

## Cabinet

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**Date of Meeting:** 6 October 2020

**Report Title:** Mid Year Review (FINANCE) 2020/21

**Portfolio Holder:** Cllr Amanda Stott - Finance, IT and Communication

**Senior Officer:** Alex Thompson – Director of Finance and Customer Services  
(Section 151 Officer)

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### 1. Report Summary

- 1.1. This report outlines how the Council is managing resources to provide value for money services during the 2020/21 financial year. The report highlights financial activity and provides an overview of progress towards achieving outcomes for local people.
- 1.2. 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. However, the statutory duties of the Council must still be delivered within the relevant parameters and the associated inspection frameworks.
- 1.3. The Coronavirus pandemic has had a profound impact on all aspects of life in Cheshire East. The Council has adopted a pro-active evidence led approach to ensure that it responds to the emerging needs of residents and businesses. The Council's budget is under unprecedented pressure due to the response required to protect both the health and economic wellbeing of local people and businesses during the Covid-19 Pandemic.
- 1.4. A briefing paper presented to the Audit and Governance Committee at the end of July gave initial estimates for gross costs relating to the Covid-19 pandemic at £70m. This figure represented the financial impact for the full year, without government funding, and at a point in time where the lockdown was in force and infection rates were at their highest. This figure

complied with the requirements of a government return that continues to be updated and used, to help government understand the financial impact on Local Authorities. Subsequent changes to the way government is funding certain activities, sometimes providing direct funding instead, as well as amended guidelines on dealing with the pandemic, has seen this forecast reduce.

- 1.5. The financial impact of Covid-19 was reported to Cabinet in September 2020 as being approximately £50m. Latest financial estimates show that the impact in 2020/21 is approximately £47m. This forecast does not include provision for a second wave or local outbreaks which would both separately or together increase the financial risk to the Council. Government funding of £22m has been received, with £21m remaining available in 2020/21 (£1m having already been allocated to spending in 2019/20). Of the current potential £26m shortfall in 2020/21 a claims process is being worked upon in relation to the c.£13m of income losses from sales, fees and charges included in the overall figure of £47m. Also within the overall figure £9.1m relates to cash deficits in the Collection Fund, the long term impact of which can be spread across the financial years 2021/22 to 2023/24. £6.3m of the total relates to increases in capital expenditure forecasts, which although related to immediate issues may not materialise until 2021/22. In addition these additional capital costs could be funded from within the budgets allocated in the capital programme.
- 1.6. The report sets out the current position on the financial pressures resulting from Covid-19 which are significant. Excluding Covid-19, the mid year position presents a balanced position (to within budget by 0.2%).
- 1.7. The Council set a balanced net revenue budget of £301.0m at its meeting in February 2020. Current forecasts against the revised budget of £301.8m, when excluding the financial impacts from Covid-19, shows a potential net expenditure of £301.3m. This position reflects an increase in demand led pressures in the People Directorate relating to Children in Care services (£2.6m) and Housing Benefit payments (£1.0m) in the Corporate Directorate. These pressures are offset by costs that are lower than budgeted, particularly in the Place Directorate, for example staff vacancies and lower energy usage in corporate buildings.
- 1.8. To address the risk of having to deal with financial pressure related to the local impact of Covid-19, the Council will consider robust actions to bring the overall outturn in line with the total available resources, including additional government support and use of reserves in line with the reserves strategy set by the Council in February. More detail is set out in paragraph 3.5.

- 1.9. Forecast expenditure in the year on the capital programme is £154.1m, which is in line with the revised budget.
- 1.10. The attached report, **Annex 1**, sets out details of how the Council is performing in 2020/21. It is structured into two sections:
  - Section 1 Financial Stability** - provides an update on the Council's overall financial position.
  - Section 2 Workforce Development** - provides a summary of the key issues relating to the Council's workforce development plan.
- 1.11. Appendices to the annex demonstrate how spending in 2020/21 has been funded, including the service budgets, grants, debt recovery and reserves. Updates are provided on the Capital Strategy, Treasury Management Strategy and Investment Strategy.

## 2. Recommendations

That Cabinet:

- 2.1. Notes the contents of the report.
- 2.2. Notes the contents of Annex 1 to the report, and the current financial impact of Covid-19, of up to £26m, being partially mitigated by non Covid-19 activity.
- 2.3. Notes the mitigating actions under consideration in order to manage the financial impact of Covid-19 (Section 3 – Reasons for Recommendations).
- 2.4. Notes the supplementary estimates approved to date in relation to Covid-19 activity (**Appendix 2, Table 2**).
- 2.5. Approves the supplementary revenue estimates of £774,000 (155,000 received and £619,000 is pending) relating to the additional grants for Covid-19 Emergency Active Travel Fund (**Appendix 2, Table 1**).
- 2.6. Approves the capital virement of £1,700,000 to increase the pothole and challenge funding (**Appendix 4, Annex C**).
- 2.7. Notes the approved supplementary capital estimate of £6,855,000 relating to additional Department for Transport grant received (**Appendix 4, Annex D**).
- 2.8. Recommends to Council to approve:
  - 2.8.1. fully funded supplementary revenue estimate above £1,000,000 in accordance with Financial Procedure Rules as detailed in (**Appendix 2 Table 1**).

### **3. Reasons for Recommendations**

- 3.1. The Council monitors in-year performance through a reporting cycle, which includes outturn reporting at year-end. Reports during the year reflect financial and operational performance and provide the opportunity for members to note, approve or recommend changes in line with the Council's Financial Procedure Rules.
- 3.2. The overall process for managing the Council's resources focuses 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 any further approvals are now required.
- 3.3. This report provides strong links between the Council's statutory reporting requirements and the in-year monitoring processes for financial and non-financial management of resources.
- 3.4. The potential financial pressure from Covid-19 remains uncertain. The compensation scheme linked to income losses from Sales, Fees and Charges is being implemented, and negotiations between Local Government and Central Government continue. This 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.
- 3.5. To mitigate current shortfalls in the funding for Covid-19, and the overspending in specific areas of the 2020/21 budget, the Council will:
  - Continue to manage and review the financial forecasts in response to emerging guidance and the local response to the emergency and how this affects the Council's revenue budget.
  - Analyse the Government proposals to compensate losses from Sales, Fees and Charges.
  - Analyse the level of Collection Fund losses across the three financial years 2021/22 to 2023/24.
  - Review the consequences of funding shortfalls on the Council's capital programme and how this impacts on the Council's long term funding of capital expenditure.
  - Review processes and practice that is causing overspending in Children's Services to improve efficiency without compromising outcomes.
  - Analyse the level of subsidy for Housing Benefit cases to ensure appropriate local discretion is being managed.

- Identify costs of transformation that may be funded from the flexible use of capital receipts.
- 3.6. The Council will continue to review performance against 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 380,000 local people. Gross annual spending is over £815m, with a revised net budget for 2020/21 of £301.8m.
- 5.2. The management structure of the Council is organised into three directorates, People, Place and Corporate. 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. Due to the unpredictable nature of the Coronavirus there are risks associated with the estimation of costs to the Council and the level of funding it will receive. A potential shortfall of £26m represents 8.6% of the net revenue budget. This impact is partially offset by a £0.5m variance to budget from non-Covid-19 activity.
- 5.4. 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.
- 5.5. The Council complies with all of its legislative and regulatory requirements in accordance with the CIPFA Code of Practice for Treasury Management in the Public Services and the Prudential Code for Capital Finance in Local Authorities.

## **6. Implications of the Recommendations**

### **6.1. Legal Implications**

- 6.1.1. The legal implications surrounding the process of setting the 2020 to 2024 Medium Term Financial Strategy were dealt with in the reports relating to that process. The purpose of this paper is to provide a progress report at the mid year stage of 2020/21. That is done as a matter of prudential good practice, notwithstanding the abolition of centrally imposed reporting requirements under the former National Indicator Set.
- 6.1.2. The only other implications arising directly from this report relate to the internal processes of approving supplementary capital estimates and virements referred to above which are governed by the Finance Procedure Rules.
- 6.1.3. 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.

### **6.2. Finance Implications**

- 6.2.1. 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 the response and recovery to Covid-19 requires funding from the Council this could require the Council to deliver a greater level of future savings to replenish reserve balances.
- 6.2.2. 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.
- 6.2.3. Forecasts contained within the Mid Year 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.
- 6.2.4. Within this report the estimated costs associated with Children's Social Care and Housing Benefits raise concerns of future budget pressures which will need to be addressed.

6.2.5. 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.

6.2.6. The Local Government Settlement, due late in 2020 will also be informed by Councils responding to ongoing consultation from government, which itself is significantly informed by recognising the current financial pressures identified within this report and how such pressures can be managed in a sustainable way.

### **6.3. Policy Implications**

6.3.1. This report is a backward look at Council activities at mid year and predicts the year-end position.

6.3.2. The forecast outturn position, ongoing considerations for future years, and the impact on general reserves will be fed into the assumptions underpinning the 2021 to 2025 Medium Term Financial Strategy.

### **6.4. Equality Implications**

6.4.1. 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.

### **6.5. Human Resources Implications**

6.5.1. This report is a backward look at Council activities at mid year 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.

### **6.6. Risk Management Implications**

6.6.1. 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.

6.6.2. 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.

- 6.6.3. 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 2020/21 financial scenario, budget and reserves strategy.

## **6.7. Rural Communities Implications**

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

## **6.8. Implications for Children & Young People/Cared for Children**

- 6.8.1. The report provides details of service provision across the borough, acknowledges the Ofsted report and notes the overspend within Children in Care services.

## **6.9. Public Health Implications**

- 6.9.1. 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.

## **6.10. Climate Change Implications**

- 6.10.1. 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.

## **7. Ward Members Affected**

- 7.1. All

## **8. Consultation & Engagement**

- 8.1. As part of the budget setting process the Pre-Budget Report 2020/21 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.



## **9. Access to Information**

9.1. The following are links to key background documents:

[Medium Term Financial Strategy 2020/24](#)

## **10. Contact Information**

10.1. Any questions relating to this report should be directed to the following officer:

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