

Cabinet

Date of Meeting: 2 February 2021

Report Title: Third Quarter 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)

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. 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 in to the original 2020/21 Budget. Covid-19 financial updates have been presented at Cabinet meetings since June and mitigating activity was identified to minimise the financial impact on the Council's reserves.
- 1.3. The Council has continued to liaise with Central Government, about the financial impact of Covid-19 locally, either directly or alongside other

Council's and organisations such as the Local Government Association and County Councils Network. Grant funding has continued to be provided by government to mitigate the impacts on the Council in its activities to support individuals and businesses affected by the pandemic. As part of the management of the outturn for 2020/21, and the Medium Term Financial Strategy 2021 to 2025, the Council aims to defer costs related to the Capital Programme and income losses in the Collection Fund in order fully protect the Council's General Reserves in 2020/21. Any variation to this position will be managed through the Council's Covid-19 Earmarked Reserve, which was created in March 2020 to receive non-ringfenced grants related to the pandemic.

- 1.4. The third quarter position, excluding Covid-19, presents a balanced position (to within budget by 0.4%). Any variation to this position at year-end will be managed through the Council's Medium Term Financial Strategy Earmarked Reserve.
- 1.5. Forecast expenditure in the year on the capital programme is £136.4m, which is £9.7m lower than the revised budget. The in-year slippage is due to a combination of the pandemic and an ambitious programme set for the year.
- 1.6. 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.
- 1.7. 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, and annex, and the associated impact on reserves, and the Medium Term Financial Strategy, related to the outturn position and the deferral of certain Covid-19 related financial items.
- 2.2. Approves the management of any variation to the outturn as follows:
 - Surplus / Deficit in non-Covid-19 related expenditure / income is allocated to the Medium Term Financial Strategy Earmarked Reserve

- Surplus / Deficit in Covid-19 related expenditure / income is allocated to the Covid-19 Earmarked Reserve
- 2.3. Approves the supplementary revenue estimates of £620,000 relating to the Northern Powerhouse 11 grant and £921,000 Restrictions Support grant (**Appendix 2 Table 1**).
 - 2.4. Notes the supplementary estimates approved to date in relation to Covid-19 activity (**Appendix 2, Table 2**).
 - 2.5. Approves the supplementary capital estimates relating to schools condition capital grant £589,604, towns fund £750,000 and grant to support our carbon neutral ambition up to the value of £932,661 (**Appendix 4, Annex C**).
 - 2.6. Recommends to Council to approve:
 - fully funded supplementary revenue estimates above £1,000,000 relating to Covid-19 grants in accordance with Financial Procedure Rules as detailed in **Appendix 2 Table 1**.
 - supplementary capital estimate of £1,808,000 relating to Best4Business in accordance with Financial Procedure Rules as detailed in **Appendix 4, Annex D**.

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 the first instalment has been received, and application for the second instalment has been submitted. 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.

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 identified several approaches within the regular reporting to Members during 2020/21. These mitigations are repeated **in bold** below, with an update on the latest activities to date:

- **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.** This action has seen ongoing tracking of spending and recording of decisions, which have been fundamental to achieving the forecasts within this report. This action, when linked with the actions below, will protect the General Reserves of the Council in 2020/21.
- **Complete returns to compensate losses from Sales, Fees and Charges scheme.** This action is assumed to provide £6.1m of additional funding and this is reflected in the outturn position related to Covid-19 in 2020/21.
- **Analyse the level of Collection Fund losses across the three financial years 2021/22 to 2023/24.** This action defers losses in Council Tax and Business Rates and is addressed within the Medium Term Financial Strategy, there is no impact in 2020/21. Cash shortfalls in 2020/21 due to the effects of Covid-19 are estimated at £11.1m. In line with government guidance and sound financial management the full impact of this is being deferred to the 2021 to 2025 Medium Term Financial Strategy. Elements of this shortfall will be either collected locally, grant funded or subject to write-off and subsequent funding as part of the overall balanced position for the MTFS.
- **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.** This action defers potential additional costs of £8.7m in the Capital Programme, linked to Covid-19 and is addressed within the Medium Term Financial Strategy. Costs will either be absorbed within existing risk profiles of the associated capital projects or funded via drawdown from the Covid-19 Earmarked Reserve meaning, there is no impact in 2020/21.
- **Review processes and practice that is causing overspending in Children's Services to improve efficiency without compromising**

outcomes. This action has led to revised proposals for increases in funding within the Medium Term Financial Strategy. However, there has been continued overspending in 2020/21 and this is reflected in the overall outturn forecasts for 2020/21.

- **Analyse the level of subsidy for Housing Benefit cases to ensure appropriate local discretion is being managed.** This action has led to revised proposals for increases in funding within the Medium Term Financial Strategy. However, there has been continued overspending in 2020/21 and this is reflected in the overall outturn forecasts for 2020/21.
- Identify costs of transformation that may be funded from the flexible use of capital receipts. This action will see the application of capital receipts of £3m in 2020/21. Further use of capital receipts is identified within the Medium Term Financial Strategy in line with government guidance.

3.6. The effect of these actions on the 2020/21 Outturn is reflected in Appendix 1, which includes detailed tables and narrative to explain the financial performance in 2020/21.

3.7. Table 1 in Appendix 1, describes the financial performance in 2020/21 excluding the impact of Covid-19 and is summarised below: (table and numbers needs to be matched / referenced):

Financial Performance Excluding Covid-19

2020/21 Third Quarter Review (GROSS Revenue Budget £647.2m)	Revised Forecast Budget (NET)	Forecast Actual Outturn	Forecast Over / Underspend)
	£m	£m	£m
Total Services Net Budget	290.4	291.4	1.0
Total Central Budgets	12.0	9.8	(2.2)
TOTAL NET BUDGET	302.4	301.2	(1.2)
Central Budgets Funding	(302.4)	(302.4)	-
FUNDING POSITION	-	(1.2)	(1.2)
Transfer to Medium Term Financial Strategy (MTFS) Reserve	-	1.2	

3.8. To support a more managed approach to the medium term finances of the Council the MTFS Earmarked Reserve will be used to smooth the effects of variations in spending / income in any specific year. This approach will prevent the need to respond by implementing variations in services levels to manage short term fluctuations in spending and income. This approach also supports the requirement for holding General Reserves associated

with risks and opportunities that may emerge and require an in-year response.

- 3.9. Table 2 in Appendix 1, describes the financial performance in 2020/21 in relation to the additional income / expenditure linked to Covid-19:

Financial Performance related to COVID-19

2020/21 Third Quarter Review (GROSS Revenue Budget £647.2m)	Covid Financial Pressures		Forecast Over / (Underspend)
	Expenditure	Income	
	£m	£m	£m
Total Services Net Budget	23.5	10.7	34.1
CENTRAL BUDGETS			
Deferred capital expenditure	-8.7		-8.7
Transfer to COVID-19 Reserve	5.1		5.1
Total Central Budgets	-3.5	0.0	-3.5
TOTAL NET BUDGET	19.9	10.7	30.6
Covid Emergency Grant (unringfenced)	-25.0	0.0	-25.0
Emergency Grant provided to ESAR	0.5		0.5
Sales, Fees & Charges compensation		-6.1	-6.1
CENTRAL BUDGETS FUNDING	-24.5	-6.1	-30.6
NET	-4.6	4.6	0.0
Collection Fund			11.1

- 3.10. To support our more managed approach to the continuing risk of further response of recovery costs / income losses the Covid-19 Earmarked Reserve will be used to receive or allocate non-ringfenced funding associated with Covid-19.

- 3.11. 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 £302.4m.
- 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. The Council set a balanced net revenue budget of £301.0m at its meeting in February 2020. Current forecasts against the revised budget of £302.4m, when excluding the financial impacts from Covid-19, shows a potential net expenditure of £301.2m. This position reflects the increase in demand led pressures in the People Directorate relating to Children in Care services (£2.5m) and costs relating to Education (£0.7m). There are further pressures in the Corporate Directorate resulting from Housing Benefit payments (£1.1m) and additional costs within ICT relating to implementing the Best4Business System (£1.1m). 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. Past service employer pension contributions are also lower than budgeted (£2.8m).
- 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, but have been managed through the actions detailed in this report.
- 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 third quarter stage of 2020/21. That is done as a matter of prudential good practice.

- 6.1.2. The only other implications arising directly from this report relate to the internal processes of approving any supplementary estimates and virements referred to in Section 2 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 third quarter 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.

6.3. Policy Implications

- 6.3.1. This report is a backward look at Council activities at third quarter 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 third quarter 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](#)

[Mid Year Review \(Finance\) 2020/21](#)

10. Contact Information

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

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