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Highways and Transport Committee

23 January 2025

Third Financial Review 2024/25

**Report of: Adele Taylor, Interim Executive Director of Resources
(Section 151 Officer)**

Report Reference No: HTC/13/24-25

Ward(s) Affected: Not applicable

For Decision or Scrutiny: Both

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 October 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 As set out in previous Financial Reviews, the requirement to continue to identify further actions in order to bring the Council back to a position where we are living within our means remains, 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 Third Financial Review (FR3) forecast revenue outturn is an **adverse variance of £18.3m** (prior to the application of any Exceptional Financial Support), an improvement of **£1.8m** from FR2, as detailed below in **Table 1**:

| Table 1 2024/25 FR3 | Revised Budget (NET) | Forecast Outturn | Forecast Variance | Forecast Variance FR2 | Movement from FR2 to FR3 |
|-----------------------------|----------------------------|---------------------|----------------------|-----------------------------|--------------------------------|
| | £m | £m | £m | £m | £m |
| Service Committee | | | | | |
| Adults and Health | 138.0 | 157.9 | 20.0 | 20.8 | (0.8) |
| Children and Families | 93.0 | 98.5 | 5.4 | 5.4 | 0.0 |
| Corporate Policy | 41.9 | 44.4 | 2.5 | 2.4 | 0.1 |
| Economy and Growth | 28.1 | 24.3 | (3.8) | (3.3) | (0.5) |
| Environment and Communities | 48.4 | 47.8 | (0.6) | (0.1) | (0.5) |
| Highways and Transport | 16.0 | 15.5 | (0.5) | (0.6) | 0.1 |
| | | | | | - |
| Sub-Committee | | | | | |
| Finance Sub: | | | | | |
| Central Budgets | 25.1 | 20.5 | (4.6) | (4.5) | (0.2) |
| Funding | (390.5) | (390.5) | - | 0.0 | (0.0) |
| | | | | | - |
| TOTAL | (0.0) | 18.3 | 18.3 | 20.1 | (1.8) |

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- 10 Whilst an improvement on the Second Financial Review of £1.8m (see mitigations in para 28), the forecast overspend of £18.3m remains a significant financial challenge for the Council. The FR3 forecast reserves, after agreed movements budgeted for in the 2024-28 MTFS, are currently £14.0m, being £4.5m of General Fund Reserves 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.

Table 2: Proposed use of Exceptional Financial Support and Reserves as at FR3

| Exceptional Financial Support & Reserves FR3 | |
|---|-------------|
| | £m |
| FR3 Forecast Overspend | 18.3 |
| Exceptional Financial Support | (17.6) |
| Forecast Tfr from Reserves | (0.7) |
| 24/25 Outturn | - |
| Reserves | |
| General Fund | 4.5 |
| Earmarked Reserves | 9.5 |
| Original Forecast at 31st March 2025 | 14.0 |
| Forecast Transformation spend 2024/25 | (4.1) |
| Forecast Tfr from Reserves | (0.7) |
| Forecast Total Reserves at 31st March 2025 | 9.2 |

- 11 As noted in para. 9 above, the forecast adverse variance of £18.3m does not assume the use of the Exceptional Finance Support (EFS) that was requested in 2023/24 and 2024/25 and 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 A further condition of the EFS was that an independent review was undertaken by CIPFA on behalf of MHCLG to understand the Council's financial management and sustainability. The review was commissioned by and for MHCLG and the Council has not yet had sight of this review to understand any implications or improvements that could be made to existing processes. This was submitted to MHCLG in August 2024
- 13 In order to address the risk to services from the Council's budgetary pressures, there was an urgent report to Council on the 11th December 2024 on Exceptional Financial Support (EFS). The report sought the authority for the Chief Executive to request that the in-principle EFS of up to £17.6m by way of a capitalisation direction for 2023/24 and 2024/25 be able to be applied only in 2024/25, from the Secretary of State for Housing, Communities and Local Government in order to address the Council's budgetary pressures during the financial year 2024/25. The full report can

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be found here: [CEC Report Template](#). In addition, the report also addresses the current risks that are identified and considered in the model for the Medium Term Financial Plan (MTFP), as per the report to Corporate Policy Committee on Thursday 28th November 2024 (Item49), hence further requests for 2025/26 of £31.4m and indications of £23.7m for 2026/27 should also be requested, alongside all of the supporting evidence and information requested by MHCLG. The costs of accepting the EFS support will impact over the medium term. The financing of planned use of EFS will be reflected in the MTFP report to Corporate Policy Committee in February. The financing will also reflect that the first call on any capital receipts, over and above the £2m accounted for in the approved revenue budget, will be utilised to finance the EFS.

- 14 As indicated in Table 2, the FR3 report, recognising the requests in the urgent report to Council on 11 December 2024, is proposing to utilise the full £17.6m conditional EFS to cover the forecast adverse variance in 2024/25 in order to protect and minimise the use of reserves. Table 2 identifies that the FR3 forecast remaining adverse balance of £0.7m is forecast to be funded from Reserves however urgent action continues to further reduce the overspend by the year end. Should the FR3 forecast position prevail at out-turn then the balance of reserves will be £9.2m after applying the whole £17.6m EFS and £0.7m from reserves.
- 15 There remains a risk that pressures leading to the latest FR3 forecast position may increase that shortfall figure if further rapid action does not take place to stabilise our financial position.
- 16 The FR3 forecast position for capital spending for 2024/25 indicates forecast capital expenditure of £144.7m against the MTFP budget of £215.8m (FR2 £157.7m).

17 **Table 3** sets out the capital programme profiling changes from FR2:

| Table 3 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2024/28 |
|--------------------------------|----------|----------|----------|----------|---------|
| | Estimate | Estimate | Estimate | Estimate | Total |
| | £000s | £000s | £000s | £000s | £000s |
| Capital Programme FR2 | 157,661 | 151,770 | 115,852 | 225,173 | 650,456 |
| Funded by: | | | | | |
| Borrowing | 45,101 | 57,996 | 14,802 | 25,044 | 142,943 |
| Grants and other contributions | 112,560 | 93,774 | 101,050 | 200,129 | 507,513 |
| | 157,661 | 151,770 | 115,852 | 225,173 | 650,456 |
| Capital Programme FR3 | 144,670 | 157,134 | 104,400 | 243,852 | 650,056 |
| Funded by: | | | | | |
| Borrowing | 40,967 | 51,807 | 19,093 | 29,245 | 141,112 |
| Grants and other contributions | 103,703 | 105,327 | 85,307 | 214,607 | 508,944 |
| | 144,670 | 157,134 | 104,400 | 243,852 | 650,056 |
| Movement from FR2 | (12,991) | 5,364 | (11,452) | 18,679 | (400) |

- 18 All of the current schemes requiring borrowing have been reviewed by the Executive Directors and Directors and they have indicated that most schemes need to continue for various reasons (e.g. provision of sufficient SEND school place schemes are part of the mitigation plans agreed with the

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DfE prior to the award of additional High Needs Funding; the Strategic Leisure Review is an invest to save scheme as are Fleet EV Transition and Fleet Vehicle Electric Charging; Public Sector Decarbonisation Schemes require match funding to support the grant and will bring energy efficiencies).

- 19 There have been some schemes where reductions have been made, for example the Children's Home Sufficiency Scheme has been reduced by £0.69m and the review of Household Waste Recycling centres has been reduced by £1m, and a few schemes are proposed to be removed altogether as they are considered unaffordable. e.g. the Strategic Capital scheme £6.8m.
- 20 Changes to the capital programme at this stage of the year will have a limited impact on the current year financial position but reductions in borrowing achieved through the capital review will be reflected in the revenue position each year in the MTFS for 2025-29.
- 21 In order to maintain the current level of scrutiny of capital projects and their financing a new Capital Programme Board will be set up in January. Please see the MTFS Consultation report for further detail.
- 22 The current forecast for achievable capital receipts in year is £2.3m, with a further £0.8m also achievable in year. These receipts can be used to reduce revenue pressures from borrowing in year or could be used to assist with funding of transformation activity.
- 23 Following a Balance Sheet Review by our Treasury Advisors, Arlingclose Ltd, we are reviewing our current Minimum Revenue Provision (MRP) and Capital Financing Requirement (CFR) policy with a view to bringing it in closer alignment with CIPFA Guidance. The Council currently uses a 2% annuity rate on all its unfinanced capital expenditure. This rate was originally set in 2017 and does not bear any resemblance to the current cost of the borrowing, nor distinguish between assets which have different useful lives. Options to change the rate applied to a rate more reflective of actual borrowing costs and asset life are being considered with effect from 1 April 2024. Should any changes be proposed then these will be reported in the MTFS report to the Corporate Policy Committee in February 2025 setting out the change in Accounting Policy and the effects of the change on the 2024/25 out-turn position and future year impacts through the MTFS.
- 24 Any such changes to the policy would need to be made in the current year due to new regulations coming in from 1st April 2025 and would therefore have the benefit of reducing the current year charge to revenue with a betterment to the overall outturn position. This has not yet been included in the figures reported within this document. However, making such a change has long term implications and therefore should not be undertaken without discussion with our auditors.
- 25 The Strategic Finance Management Board leads on a number of key tasks to urgently reduce spend and identify additional savings, including:

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- 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, the effects of which are partly reflected in the FR3 forecast outturn as a one-off contribution to reserves (to be further updated by out-turn);
- Reducing the borrowing elements of the capital programme to minimise the minimum revenue provision and interest payable.
- Review of capital receipts available and potential 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;
- Review Debt management/overall level of bad debt provision – work undertaken to date, focussing on the Adult Social Care bad debt provision, has identified through adopting a new approach to reviewing and monitoring these debts, an improvement (reduction) of the Council's bad debt provision of £1.1m, further work is ongoing and will be updated at Out-turn.

Overall mitigations planned to manage pressures

- 26 The Strategic Finance Management Board is leading on a number of key tasks to urgently reduce spend and identify additional savings as noted above.
- 27 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.
- 28 As reported in paragraphs 34-55 below, work is underway across all Services to look at mitigating actions which can be taken to reduce the forecast position in-year, some of the actions below having contributed to the £8.2m improvement from FR1 position of £26.5m adverse, including:
- Adults - more certainty about the FR2 projections and the delivery of in-year mitigations, including a reduction in the forecast number of placements in-year.

- Children & Families – reviewing costs of placements, establishment reviews, Reunification of children, and Work on Edge of Care Service proposals to identify early intervention and cost reduction.
- Place Services – mitigations in year through further vacancy management, reducing expenditure and maximising funding opportunities.
- Corporate – Vacancy management and some additional income.
- Finance Sub – S106 and bad debt reviews generating one-off in year contributions to assist in reducing the in year overspend and review/reset process moving forward.

29 Paragraphs 56-57 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**.

30 **Annex 1: Detailed Third 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
 - **Section 6** Treasury Management
- Annex 2: 2024/25 Capital Monitoring**

RECOMMENDATIONS

The Highways and Transport Committee to:

1. Review the factors leading to a forecast adverse Net Revenue financial pressure of £18.3m against a revised budget of £390.5m (4.7%). 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. Review the in-year forecast capital spending of £144.7m 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 4** will be approved in accordance with the Council's Constitution.

Background

- 31 This single view of the financial picture of the Council provides the overall financial context.
- 32 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.
- 33 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.

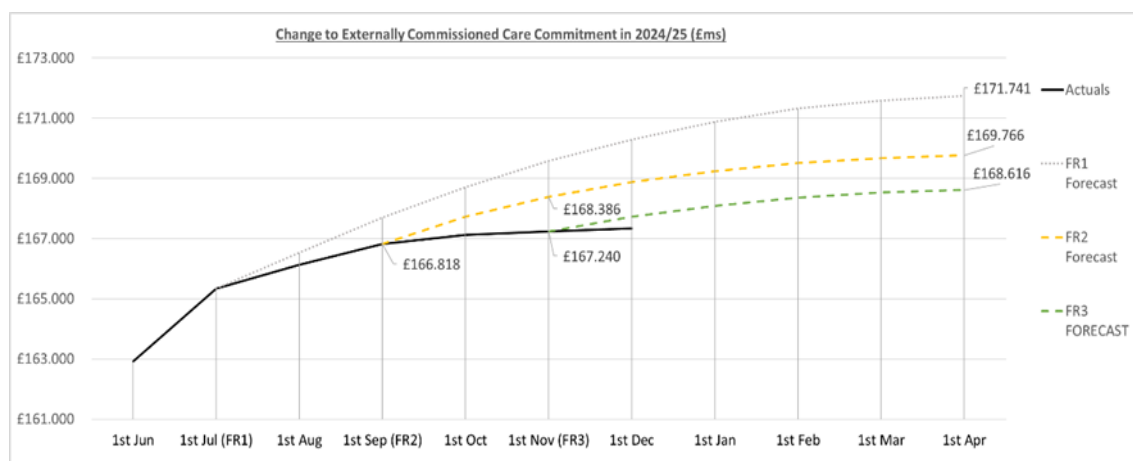
Key issues causing the pressures

- 34 There are a number of key issues causing the forecast revenue overspend, including: Update as required :
- 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 £20.0m

- 35 The Adults, Health and Integration budget is forecast to overspend by £19.956m. The £19.956m is primarily driven by an overspend of c£23m linked to care costs and pressures on staffing of c£2m. These pressures are reduced by a variance client income of c£4m, and other mitigations c£1m. The key drivers of forecast expenditure remain price increases, staff costs and increase in complexity.
- 36 The FR3 position has improved by c£700k from the FR2 forecast. This reflects the progress made to mitigate future demand. There is more certainty about the projections and the delivery of in-year mitigations, including a reduction in the forecast number of future placements in-year as shown in the graph below.



- 37 As noted previously the key driver of expenditure in adult social care is the number of people in receipt of care and the cost of each individual's care. The forecast has stabilised because we believe we will make fewer new placements in the second half of the year than we made in the first half of the year.
- 38 There is close alignment between the work being undertaken to manage budget pressures and the transformation plan. There will be some impact in-year including in respect of pricing, the focus on the review of supported living services, and services to support people at home. However, there are also risks including the reduction in the number of agency staff which has led to an increase in waiting times for services and disputes with providers in respect of price increases. In addition, the NHS is currently reporting unprecedented levels of demand in the pre-Christmas period.

Children and Families adverse variance of £5.4m

39 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 Third Financial Review for 2024/25 reflects a £5.4m in-year pressure. Although the overall position remains the same as at the Second Financial Review, there was an increase in Social Care Cost relating to cost of agency staff and unaccompanied asylum-seeking children, offset by improvement in transport and catering forecast, reduced staffing cost due to vacancy management and use of grants in Education, Strong Start and Integration.

The key pressure areas for the directorate include:

- 40 Children's social care placements (£2.6m adverse variance) where the complexity of children in care has continued to increase and the number of children in care has increased from 528 at April 2024 to 556 at October 2024 (compared to a decrease from 586 at April 2023 to 551 at October 2023). Placement costs are increasing by significantly more than inflation and more than was projected for growth in-year.
- 41 The use and cost of agency staff in children's social care to cover vacancies, sick absence, and maternity leave.
- 42 The number of staff is greater than the planned establishment to ensure we are able to meet our statutory needs. Work is underway to ensure the staffing structure is suitably funded and factored into the MTFS for 2025/26.
- 43 Home to school transport costs (£0.1m adverse variance) – where a mix of increasing numbers of pupils with an education, health and care plan (EHCP), and increasing fuel costs have seen overall costs rise.
- 44 Schools Catering (£0.4m adverse variance) – where the costs of the service are above the current charged income level and base budget.
- 45 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)

- 46 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.
- 47 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.
- 48 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.
- 49 The current forecast is showing an in-year deficit of £37.1m which would increase the overall deficit to £115.7m.

Corporate Policy adverse variance of £2.5m

- 50 The Corporate Services Directorate has a net budget of £41.7m. At Third Finance Review (FR3), the budget is forecast to overspend by £2.5m compared to a £2.4m overspend at Second Finance Review (FR2). The costs of the Transformation Programme are included in the above figures adding a £3.7m pressure to the forecast (£2.8m at FR2). Without this, the forecast would be a £1.2m underspend (£0.5m at FR2). It also 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.
- Vacancy management in Corporate Services has resulted in the majority of services forecasting an underspend on staffing budgets totalling £2.4m (£2.1m at FR2). There is a staff 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 however, due to the level of vacancies across the service, this is not an in-year pressure;
 - Vacancy management has been combined with tighter control on non-pay spending across all services which is achieving a forecast underspend of £1.0m (£0.7m FR2);
 - Additional income in the Registrations Service, and additional grant income in the Benefits Service.

However, these underspends have been offset by the following:

- Forecast spend of £3.7m (£2.8m FR2) on the Transformation Programme. The cost of the programme will be met from reserves or use of flexible capital receipts, the financial impact of these are shown elsewhere in the accounts;
- A forecast £1.4m (£1.3m FR2) under-recovery of Rent Allowances;
- A forecast overspend of £0.5m (£0.4m FR2) on the Transactional Service Centre (TSC), hosted by Cheshire West and Chester, mainly due to the additional costs of the stabilisation programme which has been put in place to improve the performance of the service and recognises the need to change the way in which Unit4 is used. This was an issue highlighted in the Corporate Peer Review;
- There is a forecast overspend in Accountancy mainly due to of £0.3m additional costs including Bank Charges and External Audit fees.

Place Directorate favourable variance of £4.9m

51 Overall, the Place Directorate is forecasting an underspend of £4.9m at the Third Financial Review stage against a £92.5m budget. This represents a £0.9m improvement from FR2. Pressures from reducing planning application income (£0.5m), increased waste collection and disposal costs (£0.5m) and yet to be secured savings against leisure (£0.4m) have been mitigated through further vacancy management, reducing expenditure and maximising funding opportunities.

Economy & Growth favourable variance of £3.8m

52 Growth and Enterprise Directorate and Place Directorate are forecasting an underspend of £3.6m against a net budget of £28.1m. The key reasons for the underspend are:

- Facilities Management: there is a £1.7m underspend forecast. This includes pressures against maintenance budgets of £0.5m (additional pressures and delivery of savings), costs of workplace initiatives and equipment of £0.4m, the transfer of underspends to offset Place MTFS targets across the Directorate £0.6m and these have been offset by:
 - Savings against gas and electricity compared to much higher budgeted costs £3.0m.
 - Business rates underspend of £0.2m due to revaluations and appeals.
 - Underspends from vacancy management £0.5m.

- Economic Development: £0.3m underspend from vacancy management, reduced supplies £0.1m and increased income £0.1m.
- Housing: £0.6m underspend from vacancies and extra grant funding.
- Green infrastructure and Cultural Economy £0.4m due to vacancies.

Environment & Communities favourable variance of £0.6m

53 Environment and Neighbourhood Services is forecasting an underspend of £0.6m against a net budget of £48.4m. This is a £0.5m improvement from FR2. The key reasons for the forecasting underspend are:

- Development Management: £0.2m overspend reflecting pressures from a shortfall in income from planning applications £0.5m and pressures on supplies and services of £0.1m. These are offset by vacancy management £0.4m.
- Environmental – Commissioning: Orbitas £0.2m underspend overall due to better income performance.
- Libraries: £0.1m overspend including pressures of £0.5m from the delivery of the MTFs savings which is offset by £0.3m vacancy management and £0.1m underspend from MTFs growth for exploring a charitable trust model.
- Leisure Commissioning: £0.4m overspend (delivery of MTFs savings)
- Other service issues: £1.1m underspend:
 - Building Control: £0.3m underspend (£0.1m pressure on income offset by £0.4m vacancies).
 - Local Land Charges and Planning Support: £0.2m underspend from vacancies.
 - Strategic Planning: £0.4m (£0.2m vacancy management plus £0.2m delayed Local Plan costs).
 - Regulatory Services: £0.2m (£0.3m vacancies offset by £0.1m CCTV costs).

Highways & Transport favourable variance of £0.5m

54 Highways & Infrastructure are forecasting an underspend of £0.5m against a net budget of £16m. This is a slight worsening of £0.1m since FR2 due to delayed car park income. The key reasons for the underspend are due to vacancies across Car Parking, Strategic Transport and Rail and Transport Integration.

Finance Sub favourable variance of £4.6m

- 55 Finance Sub Committee are reporting a positive variance of £4.6m against a revised net budget of £25.1m.
- Financing and Investment £0.5m net pressure reflecting £2.1m increased cost of interest payments on borrowing offset by £1.6m increased interest receipts from investments.
 - Reserves use of £3.6m (net change from MTFS) reflects £0.5m additional Flexible Capital Receipts offset by £1m reduction in available Capital Financing Reserve at outturn compared to forecast balance reflected in the February 2024 MTFS. There is also an additional £4.1m use of the General Fund reserve forecast to fund transformation activities.
 - There is a further £1.5m positive variance as a result of in year reviews of S106 balances/schemes and bad debt. The S106 Review identifying a one off contribution in year where work has been completed in prior years but has not been reflected in transferring money from S106 into the general fund, £0.5m initially reflected at FR2 with potential for further increased contributions at FR3; £0.1m reduction in the Adult Social Care bad debt provision, as referred to in para 77 below.

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

- 56 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.
- 57 As the green and blue columns show, £35.4m 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 £52.9m 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 £11m, unrelated to the change item rows that have 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 | 21,092 | -2,723 | 0 | -9,216 | 0 | 33,625 | -594 |
| Children & Families | 9,909 | 15,315 | 965 | 0 | -764 | 214 | 14,017 | 883 |
| Corporate Policy | 494 | 2,954 | -173 | 0 | -117 | 0 | 1,581 | 1,663 |
| Economy & Growth | 3,316 | -449 | -61 | 0 | 3,866 | -585 | 940 | -4,609 |
| Environment & Communities | -52 | -688 | 875 | -1,480 | -268 | 47 | 2,397 | -2,259 |
| Finance Sub | -19,668 | -24,294 | 600 | 0 | -29,279 | 9,974 | 0 | -5,589 |
| Highways & Transport | 4,869 | 4,335 | 2,488 | 0 | 1,700 | 275 | 328 | -456 |
| TOTAL | -1 | 18,265 | 1,971 | -1,480 | -34,077 | 9,925 | 52,888 | -10,961 |

58 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

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

Reserves Position

60 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 (70.5%) will be spent in 2024/25, on supporting the revenue budget for 2024/25.

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

62 As part of the 2023/24 Out-turn, some Earmarked reserves planned to be spent in 2023/24 were not fully spent in year and therefore an additional slipped amount of Earmarked reserves were brought forward into 2024/25. There is planned spend in place for these earmarked reserves across Services however there is no current approval in place as they were not specifically reported for approval in the MTFs approved in February 2024. Table 6 below and the tables in Annex 1, Section 5 detail by Committee the reserves as an indicative scenario. Recognising that there is existing planned spend against these earmarked reserves in 2024/25 and also the desired outcome of ensuring that the position on reserves is protected such that the out-turn forecast is not further worsened, it is proposed that the Corporate Leadership Team (CLT) carry out a strategic review of existing in-principle decisions on use of earmarked reserves for year end 31 March 2025 with the aim of supporting future financial sustainability. Examples of some of the earmarked reserves to be considered:

- Increasing the General Fund balance by transfer from earmarked reserves (e.g. MTFS reserve)
- Retaining and/or reinstating some earmarked reserves vital to our long-term financial planning (e.g. PFI reserve)

63 Following the CLT review, final recommendations will be made in the MTFS report to the Corporate Policy Committee on the 6 February 2025 as regards decisions on earmarked reserves used in 2024/25, and to be remaining as at 31 March 2025.

Table 6: Earmarked Reserves

| Earmarked Reserves by Committee | Opening Balance 01 April 2024 £000 | Drawdowns to General Fund £000 | Approved Movement Forecast £000 | Additional Drawdown Requests* £000 | Closing Balance Forecast 31 March 2025 £000 |
|---------------------------------|--|-----------------------------------|------------------------------------|---------------------------------------|---|
| Adults and Health | 5,226 | (2,795) | (110) | 0 | 2,321 |
| Children and Families | 1,724 | 0 | (1,593) | (131) | 0 |
| Corporate Policy | 20,773 | (6,551) | (2,830) | (4,545) | 6,847 |
| Economy and Growth | 2,777 | (662) | (1,004) | (765) | 346 |
| Environment and Communities | 870 | (390) | (402) | (78) | 0 |
| Highways and Transport | 908 | (205) | (415) | (288) | 0 |
| EARMARKED RESERVES TOTAL | 32,278 | (10,603) | (6,354) | (5,807) | 9,514 |

* All 'Additional Drawdown Requests' are subject to approval.

* Total excludes schools' balances

Table 7: General Fund Reserve

| General Fund Reserve | Opening Balance 01 April 2024 £000 | Drawdowns to General Fund £000 | Approved Movement Forecast | Additional Forecast Movement £000 | Closing Balance Forecast 31 March 2025 £000 |
|-----------------------------------|--|-----------------------------------|----------------------------|--------------------------------------|---|
| General Fund Reserve | 5,580 | (1,051) | 0 | (4,066) | 463 |
| GENERAL FUND RESERVE TOTAL | 5,580 | (1,051) | 0 | (4,066) | 463 |

64 At FR1 the forecast closing balance at 31 March 2025 in the Council's General Fund Reserve was £4.5m. At FR2, a further £4m transformational spend has been included within the service forecasts which will be funded from General reserves, reducing the forecast balance to £0.5m. If it is possible to identify additional capital receipts these could potentially be used to capitalise this expenditure and this will remain an area that is under review.

- 65 The Council is currently forecast to have £9.514m 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.
- 66 A full list of all earmarked reserves can be found in **Annex 1, Section 5**.

Dedicated Schools Grant Reserve

- 67 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.
- 68 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 £37.1m 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.

Table 8: Dedicated Schools Grant

| Dedicated Schools Grant Deficit | £m |
|---|--------------|
| Deficit Balance Brought forward | 78.6 |
| Additional In-year Pressures | 37.1 |
| Deficit Balance at 31 March 2025 | 115.7 |

Debt

- 69 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 28th November 2024 was £16.9m. This has reduced by £1m since FR2 (end of September 2024).
- 70 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.
- 71 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 services (currently provided by Bristow & Sutor).

- 72 The total amount of service debt over six months old is £10.8m; split as £9.3m of Adult Social Care debt and £1.5m of Sundry Debt. A 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. There is an ongoing in year review of the Bad Debt provision which has to date focused on Adult Social Care debt, this work has identified a forecast £1m reduction in the provision in 2024/25 linked to the ASC debt, reflected in the FR3 position.
- 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 £3m 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. As noted above, the current review of Debt provision for Adult Social Care has identified a £1.0m reduction in the ASC debt provision having reviewed the provision process across the 3 main categories of ASC all of which have distinct provision calculations. Further work is ongoing and will extend to wider Council debt throughout the review.
- 74 The Highways position for outstanding debt is consistent throughout the year. The debt is generally made up of three elements: the movement of funds from Cheshire West and Chester Council and Warrington Borough Council in relation to the Cheshire Road Safety Group (these are settled quickly); third party claims for damage to the highway; and permit fees. The third party claims are often paid in instalments.
- The previous outturn positions are:
- 31 March 2024 Outstanding debt £1.6m, over 6 months old £0.7m.
 - 31 March 2023 Outstanding debt £1m, over 6 months old £0.5m
- 75 The Council has robust processes in place to ensure that all outstanding debt is chased up (where commercially viable) and, where necessary, payment plans are put in place with advice from Legal Services.

Table 9 – Debt Summary as at 28th November 2024

| | Outstanding Debt £000 | | | Over 6 months old £000 | | |
|--|-----------------------|---------------|-----------------------|------------------------|---------------|-----------------------|
| | FR2 | FR3 | Increase / (Decrease) | FR2 | FR3 | Increase / (Decrease) |
| Adults and Health Committee | | | | | | |
| Adults, Public Health and Communities | 14,967 | 14,170 | (797) | 9,060 | 9,325 | 265 |
| Children and Families Committee | | | | | | |
| Children's Social Care (Incl. Directorate) | 189 | 189 | (0) | - | 1 | 1 |
| Prevention and Early Help | 69 | 51 | (19) | (7) | (8) | (2) |
| Schools | 17 | 17 | 1 | 2 | 3 | 1 |
| Highways and Transport Committee | | | | | | |
| Highways and Infrastructure | 1,115 | 1,305 | 190 | 760 | 755 | (4) |
| Economy and Growth Committee | | | | | | |
| Growth and Enterprise | 740 | 621 | (119) | 394 | 420 | 27 |
| Environment and Communities Committee | | | | | | |
| Environment and Neighbourhood Services | 398 | 377 | (21) | 215 | 214 | (1) |
| Corporate Policy Committee | | | | | | |
| Finance and Customer Services | 135 | 126 | (8) | 69 | 67 | (2) |
| Governance and Compliance | (1) | 0 | 1 | - | - | - |
| Human Resources | - | - | - | - | - | - |
| ICT | 217 | 3 | (214) | 2 | 2 | 0 |
| Total | 17,846 | 16,859 | (988) | 10,496 | 10,780 | 284 |

Council Tax and Business Rates

Council Tax

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

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

- 77 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.

| Table 11 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 | *73.5 |
| After 2 years | 98.6 | 98.5 | 98.8 | ** | ** |
| After 3 years | 98.9 | 99.0 | ** | ** | ** |

* 2024/25 rate is up to 30th November 2024.

** Data is not yet available.

- 78 After accounting adjustments, the Council Tax Collection Fund is forecasting a £0.003m surplus for 2024/25, of which, £0.002m is attributable to Cheshire East Council. This surplus will be paid out in 2025/26 and will be held in the Collection Fund Earmarked Reserve until such time.

Non-Domestic Rates (NDR)

- 79 Collectable rates are distributed between Cheshire East Council (49%), Cheshire Fire Authority (1%), and Central Government (50%).
- 80 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.
- 81 **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 | *72.6 |
| After 2 years | 97.4 | 98.3 | 98.8 | ** | ** |
| After 3 years | 99.0 | 99.2 | ** | ** | ** |

* 2024/25 rate is up to 30th November 2024.

** Data is not yet available.

- 82 After accounting adjustments, the Non-Domestic Rates Collection Fund is forecasting a £2.1m deficit for 2024/25, of which, £1.0m 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

- 83 Treasury Management income to 30 November 2024 is £2.3m which is higher than the budgeted £1.3m. However, borrowing costs are also higher than budgeted at £12m compared to budget of £10.7m. This is

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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 £0.8m in excess of that budgeted.

- 84 Interest rates have seen substantial rises over the last two years which has significantly increased the cost of borrowing. The expectation is that borrowing costs will start to fall although market uncertainty and tightening liquidity in the markets suggests we will not benefit from lower rates until 2025/26.
- 85 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, consideration is being given to taking more longer term PWLB loans.
- 86 The cost of short term borrowing for the first eight months of 2024/25 is 5.38% which is an increase from 4.82% in 2023/24. These costs are now expected to reduce as the outlook is for reducing interest rates.

Investment Strategy

- 87 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

- 88 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.
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Reasons for Recommendations

- 89 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.
- 90 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

- 91 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

- 92 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.
- 93 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.
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- 94 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.
- 95 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.
- 96 This report provides an update on progress for 2024/25 for all services.
- 97 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

- 98 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.
- 99 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.
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- 100 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.
- 101 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.
- 102 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.
- 103 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.
- 104 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.
- 105 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

- 106 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.
- 107 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.
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108 The approval of supplementary estimates and virements are governed by the Finance Procedure Rules section of the Constitution.

Equality, Diversity and Inclusion

109 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

110 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

111 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

112 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)

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

Public Health

114 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

115 There are no direct implications for climate change.

| Access to Information | |
|------------------------------|---|
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| Appendices: | <p>Annex 1 including:</p> <ul style="list-style-type: none"> • 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 • Section 6 Treasury Management <p>Annex 2 – 2024/25 Capital Monitoring</p> |
| Background Papers: | <p>The following are links to key background documents:</p> <p>Medium-Term Financial Strategy 2024-2028</p> <p>First Financial Review 2024/25</p> |