

Finance Sub-Committee

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| Date of Meeting: | 01 December 2021 |
| Report Title: | 2021/22 Financial Year Review |
| Report of: | Alex Thompson, Director of Finance and Customer Services (Section 151 Officer) |
| Report Reference No: | To be provided by Democratic Services |
| Ward(s) Affected: | Not Applicable |

1. Executive Summary

- 1.1.** This report outlines how the Council is managing resources to provide value for money services during the 2021/22 financial year. The report highlights financial activity that supports the achievement of outcomes contained within the Corporate Plan.
- 1.2.** The Council operates a financial cycle of planning, monitoring and reporting. This review is part of the monitoring cycle but reflects on the impact of reporting last year's performance and on planning for next year's budget. 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 (Source: CEC Corporate Plan Feb 2021).
- 1.3.** Local Authority budgets across the UK are being managed against the backdrop of the Covid-19 pandemic as well as inflation rises and increasing demand for services. The Council's budget has been affected in an unprecedented way due the response required to protect both the health and economic wellbeing of local people and businesses during the Covid-19 Pandemic. However, the statutory duties of the Council must still be delivered within the relevant parameters and the associated inspection frameworks.
- 1.4.** The report sets out the financial performance of the Council with and without the impact of Covid-19. This is helpful due to the separate

approaches to funding the impact of Covid-19 which was not factored into the original 2021/22 Budget.

- 1.5.** The headline findings of the review are:
 - 1.5.1.** Placement costs within Children's Social Care are exceeding budget by £2.8m, which reflects the ongoing pressure articulated in the outturn reporting of the 2020/21 budget.
 - 1.5.2.** Other pressures within Children's Social Services (£1.8m) including costs relating to an increase in the number of children being fostered and an increase in rates paid to foster carers.
 - 1.5.3.** Care Cost budgets remain under pressure and are supported by significant amounts of temporary funding streams in 2021/22 forecasts (net pressure £0.7m).
 - 1.5.4.** Car parking income is forecast to under-achieve the estimates within the current budget by £0.5m (further amounts relating to Covid-19 are included within 1.5.6 below).
 - 1.5.5.** There are vacancies in several service areas, where recruitment is challenging given the prevailing labour market or where activities are delayed due to Covid-19 response work. This is creating underspending of £3.6m overall, most significantly in Care4CE, Prevention, Planning and Corporate Services.
 - 1.5.6.** Covid-19 related expenditure, and losses in income, of £9.8m are not forecast to exceed funding set-aside within the approved budget.
- 1.6.** The position, excluding Covid-19, presents a forecast overspend of £2.2m (0.7% variance to budget).
- 1.7.** There is a further risk linked to the nationally negotiated Local Government pay award which is exceeding forecasts within the Council's Medium Term Financial Strategy and remains uncertain due to the national position of a pay dispute lodged by the Trade Unions. Further analysis is required and the pressure will be managed by use of the Medium Term Financial Strategy reserve if necessary.
- 1.8.** The year-end forecasts that, subject to further changes in demand or mitigating activity may be subject to change. With robust action it is expected that the outturn position will return in line with budget by the end of the year. Any remaining variation to budget at year-end will be managed through the Council's Medium Term Financial Strategy Earmarked Reserve.
- 1.9.** Members should recognise that spending on Children's Social Care Placements, the pay award and losses on car parking income are items that are expected to significantly impact development of the MTFS as they are likely to require recurring increases in budget. Underspending on vacancies is not expected to recur as service levels are returned to meeting existing un-met demand.

- 1.10. Forecast expenditure in the year on the capital programme is £143.7m.
- 1.11. The attached report, **Annex 1**, sets out details of how the Council is performing in 2021/22. It is structured into:
 - 1.11.1. **Section 1 Financial Stability** - provides an update on the Council's overall financial position.
 - 1.11.2. **Appendices** to the annex demonstrate how spending in 2021/22 has been funded, including the service budgets, policy proposals, grants, debt management, capital strategy and reserves by Committee. Updates are provided on the Treasury Management Strategy and Investment Strategy.

2. Recommendations

- 2.1. Finance Sub-Committee is asked to note the contents of the report and each appendix.
- 2.2. Finance Sub-Committee is asked to approve:
 - 2.2.1. supplementary revenue estimates for general purpose grants coded centrally up to and including £1,000,000 in accordance with Financial Procedure Rules as detailed in **Appendix 1, Section 3 Corporate Grants Register, Table 1**.
 - 2.2.2. capital virements up to and including £5,000,000 in accordance with Financial Procedure Rules as detailed in **Appendix 1, Section 5 Capital Strategy, Table 5**.
- 2.3. Recommend to Council to approve:
 - 2.3.1. fully funded supplementary revenue estimates for general purpose grants coded centrally over £1,000,000 in accordance with Financial Procedure Rules as detailed in **Appendix 1, Section 3 Corporate Grants Register, Table 1**.
 - 2.3.2. 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 3 Corporate Grants Register, Table 2**.
 - 2.3.3. supplementary capital estimates over £1,000,000 in accordance with Financial Procedure Rules as detailed in **Appendix 1, Section 5 Capital Strategy, Table 6**.
- 2.4. Recommend to Service Committees to:
 - 2.4.1. note the financial update and forecast outturn relevant to their terms of reference.
 - 2.4.2. note that officers will seek to improve the financial outturn across all Committees to mitigate the overall forecast overspend of the Council.

- 2.4.3.** 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 2-7, Section 3 Corporate Grants Register, Table 2.**

3. Reasons for Recommendations

- 3.1.** The Finance Sub-Committee has a function to “co-ordinate the management and oversight of the Council’s finances”. This function is facilitated through receiving a regular cycle of published reports as part of the financial cycle or planning, monitoring and reporting.
- 3.2.** The review reflects financial and operational performance and provides the opportunity for members to note, approve or recommend changes in line with the Council’s Financial Procedure Rules.
- 3.3.** The overall process for managing the Council’s resources focus on value for money and good governance and stewardship. Financial changes that become necessary during the year are properly authorised and this report sets out those areas where approvals are now required, and the relevant justification.
- 3.4.** The recommendations continue to highlight compliance with the CIPFA Financial Management Code, whilst also meeting the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services and the Prudential Code for Capital Finance in Local Authorities.

4. Other Options Considered

- 4.1.** Not applicable.

5. Background

- 5.1.** 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 in the Northwest of England, responsible for over 500 services, supporting over 386,000 local people. Gross annual spending is over £641m, with a revised net revenue budget for 2021/22 of £311.9m.
- 5.2.** 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.
- 5.3.** The political structure of the Council is organised into seven Committees, with financial responsibilities aligned to the management structure. Performance against the 2021/22 Budget within each Committee is outlined in Table 1 below.

5.4. Table 1 – Revenue Outturn Forecast by Committee

| 2021/22 (GROSS Revenue Budget £492.7m) | Revised Budget (NET) £m | Forecast Outturn Including Covid £m | Forecast Covid Expenditure £m | Forecast Outturn Excluding Covid £m | Forecast Over / (Underspend) Excluding Covid £m |
|---|-------------------------------|--|----------------------------------|--|--|
| Committee | | | | | |
| Adults and Health | 119.0 | 120.8 | 1.6 | 119.2 | 0.2 |
| Children and Families | 68.8 | 74.2 | 1.1 | 73.1 | 4.3 |
| Economy and Growth | 21.8 | 22.4 | 0.4 | 22.0 | 0.2 |
| Environment and Communities | 42.3 | 45.5 | 3.7 | 41.8 | (0.5) |
| Highways and Transport | 11.2 | 14.0 | 2.1 | 11.9 | 0.7 |
| Corporate Policy | 35.5 | 35.3 | 0.9 | 34.4 | (1.1) |
| Finance Sub | (298.6) | (310.0) | (9.8) | (300.2) | (1.6) |
| TOTAL | - | 2.2 | - | 2.2 | 2.2 |

5.5. The Council set a balanced net revenue budget of £311.1m at its meeting in February 2021. Current forecasts against the revised budget of £311.9m, when excluding the financial impacts from Covid-19, shows a potential net expenditure of £314.1m. This position reflects the increase in demand led pressures in the Children's Services Directorate relating to Children in Care, higher costs relating to care in Commissioning and unachievable income targets in Highways and Infrastructure. These pressures are offset by costs that are lower than budgeted, particularly in the Corporate Services Directorate, for example staff vacancies, lower costs of staff training, increased income due to demand of registrar services following the lifting of restrictions and reduced revenue costs due to delays in some capital projects. Past service employer pension contributions are also lower than budgeted and flexible use of capital receipts will fund some revenue costs associated with the B4B project.

5.6. The potential financial pressure from Covid-19 remains uncertain. Some additional funding from Covid-19 grants and the compensation scheme linked to income losses from Sales, Fees and Charges has continued into 2021/22. Negotiations between Local Government and Central Government continue which means government funding may increase, reducing the local effect on the Council's Medium Term Financial Strategy. Contrary to this position the Council must balance the risk of further increases in expenditure or reductions in income based on further outbreaks of Covid-19 or from the Council's recovery processes.

5.7. General Reserve balances are risk assessed and it is clear that a number of risks, particularly associated with demand led service provision and the pandemic, have materialised, but have been managed through the actions detailed in this report.

6. Consultation and Engagement

6.1. 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.

7. Implications

7.1. Legal

- 7.1.1.** The legal implications surrounding the process of setting the 2021 to 2025 Medium Term Financial Strategy were dealt within the reports relating to that process. The purpose of this paper is to provide a progress report for 2021/22.
- 7.1.2.** 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.
- 7.1.3.** Legal implications that arise when activities funded from the budgets that this report deals with are undertaken, but those implications will be dealt within the individual reports to Members or Officer Decision Records that relate.

7.2. Finance

- 7.2.1.** 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, or the response and recovery to Covid-19, is not contained within original forecasts for such activity it may be necessary to vire funds from reserves. This 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.
- 7.2.2.** 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.
- 7.2.3.** Forecasts contained within this review provide important information in the process of developing the Medium Term Financial Strategy. Analysis of under or over spending during the year will identify whether such performance is likely to continue and this enables more robust estimates to be established.
- 7.2.4.** Any overall shortfall in government funding for local activity linked to Covid-19 will add financial pressure to the Council's Medium Term Financial Strategy. In addition, the Medium Term Financial Strategy will need to take account of any longer impacts relating to income, for

example, longer term impact on the Council's income and/or demand on its services.

7.3. Policy

- 7.3.1. This report is a backward look at Council activities and predicts the year-end position.
- 7.3.2. The forecast outturn position, ongoing considerations for future years, and the impact on general reserves will be fed into the assumptions underpinning the 2022 to 2026 Medium Term Financial Strategy.

7.4. Equality

- 7.4.1. 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.

7.5. Human Resources

- 7.5.1. 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.

7.6. Risk Management

- 7.6.1. 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.
- 7.6.2. Risks identified in this report are used to inform the overall financial control risk contained in the Strategic Risk Register; CR3 Financial Resilience. Updates on the scoring and management of strategic risks are provided to the Council's Audit and Governance Committee, and the ongoing challenges to the Council's funding and financial position has been recognised in the Annual Governance Statement.
- 7.6.3. 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 2020/21 budget and the level of general reserves were factored into the 2021/22 financial scenario, budget and reserves strategy.

7.7. Rural Communities

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

7.8. Children and Young People/Cared for Children

7.8.1. The report provides details of service provision across the borough.

7.9. Public Health

7.9.1. 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.

7.10. Climate Change

7.10.1. Any climate change 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.

| Access to Information | |
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| Contact Officer: | Alex Thompson Director of Finance and Customer Services (Section 151 Officer) alex.thompson@cheshireeast.gov.uk |
| Appendices: | Annex 1 – 2021/22 Financial Year Review which includes: Appendix 1 Finance Sub-Committee. Appendix 2 Corporate Policy Committee. Appendix 3 Adults and Health Committee. Appendix 4 Children and Families Committee. Appendix 5 Highways and Transport Committee. Appendix 6 Economy and Growth. Appendix 7 Environment and Communities Committee. Appendix 8 Treasury Management Strategy. Appendix 9 Investment Strategy. |
| Background Papers: | Medium Term Financial Strategy 2021-25 |