve Balance totalled £5.580m. Of the total earmarked reserves, more than £22m (70.46%) will be spent in 2024/25, on supporting the revenue budget for 2024/25.

63 Table 6 and 7 shows the forecast level of Earmarked and General reserves by the end of 2024/25.

**Table 6: Earmarked Reserves**

Earmarked Reserves	Opening Balance 1 April 2024 £000	General Fund Transfers £000	Forecast Reserve Movement in year £000	Additional Drawdown Requests* £000	Forecast Closing Balance 31 March 2025 £000
Adults and Health Committee	5,226	(2,795)	(90)	0	2,341
Children and Families Committee	1,724	0	(1,593)	(131)	0
Corporate Policy Committee	20,773	(6,551)	(2,680)	(4,695)	6,847
Economy and Growth Committee	2,777	(662)	(1,004)	(765)	346
Environment and Communities Committee	870	(390)	(402)	(78)	0
Highways and Transport Committee	908	(205)	(415)	(288)	0
<b>EARMARKED RESERVES TOTAL MOVEMENT</b>	<b>32,278</b>	<b>(10,603)</b>	<b>(6,184)</b>	<b>(5,957)</b>	<b>9,534</b>

**\* All 'Additional Drawdown Requests' are still subject to review and are yet to be approved.**

**\*\* Totals excludes Schools' balances**

**Table 7: General Reserves**

General Reserves	Opening Balance 1 April 2024 £000	General Fund Transfers £000	Forecast Reserve Movement £000	Additional Drawdown Requests £000	Forecast Closing Balance 31 March 2025 £000
General Fund Reserve	5,580	(1,051)	0	0	4,529
<b>GENERAL FUND RESERVE TOTAL MOVEMENT</b>	<b>5,580</b>	<b>(1,051)</b>	<b>0</b>	<b>0</b>	<b>4,529</b>

64 The Council is currently forecast to have £9.534m of earmarked reserves at the end of the financial year 2024/25. Of this £2.279m can be considered ringfenced, with specific conditions limiting their use.

65 A full list of all earmarked reserves can be found in **Annex 1, Section 5**.

#### **Dedicated Schools Grant Reserve**

66 The Dedicated Schools Grant (DSG) is ring-fenced funding received for: schools; high needs / special educational needs; and early years provision. In recent years there has been a pressure on the DSG high needs block where funding has not kept pace with the increasing numbers and cost of children with an Education, Health and Care Plan. This has created a deficit DSG reserve balance which is held in an unusable reserve.

- 67 The on-going pressure is regularly reviewed; at the end of 2023/24 the deficit was £78.6m and this is forecast to increase by £43.0m by the end of 2024/25. This is an improvement on the Council's DSG Management Plan approved in April 2024, which sets out the planned expenditure and income on high needs over the medium term. The DSG Management Plan is currently being updated and will be reported to Committee on completion.

<b>Table 8</b>	
<b>Dedicated Schools Grant Deficit</b>	
	<b>£m</b>
Deficit Balance Brought forward	<b>78.6</b>
Additional In-year Pressures	<b>43.0</b>
<b>Deficit Balance at 31st March 2024</b>	<b>121.6</b>

## **Debt**

- 68 Sundry debt includes all invoiced income due to the Council except for statutory taxes (Council Tax and Non-Domestic Rates). The balance of outstanding debt at 31 July 2024 has increased by £0.375m since 2023/24 Outturn (end of March 2024).
- 69 Annually, the Council raises invoices with a total value of over £80m. Around a quarter of the Council's overall sundry debt portfolio relates to charges for Adult Social Care, the remainder being spread across a range of functions including Highways, Property Services, Licensing and Building Control.
- 70 The Revenue Recovery team (using their experience gained in collecting Council Tax and Non-Domestic Rates) engage with services to offer advice and assistance in all aspects of debt management, including facilitating access to debt collection/enforcement agent services (currently provided by Bristow & Sutor).
- 71 After allowing for debt still within the payment terms, the amount of outstanding service debt at the end of July 2024 was £17.3m.
- 72 The total amount of service debt over six months old is £10.5m; provision of £6.8m was made at year ended 31st March 2024 to cover doubtful debt in the event that it needs to be written off.
- 73 The level of Adult Social Care debt can fluctuate depending on when in the month the snapshot is taken, for example if it is before or after the Direct Debit income is received and allocated. The debt also has different levels of risk depending on the type of debt. For example, around £3.5m is linked to deferred arrangements which is debt that is secured on property or assets, and therefore carries a low risk. There is also around £5m of debt which is deemed to be lower risk as its linked to areas such as probate, property sales or deputyship.

**Table 9 – Debt Summary as at 31<sup>st</sup> July 2024**

	Outstanding Debt £000			Over 6 months old £000		
	Outturn	FR1	Increase / (Decrease)	Outturn	FR1	Increase / (Decrease)
<b>Adults and Health Committee</b>						
Adults, Public Health and Communities*	13,691	14,534	843	8,556	9,091	535
<b>Children and Families Committee</b>						
Children's Social Care (Incl. Directorate)	219	182	(37)	-	14	14
Prevention and Early Help	141	72	(69)	(5)	(4)	1
Schools	24	22	(2)	(1)	2	3
<b>Highways and Transport Committee</b>						
Highways and Infrastructure	1,598	1,189	(409)	678	751	73
<b>Economy and Growth Committee</b>						
Growth and Enterprise	581	704	123	328	393	65
<b>Environment and Communities Committee</b>						
Environment and Neighbourhood Services	384	355	(29)	189	209	20
<b>Corporate Policy Committee</b>						
Finance and Customer Services	111	109	(2)	73	73	-
Governance and Compliance	20	37	17	1	-	(1)
Human Resources	3	8	5	-	1	1
ICT	184	119	(65)	1	1	-
<b>Total</b>	<b>16,956</b>	<b>17,331</b>	<b>375</b>	<b>9,820</b>	<b>10,530</b>	<b>711</b>

## Council Tax and Business Rates

### Council Tax

74 **Table 10** details each precepting authorities share of the budgeted collectable rates income.

<b>Table 10</b>	<b>Band D</b>	<b>Collectable</b>
<b>Share of Council Tax Collectable Rates</b>	<b>Charge</b>	<b>Rates</b>
		<b>£m</b>
<b>Cheshire East Council</b>	<b>1,792.59</b>	<b>287.1</b>
Town and Parish Councils	71.57	11.5
Cheshire Police and Crime Commissioner	262.94	42.1
Cheshire Fire Authority	90.09	14.4
<b>Total</b>	<b>2,217.19</b>	<b>355.1</b>

75 The collectable rates valuation is based on the assumption that of the total amount billed, at least 99% will be collected. **Table 11** demonstrates that, excluding a slight reduction during the Covid-19 pandemic, the target to collect at least 99% of Council Tax within three years continues to be achieved.

<b>Table 11</b>					
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Council Tax Collection Rates	2020/21	2021/22	2022/23	2023/24	2024/25
	%	%	%	%	%
After 1 year	97.4	97.8	98.2	98.0	*28.43
After 2 years	98.6	98.5	98.8	**	**
After 3 years	98.9	99.0	**	**	**

\* 2024/25 rate is up to 30<sup>th</sup> June 2024.

\*\* Data is not yet available.

- 76 After accounting adjustments, the Council Tax Collection Fund is forecasting a £0.9m deficit for 2024/25, of which, £0.8m is attributable to Cheshire East Council. This deficit will be repayable in 2025/26 and will be managed through the Collection Fund Earmarked Reserve.

### Non-Domestic Rates (NDR)

- 77 Collectable rates are distributed between Cheshire East Council (49%), Cheshire Fire Authority (1%), and Central Government (50%).
- 78 Non-domestic Rates valuations for 2024/25 were set out in the NNDR1 return to Central Government in January 2024. Any variance to this forecast is included in the following years' NNDR1 return and any gain or loss will be recovered in 2025/26. The total Net Rates Payable into the Collection Fund was forecast at £155.7m.
- 79 **Table 12** demonstrates that the target to collect at least 99% of Non-Domestic Rates within three years continues to be achieved.

Table 12 Non-Domestic Collection Rates	2020/21	2021/22	2022/23	2023/24	2024/25
	%	%	%	%	%
After 1 year	92.4	95.6	98.2	97.7	*29.19
After 2 years	97.4	98.3	98.8	**	**
After 3 years	99.0	99.2	**	**	**

\* 2024/25 rate is up to 30<sup>th</sup> June 2024.

\*\* Data is not yet available.

- 80 After accounting adjustments, the Non-Domestic Rates Collection Fund is forecasting a £3.8m deficit for 2024/25, of which, £1.9m is attributable to Cheshire East Council. This deficit will be repayable in 2025/26 and will be managed through the Collection Fund Earmarked Reserve.

### Treasury Management Strategy update

- 81 Treasury Management income to 31 July 2024 is £895,000 which is higher than the budgeted £620,000. However, borrowing costs are also higher than budgeted at £6m compared to budget of £5.3m. This is caused by a combination of increasing interest rates with an increased borrowing requirement. From the projected cash flows for the remainder

of 2024/25 the net additional financing costs (borrowing less investment interest) is expected to be £0.7m in excess of that budgeted.

- 82 Interest rates have seen substantial rises over the last 2 years which has significantly increased the cost of borrowing. The expectation is that borrowing costs will start to fall later in 2024/25 and beyond.
- 83 At the moment, cash shortfalls are generally being met by temporary borrowing from other Local Authorities which for a number of years has been considerably cheaper than other sources of borrowing and allowed the Council to keep financing costs low. The cost of these loans is currently relatively high compared with longer term loans, but interest forecasts suggest it is still the cheaper option in the long term. However, liquidity risk remains an issue as funds become more scarce towards year end and the request to the Government for exceptional financial support has raised credit worthiness concerns with some lenders. To reduce liquidity risk and any potential credit related penalisation on interest costs, consideration is being given to taking more longer term PWLB loans.
- 84 The cost of short term borrowing for the first 4 months of 2024/25 is 5.54% which is an increase from 4.82% for 2023/24. These costs are now expected to reduce as the outlook is for reducing interest rates.

## **Investment Strategy**

- 85 There have not been any material changes to the Investment Strategy since that reported at Final Outturn 2023/24, see link [Final Outturn 2023-24 Annex 1.pdf \(cheshireeast.gov.uk\)](#)

## **Consultation and Engagement**

- 86 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.

## **Reasons for Recommendations**

- 87 The overall process for managing the Council's resources focuses on value for money, good governance and stewardship. 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.

- 88 This report provides strong links between the Council's statutory reporting requirements and the in-year monitoring and management processes for financial and non-financial management of resources.

### **Other Options Considered**

- 89 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 and are given an opportunity to scrutinise this activity and identify any further actions that could be taken to learn to live within our means Do nothing. Impact – Members are not updated on the financial position of the Council. Risks – Not abiding by the Constitution to provide regular reports.

### **Implications and Comments**

#### *Monitoring Officer/Legal*

- 90 The Council must set the budget in accordance with the provisions of the Local Government Finance Act 1992 and approval of a balanced budget each year is a statutory responsibility. Sections 25 to 29 of the Local Government Act 2003 impose duties on the Council in relation to how it sets and monitors its budget and require the Council to make prudent allowance for the risk and uncertainties in its budget and regularly monitor its finances during the year. The legislation leaves discretion to the Council about the allowances to be made and action to be taken.
- 91 The provisions of section 25 of the Local Government Act 2003, require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the chief finance (s.151) officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.
- 92 The Council should therefore have robust processes in place so that it can meet statutory requirements and fulfil its fiduciary duty. It must ensure that all available resources are directed towards the delivery of statutory functions, savings and efficiency plans. Local authorities are creatures of statute and are regulated through the legislative regime and whilst they have in more recent times been given a general power of competence, this must operate within that regime. Within the statutory framework there are specific obligations placed upon a local authority to support communities. These duties encompass general and specific duties and

there is often significant local discretion in respect of how those services or duties are discharged. These will need to be assessed and advised on as each circumstance is considered.

- 93 The financial position of the Council must therefore be closely monitored, and Members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered and that new expenditure is contained within the available resources. Accordingly, any proposals put forward must identify the realistic measures and mechanisms to produce those savings or alternative mitigations.
- 94 This report provides an update on progress for 2024/25 for all services.
- 95 It also provides updates and comments regarding the Council's request for Exceptional Financial Support under The Levelling-up and Regeneration Act 2023 which inserted an amended Section 12A as a trigger event within the Local Government Act 2003, in relation to capital finance risk management. The legislation also provides for risk mitigation directions to be given to the Council which limit the ability to undertake certain financial action. The limitations are based on identified risk thresholds.

#### *Section 151 Officer/Finance*

- 96 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 helps to ensure that resources are used effectively, and that business planning and financial decision making are made in the right context.
- 97 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.
- 98 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.
- 99 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.

- 100 Forecasts contained within this review provide important information in the process of developing the Medium-Term Financial Strategy. Analysis of variances during the year will identify whether such performance is likely to continue, and this enables more robust estimates to be established.
- 101 The risk associated with the scale of these challenges is that the Council could act illegally, triggering the requirement for a s.114 report from the Chief Financial Officer. Illegal behaviour in this context could materialise from two distinct sources:
- i) Spending decisions could be made that exceed the available resources of the Council. This would unbalance the budget, which is unlawful.
  - ii) Spending decisions to restrict or hide pressures could be made that avoid an immediate deficit, but in fact are based on unlawful activity.
- 102 The consequences of the Council undermining a budget with illegal activity, or planned illegal activity, is the requirement to issue a s.114 report. Under these circumstances statutory services will continue and existing contracts and commitments must be honoured. But any spending that is not essential or which can be postponed must not take place.
- 103 Further consequences would be highly likely and could include the appointment of Commissioners from the MHCLG, and potential restrictions on the decision-making powers of local leaders.

### *Policy*

- 104 This report is a backward look at Council activities and predicts the year-end position. It supports the Corporate Plan aim Open and priority to be an open and enabling organisation.
- 105 The forecast outturn position, ongoing considerations for future years, and the impact on general reserves will be fed into the assumptions underpinning the 2025 to 2029 Medium-Term Financial Strategy.
- 106 The approval of supplementary estimates and virements are governed by the Finance Procedure Rules section of the Constitution.

### *Equality, Diversity and Inclusion*

- 107 Any equality 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.

### *Human Resources*

- 108 This report is a backward look at Council activities at outturn and states the 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.

### *Risk Management*

- 109 Financial risks are assessed and reported on a regular basis, and remedial action taken if required. Risks associated with the achievement of the 2023/24 budget and the level of general reserves were factored into the 2024/25 financial scenario, budget, and reserves strategy.

### *Rural Communities*

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

### *Children and Young People including Cared for Children, care leavers and Children with special educational needs and disabilities (SEND)*

- 111 The report provides details of service provision across the borough and notes the pressure on Children in Care.

### *Public Health*

- 112 This report is a backward look at Council activities at the first review and provides the forecast year end position. Any public health 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.

### *Climate Change*

- 113 There are no direct implications for climate change.

<b>Access to Information</b>	
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Appendices:	<p><b>Annex 1 including:</b></p> <ul style="list-style-type: none"> <li>• <b>Section 1</b> 2024/25 Forecast Outturn</li> <li>• <b>Section 2</b> 2024/25 Approved Budget Change Items</li> <li>• <b>Section 3</b> Revenue Grants for approval</li> <li>• <b>Section 4</b> Capital</li> <li>• <b>Section 5</b> Reserves</li> </ul>
Background Papers:	<p>The following are links to key background documents:</p> <p><a href="#">Medium-Term Financial Strategy 2024-2028</a></p>