

## **Finance Sub-Committee**

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<b>Date of Meeting:</b>	6 July 2022
<b>Report Title:</b>	Provisional Financial Outturn 2021/22
<b>Report of:</b>	Alex Thompson: Director of Finance and Customer Services
<b>Report Reference No:</b>	FSC/4/22-23
<b>Ward(s) Affected:</b>	Not applicable

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### **1. Purpose of Report**

- 1.1.** This report provides members with the pre-audited overview of the Cheshire East Council outturn for the financial year 2021/22. Members are being asked to note the positive financial performance of the Council. The report also proposes treatment of year end balances that reflects risks identified in the Medium-Term Financial Strategy which was approved by Council in February 2022.
- 1.2.** Highlighting financial performance across all Departments, and within Central Budgets shows that the Council is achieving its financial strategies and managing financial control and accountability.
- 1.3.** Reporting the financial outturn at this stage, and in this format supports the Council's vision to be an open Council as set out in the Corporate Plan 2021 to 2025. In particular, the priorities for an open and enabling organisation, ensure that there is transparency in all aspects of council decision making.

### **2. Executive Summary**

- 2.1.** This report outlines how the Council managed its resources through sound financial planning, monitoring and reporting to achieve outcomes and value for money. The report includes a narrative from the Council's Draft Group Accounts, to highlight financial performance within the year, as well as associated appendices to show how the Council has achieved against the

priorities contained within the Corporate Plan as well as other important financial matters.

**2.2.** The Outturn is reported as part of the Statutory Accounts and is therefore subject to audit. The audited Accounts will be presented to the Audit and Governance Committee on 24 November 2022.

**2.3.** The appendices attached to this report set out details of the Council's financial performance in 2021/22:

**Appendix 1 – Narrative from the Draft Group Accounts** – Provides context of the area and its people, commentary on performance and introduces the financial statements of the Council and the wider Group of Companies for the period 1 April 2021 to 31 March 2022.

**Appendix 2 – Grants and Requests for Supplementary Revenue Estimates** – includes details of revenue grants received during 2021/22.

**Appendix 3 – Debt Management**

**Appendix 4 – Capital Outturn and Requests for Supplementary Capital Estimates and Virements**

**Appendix 5 – Reserves Strategy**

**Appendix 6 – Treasury Management Strategy**

**Appendix 7 – Investment Strategy**

### **3. Recommendations**

Finance Sub-Committee is asked to:

**3.1.** Note the overall financial performance of the Council in the 2021/22 financial year, as contained within the report, as follows:

3.1.1. A Net Revenue Underspend of £1.1m against a revised budget of £297.4m (0.4%).

3.1.2. Increase in General Reserves from £11.5m to £12.6m (further recommendation at 3.5.3).

3.1.3. Capital Spending of £84.5m against an approved programme of £144.9m (58.4%)

**3.2.** Note the contents of each of the following appendices:

3.2.1. **Appendix 1 – Narrative from the Draft Group Accounts** – Provides context of the area and its people, commentary on performance and introduces the financial statements of the Council and the wider Group of Companies for the period 1 April 2021 to 31 March 2022.

3.2.2. **Appendix 2 – Grants and Requests for Supplementary Revenue Estimates** – includes details of revenue grants received during 2021/22 and provides supplementary revenue request relating to grants received in addition to existing budget.

- 3.2.3. **Appendix 3 - Debt Management** – provides a debt summary by directorate.
- 3.2.4. **Appendix 4 – Capital Outturn and Requests for Supplementary Capital Estimates and Virements** – includes an update on the capital programme and details requests for supplementary capital estimates and virements.
- 3.2.5. **Appendix 5 – Reserves Strategy** – details the reserve outturn position.
- 3.2.6. **Appendix 6 – Treasury Management Strategy** – year end Treasury Management report including an economic outlook, borrowing and investing strategies and treasury management indicators.
- 3.2.7. **Appendix 7 – Investment Strategy** – provides details about different types of investments that the Council holds.
- 3.3. Approve supplementary revenue estimates (SRE) up to and including £1,000,000 in accordance with Financial Procedure Rules as detailed in **Appendix 2**, Table 1.
- 3.4. Approve supplementary capital estimates (SCE) up to and including £1,000,000 and Capital Virements up to and including £5,000,000 in accordance with Financial Procedure Rules as detailed in **Appendix 4**, Annex C.
- 3.5. Recommend to Council approval of:
  - 3.5.1. Fully funded supplementary revenue estimates over £1,000,000 in accordance with Financial Procedure Rules as detailed in **Appendix 2**, Table 1.
  - 3.5.2. The virement of £2.3m in 2022/23 from the Medium-Term Financial Strategy Reserve to the General Reserve as detailed in **Appendix 5**, paragraph 4.

#### **4. Reasons for Recommendations**

- 4.1. The Finance Sub-Committee has a responsibility to ‘coordinate management and oversight of the Council’s Finances’ (Cheshire East Council Constitution – Chapter 2, Part 4). In managing this responsibility the Sub-Committee receives reports, and provides appropriate decisions at each stage of the Council’s financial cycle. The recommendations in this report support the ‘Reporting’ element of the financial cycle.
- 4.2. The overall process for managing the Council’s resources focuses on value for money, good governance and stewardship. The approach to these responsibilities is captured in the Medium-Term Financial Strategy. Financial changes take place during the year and are authorised in line with the Constitution. This report sets out where further approvals are required.

- 4.3.** 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.
- 4.4.** Outturn reporting provides an opportunity to check performance and management of risks against the Medium-Term Financial Strategy. The four year MTFFS is balanced and approved by Council, but risks were identified as part of this process which could require access to reserves. Members had regard to such risks as the deficit in Dedicated School Grant reserves and potential liabilities associated with the Extra Care Housing PFI Scheme when approving the budget. To ensure transparency on management of such risks it is proposed that the improvement in the outturn supports an increase in the General Reserves of the Council which enhances overall financial stability.

## **5. Other Options Considered**

- 5.1.** Outturn reporting could be delayed until post audit, to avoid the risk of provisional figures changing. This is not a recommended option as the audit completion certificate is not expected until November 2022. Delaying the reporting element of the financial cycle minimises the ability to react to issues during in-year monitoring. Provisional reporting has historically been very accurate so it is appropriate to react to the financial information provided in this report.
- 5.2.** Positive variances, compared to the third quarter forecasts in 2021/22, could be allocated to budgets or reserves other than general reserves. This is not recommended as the MTFFS has been agreed by Council with clear recognition of emerging risks that require mitigation. General Reserves are used to manage risk, in accordance with the Reserves Strategy. In the Planning cycle for the 2023/24 MTFFS members will have to re-consider the robustness of all estimates and the overall adequacy of reserves based on up to date information and forecasts, which will include a review of the level of General Reserves.

## **6. Background**

- 6.1.** The recommendations within the 2021/22 Financial Review and the Medium-Term Financial Strategy (MTFS) were clear in the treatment of the outturn and future reserve balances:
- 6.1.1.** COVID-19 related spending or income losses should be isolated and set against COVID-19 funding. Any surplus or deficit should be managed via the COVID-19 Earmarked Reserve.
- 6.1.2.** Any deficit in non-COVID-19 related budgets should be managed via the MTFFS Earmarked Reserve.
- 6.1.3.** The MTFFS recognised emerging risks such as inflation and particularly the DSG deficit, which highlighted there is no alternative funding.

- 6.2.** The COVID-19 emergency started to impact on the Council's finances in March 2020. Central Government has provided emergency grant funding throughout the pandemic with £8.5m being received in 2021/22. Pandemic related expenditure and income losses are therefore funded from grant income and do not affect the Council's outturn or general reserves position. For transparency COVID-19 spending is shown under the relevant Directorates, but this is matched by grant income in each case.
- 6.3.** COVID-19 financial updates have been presented at Corporate Policy Committee meetings during the year and mitigating activity was identified to minimise the financial impact on the Council's reserves. The overall position has improved throughout the year; management and sound financial control over the funding has been highly effective in mitigating the risks to the MTFs. At outturn COVID-19 funding of £0.8m is available to carry forward to the reserve increasing it to £6.0m.
- 6.4.** The financial outturn for Cheshire East Council, excluding COVID-19 expenditure and income, is an underspend of £1.1m. This is net of appropriate allocations to useable reserves. Further detail is provided in the following table and Appendix 1.

**6.5. Table 1: Total Net Revenue Budget is underspent by £1.1m**

2021/22 Outturn Review (GROSS Revenue Budget £492.7m)	Revised Budget (NET)	Outturn (Including Covid)	Covid related Expenditure Grant Funded	Net Outturn (excluding Covid)	Net Over / (Underspend)
	£m	£m	£m	£m	£m
<b>Service Directorates</b>					
Adults, Health & Integration	118.5	122.4	0.9	121.5	3.0
Children and Families	67.3	73.2	1.1	72.1	4.8
Place	74.3	74.3	4.3	70.0	-4.3
Corporate	35.8	34.2	1.0	33.2	-2.6
<b>Total Services Net Budget</b>	<b>295.9</b>	<b>304.1</b>	<b>7.3</b>	<b>296.8</b>	<b>0.9</b>
<b>Total Central Budgets</b>	<b>1.5</b>	<b>-0.4</b>	<b>0.0</b>	<b>-0.4</b>	<b>-1.9</b>
<b>Total Net Budget</b>	<b>297.4</b>	<b>303.7</b>	<b>7.3</b>	<b>296.4</b>	<b>-1.0</b>
Business Rates Retention Scheme	-13.4	-13.4	0.0	-13.4	0.0
Specific Grants	-41.7	-49.1	-7.3	-41.8	-0.1
Council Tax	-242.8	-242.8	0.0	-242.8	0.0
Sourced from Collection Fund	0.5	0.5	0.0	0.5	0.0
<b>FUNDING</b>	<b>-297.4</b>	<b>-304.8</b>	<b>-7.3</b>	<b>-297.5</b>	<b>-0.1</b>
<b>Net Position</b>	<b>0.0</b>	<b>-1.1</b>	<b>0.0</b>	<b>-1.1</b>	<b>-1.1</b>

- 6.6.** The overall underspend increases the General Reserves giving some future protection based on the risks identified in the MTFs. In February 2022 the forecast overspend for 2021/22 was £2.3m and this was to be funded from the MTFs earmarked reserve. The positive improvements in the final quarter of the year means this transaction is no longer required and it is proposed this funding is instead transferred to the General Reserve. This recognises emerging risks such as inflation and particularly the DSG deficit, which it was highlighted in the MTFs as having no alternative funding.

- 6.7.** The Council's wholly owned companies produced a positive outturn for the year, rebating £0.858m to the Council. This reflects the achievement of net cost savings against Council activities funded from the management fee and realising £0.047m in profits from commercial activities.
- 6.8.** Expenditure on the capital programme is £84.5m against a budget of £144.9m. Underspensing will be slipped into 2022/23 and budgets will be re-profiled as part of the outturn reporting. This level of slippage, at 42%, is higher than average, which has been only 32% over the last 5 years. This is mainly due to capacity and supply issues, both internally and externally. Capital receipts in year amounted to £2.6m against a forecast of £1m, in the first instance this improvement reduces potential borrowing costs. Treatment of capital receipts will be considered as part of the review of the Capital Strategy.
- 6.9.** In December 2021, the Department for Levelling-up, Housing and Communities (DLUHC) announced an intention for the following dates to apply for the 2021/22 accounts and audit process in England:
- 31 July 2022 - Publication of the unaudited statement of accounts
  - 30 November 2022 - Publication of the audited statement of accounts
- 6.10.** 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.

## **7. Consultation and Engagement**

- 7.1.** As part of the budget setting process the Pre-Budget Consultation provided an opportunity for interested parties to review and comment on the Council's Budget proposals. The budget proposals described in the consultation document were Council wide proposals and that consultation was invited on the broad budget proposals. Where the implications of individual proposals were much wider for individuals affected by each proposal, further full and proper consultation was undertaken with people who would potentially be affected by individual budget proposals.

## **8. Implications**

### **8.1. Legal**

- 8.1.1.** The legal implications surrounding the process of setting the 2021 to 2025 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 final outturn stage in 2021/22.
- 8.1.2.** Other implications arising directly from this report relate to the internal processes of approving supplementary revenue estimates,

supplementary capital estimates and virements referred to above which are governed by the Finance Procedure Rules.

## **8.2. Finance**

- 8.2.1. 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.
- 8.2.2. The Council's Audit & Governance Committee is responsible for reviewing and analysing the Council's audited position at year-end. The Committee will receive the Draft Group Accounts on 28 July 2022, with final accounts due for approval by 24 November 2022 following public scrutiny, external auditing and any associated recommendations to the Committee.
- 8.2.3. The forecast outturn for 2021/22, as reported within the MTFs, was used to inform the budget setting process for 2022/23. Analysis of the final outturn helps to inform the Council of potential issues arising for the 2022/23 budget, or highlights potential underlying issues that can be managed in future budget setting cycles. It is important to note that the variations reported at outturn have not identified any significant risks to the 2022/23 budget.

## **8.3. Policy**

- 8.3.1. This report is a backward look at Council activities during the final quarter.
- 8.3.2. The final outturn position, ongoing considerations for future years, and the impact on general reserves will be fed into the assumptions underpinning the 2023-27 Medium-Term Financial Strategy.

## **8.4. Equality**

- 8.4.1. 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.

## **8.5. Human Resources**

- 8.5.1. 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.

## 8.6. Risk Management

- 8.6.1. 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 2021/22 budget and the level of general reserves were factored into the 2022/23 financial scenario, budget and reserves strategy.

## 8.7. Rural Communities

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

## 8.8. Children and Young People/Cared for Children

- 8.8.1. The report provides details of service provision across the borough and notes the overspend on Children in Care.

## 8.9. Public Health

- 8.9.1. This report is a backward look at Council activities at the fourth quarter and provides the 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.

## 8.10. Climate Change

- 8.10.1. There are no direct implications for climate change.

<b>Access to Information</b>	
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Appendices:	Appendix 1 – Narrative from the Draft Group Accounts Appendix 2 – Grants and Requests for Supplementary Revenue Estimates Appendix 3 – Debt Management Appendix 4 – Capital Outturn and Requests for Supplementary Capital Estimates and Virements Appendix 5 – Reserves Strategy Appendix 6 – Treasury Management Strategy Appendix 7 – Investment Strategy
Background Papers:	The following are links to key background documents: <a href="#">2021/22 Financial Year Review</a>