

Cheshire East Council Medium-Term Financial Strategy 2022-26 - extract

February 2022

An Open, Fairer, Greener Cheshire East

Report from the Director of Finance and Customer Services (Chief Finance Officer)

Under Section 25(1) of the Local Government Act 2003, I am required to report on the robustness of the estimates in the budget and the adequacy of the proposed reserves. Council must have regard to this report when making decisions on the budget.

The financial strategies of the Council present a balanced position across a four-year horizon. This position relies on significant assumptions, not least that each proposal within the strategy is achieved and that unforeseen financial consequences can be managed, either by changing plans or temporary use of reserves.

The financial impact of COVID-19 continues to present challenges in longer term forecasting as does the single year nature of the Local Government Finance Settlement from Central Government.

Financing the pandemic

The Council has continued to work with the Local Government Association, County Council's Network and various Treasurer groups to liaise with government departments on the costs and lost income linked to responding to and recovering from the pandemic. Although reserves have been set aside from government funding of the pandemic the MTFS does not present any forecasts that rely on future grants related to COVID-19. If future costs should occur it is expected that government will provide further funding if such financial impacts exceed the Council's previous grants. Confirmation that Contain Outbreak Management Funding can be carried forward in to 2022/23 has been very welcome in this regard.

The full financial impact of COVID-19 will remain unclear until the pandemic is over, and a more sustained level of services and funding has been re-established.

Producing Robust Estimates

The process to produce the Council's Medium-Term Financial Strategy for 2022 to 2026 engaged a wide array of stakeholders throughout 2021/22. This process included public Committee meetings as well as virtual meetings with elected members and staff of the authority. There were also presentations to businesses and partners alongside the on-line public consultation. All responses are coordinated and the results provided to members in advance of the February Council meeting. Changes proposed for the 2022/23 budget are backed with appropriate business cases and equality impact assessments. Changes to proposals since the consultation are clearly identified within this document.

The MTFS Strategy relies on the closing balances and performance within the 2021/22 financial year, but reporting progress during the year has been difficult. The impact of COVID-19 has continued to distort in-year reporting, and the Council also changed the core financial system during the year too. Although monitoring has been ongoing there is a greater risk, compared to previous years, that year-end forecasts may be different to those identified in this report. This risk must be managed through the MTFS Earmarked Reserve in the first instance. Although year-end balances may vary, several issues have required a response in creating a robust set of estimates.

Complexity and market forces have continued to drive over-spending in Children's Social Care. It is still forecast that some efficiency savings will be achievable within Children's Services over the medium-term, but the base budget is being increased by £4m in response to the ongoing financial pressure. Over the four year period to 2026 the changes in this MTFS represent an increase of almost £30m for Children's Services. There has also been an emerging pressure on Home to School Transport. Changes were made to bring services in-house, from the Council's wholly owned company, but pupil numbers, particularly with Special Educational Needs and Disabilities, have significantly increased. In response £1.2m is being added to the 2022/23 transport budget to help manage demand. It is expected a further £1m of COVID-19 funding will also be drawn down to support the service.

During 2022/23 there will be a review of Children's Services to understand the ongoing demand led pressures and ensure appropriate strategies are in place to achieve a financially sustainable position. The review will continue to have access to transformation funding approved by Council in February 2021.

Ongoing demand for Adult Services is being addressed through ongoing annual increases in budget, as is the increasing costs of waste management linked with an increasing population and changes in behaviour (such as more home-working).

The MTFS also recognises inflationary pressure from staff pay awards and increasing utility costs. These are mitigated to a degree by reductions in travel expenses and further funding to support carbon management.

The Capital Programme has been subject to scrutiny to ensure the costs of borrowing are being managed over the medium-term. This review has allowed the funding of an annual Highways Improvement Programme, costing £19m over four years, which

responds to Council and resident priorities. The issue of highways maintenance was a feature of the feedback received during the consultation period. This increased programme is partially supported by additional grant funding within the settlement.

The strategy to utilise the Financing Reserve to manage fluctuations in borrowing costs has been effective to date and will support the Capital Financing Budget for the next four years. The strategy is being updated though. The Addendum is being removed as this caused frequent pressure on the revenue budget from expectations that were unaffordable.

The Capital financing budget is increasing significantly over the medium-term to reflect the size of the current programme. It was £12m in 2019/20 and will rise to £21m by 2025/26. Even this significant increase relies on the ongoing drawdown of the Financing Reserve, which is not sustainable. As such any slippage in the programme, or additional receipts from asset sales must be used to minimise further increases in capital financing costs. New schemes should not be added to the programme unless additional funding has been identified to cover the associated whole life costs.

Otherwise, estimates suggest the underlying budget has performed well and presents a sound base for setting future budgets.

To address the short-term government settlement, and potential further funding reductions, council tax increases are included in the MTFS in line with government expectations. Assumptions include the reduction of grants over the medium-term. The quantum of government grant implies an increase in spending power for Local Government over the next three years but there is a threat of reductions to some Councils. Statements from government, with regard to Levelling Up, Business Rate Retention and Fairer Funding, focus on deprivation and access to resources as key features of future funding allocations. Cheshire East Council has

low average deprivation and a high tax base and receives funding to compensate for a negative Revenue Support Grant. The grants announced in the settlement in December 2021 are therefore being treated as single year allocations.

These assumptions and response to recognised issues create a robust set of financial proposals. Implementation will remain challenging and will rely on strong leadership and clear and timely decision making from the Council's Committees.

Adequate Reserves

The Reserves Strategy provides information on the impact of the MTFS on the Council's reserves. In considering whether reserves are adequate I have reflected on ongoing work by CIPFA to produce a resilience index as well as considering local and national risks.

Spending in 2021/22 has not increased the risk, which reflects the quality of the Council's ongoing financial management. But overspending has continued in relation to Children's Social Care and Transport. This may not impact reserves due to underspending elsewhere in the budget, but the assessment of robust estimates in this area is again a feature of the MTFS. Reversing the trend of overspending in these services is essential to the management of the MTFS.

General reserves were increased in 2021/22 to £11.5m or 3.3% of the net budget by 2025/26. This reflects the increasing size of the annual budget, but also the fact that forecast spending in later years of the MTFS may be subject to change over time. This level of reserves is relatively low, so does not provide any scope for non-delivery of proposals within the MTFS. Members should recognise that emerging pressures may require identification of additional savings.

Earmarked reserves will be required during the next four years to support the Capital Financing Budget and Collection Fund. This approach is strategic, but ultimately not sustainable in the long-term. It reflects potential year-on-year variations that can occur in these budgets without transferring the potential negative impacts on to services in one year which may be unnecessary in another.

Capital financing costs are increasing over the next four years, as evidenced in the Capital Strategy. This issue will reduce the Financing Reserve significantly, and longer-term profiling of capital expenditure must be considered. The Financing Reserve was also capable of covering abortive costs of capital projects that may not pass feasibility stages. If the reserve continues to reduce then this cost would fall to the MTFS reserve in the first instance. The Collection Fund Reserve is important to protect against risks from revaluations, appeals and changing government policy, particularly in relation to business rates. Use of this reserve may be reviewed in the medium term depending on the governments review of business rate retention.

There are further financial risks associated with High Needs Education and the Private Finance Initiative (PFI) that the Council may have to address in the medium-term. Overspending in High Needs is currently creating a negative reserve, that is only allowable due to an accounting override by the Department for Levelling Up, Housing and Communities (DLUHC). At a point in time, as yet unknown, the Department will remove this override and the Council would have to manage the financial consequences locally. This change will be dependent on negotiation with DfE about future funding levels. Local mitigation for the ongoing rising costs is taking place but no reserves are currently sat outside of general reserves for this. Similarly, there are no additional financial implications identified in relation to the Council's Extra Care PFI. Although any transfer of costs or risks to the Council is not in

keeping with PFI schemes the current contract is not running at full capacity due to the fire at Beechmere in 2019.

Although reserves are adequate to support the proposals within this four-year strategy, members must recognise that there is virtually no scope for variation without alternative matching proposals coming forward to retain the balanced position.

Short term variations in annual budgets are capable of being managed through the MTFS Earmarked Reserve. This protects such variations from having immediate negative impacts on services to residents. This reserve must be monitored at least annually to ensure the balance is appropriate, and neither excessive nor inadequate. As the government settlement is currently only certain for a single year this presents a short-term risk. It is therefore appropriate to hold balances in the MTFS reserve this protect services from any potential negative impact from future government funding reviews. Such reviews are due in 2022/23, which could potentially make the 2023/24 financial year somewhat transitional in nature.

Conclusion

Based on my engagement and observations of the process to determine a balanced budget for 2022/23 I can report that the budget presents a robust set of forecasts, subject to the achievement of proposals identified within this report.

Based on my assessment of the risks the Council is able to articulate at this point in time I am satisfied that the Reserves Strategy presents an adequate level of reserves to manage risks as part of a Medium-Term Financial Strategy.

I will monitor the impact of the closure of the 2021/22 financial year, and review in-year performance, in order to provide timely updates over the medium-term.

Alex Thompson

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Director of Finance and Customer Services

(Chief Finance Officer - Section 151 Officer)