Cheshire East Council

Working for a brighter future together

Corporate Policy Committee

Date of Meeting:	1 December 2022
Report Title:	Financial Review Update 2022/23
Report of:	Alex Thompson: Director of Finance and Customer Services
Report Reference No:	CP/15/22-23
Ward(s) Affected:	Not applicable

1. Purpose of Report

1.1. This report provides members with an updated overview of the Cheshire East Council forecast outturn for the financial year 2022/23.

1.2. Members are being asked to note the serious financial challenges being experienced by the Council due to national economic circumstances which are raising prices and local higher demand for services which are also increasingly complex.

1.3. These issues highlight the importance of ongoing activity to minimise the impact on services. Members are also asked to note the ongoing work of the Local Government Association and County Council's Network in raising awareness with Central Government of the risks to the financial stability of Local Authorities.

1.4. 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 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. The Council aims to operate a financial cycle of planning, monitoring and reporting. This review is part of the monitoring cycle providing the forecast outturn position and any impacts on planning for next year's budget. The issues raised in this report are also seriously impacting on the planning cycle of the Council.

2.2. This report supports the Council priority of being an open and enabling organisation, ensuring that there is transparency in all aspects of council decision making.

2.3. The Council set its 2022/23 annual budget in February 2022. The budget was balanced, as required, and included important planning assumptions about spending in the year. The budget is part of the Medium-Term Financial Strategy (MTFS) 2022 to 2026.

2.4. The provisional financial outturn for 2021/22 was reported in July 2022 and recognised emerging pressure within the final quarter of the year up to 31 March 2022. This was particularly linked to rising inflation and complexity of demand for care. It was also acknowledged specific risks remained unmitigated in respect of the Council's Private Finance Initiative and High Needs within the Dedicated Schools Grant.

2.5. National increasing inflation which was 0.4% in February 2021 and is now 11.1%, is having a significant impact on the cost of Council services as well as on the cost of living for local residents. The LGA estimates that local government is facing extra costs of £2.4bn in 2022/23, which rises to £3.4bn in 2023/24 and £4.5bn in 2024/25. Cheshire East is a large Council and the LGA figures would represent pressures of over £15m in 2022/23. Rising to c.£30m by 2024/25. The County Councils Network's most recent analysis of the costs of inflation warn that "any moves to cut their budgets next year would be 'worse than austerity' and result in 'devasting' reductions in local services – with local authorities offering just the bare minimum" (CCN News 2022).

2.6. The findings of this local financial review present an urgent need to mitigate the ongoing financial pressures. The Council's Medium Term Financial Strategy recognises that the Council has relatively low levels of reserves as funding is instead utilised to manage ongoing service demand. This means mitigation of spending pressures must come from a combination of activities, such as:

2.6.1. Additional use of grants and balances: Covid-19 grants to be fully utilised alongside appropriate application of Public Health Grants; integrated use of grants with Health Partners; drawing down from MTFS Reserve, General Reserves and specific service and company reserves where practical; flexible use of capital receipts is also under review, which can allow eligible one-off revenue transformation expenditure by services to be funded from the proceeds of asset sales.

2.6.2. Further efficiencies and income generation: Services are limiting all non-essential spending requirements; efficiencies will be sought beyond the current MTFS; project spending will be delayed where this is cost effective; charging will be reviewed to ensure discretionary services are properly funded.

2.7. The report sets out details of the latest Financial Review of the Council's forecast financial performance for 2022/23:

Annex 1: Financial Review Update 2022/23

- **Financial Stability:** Provides information on the overall financial stability and resilience of the Council. It demonstrates how spending in 2022/23 is being funded, including the positions on overall service budgets, centrally held budgets, council tax and business rates. Further details are contained in the appendices.

- **Appendices:**

Appendix 1 Adults and Health Committee.
Appendix 2 Children and Families Committee.
Appendix 3 Corporate Policy Committee.
Appendix 4 Economy and Growth Committee.
Appendix 5 Environment and Communities Committee.
Appendix 6 Finance Sub-Committee.
Appendix 7 Highways and Transport Committee.
Appendix 8 Update to the Treasury Management Strategy.
Appendix 9 Update to the Investment Strategy.

3. Recommendations

<u>Corporate Policy Committee is asked to:</u>

3.1. Note the forecast adverse Net Revenue financial pressure of £8.7m against a revised budget of £328.4m (2.7%), and recognise that this presents marginal change to the position reported at Quarter One, reflecting the difficulties to mitigate the financial pressures faced by the Council.

3.2. Note the forecast Capital Spending of £179.6m against an approved MTFS budget £185.2m due to slippage carried forward from the previous year.

3.3. Note the significant level of activities outlined in each 'Action Plan' contained in Annex 1 (Appendices 1 to 7).

3.4. Note the contents of Annex 1 and each of the appendices, and note that any financial mitigation decisions requiring member approval will be presented to the appropriate Committee.

3.5. Recommend to Service Committees to:

3.5.1. Note the financial update and forecast outturn relevant to their terms of reference.

3.5.2. Note the overview of financial circumstances affecting Directorate budgets provided at 6.8 of this report.

3.5.3. Review the action plans which seek to improve the financial outturn across all Committees to mitigate the overall forecast overspend of the Council.

4. Reasons for Recommendations

4.1. 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.

4.2. 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.

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. In approving the Cheshire East Council Medium-Term Financial Strategy members of the Council had regard to the robustness of estimates and adequacy of reserves as reported by the s.151 Officer. The s.151 Officer's report highlighted the importance of each element of the MTFS and the requirement to achieve all the proposals within it. The recommendations of this report highlight the need for ongoing activity to manage the financial pressure being experienced by the Council.

4.5. Financial plans are predicated on robust estimates and supported by adequate reserves. The issues raised in this report present significant challenges to this assessment due to ongoing uncertainty about costs, achievement of actions and use of reserves. It is therefore important for ongoing effort to be put in to achievement of the Action Plans and associated financial targets.

5. Other Options Considered

5.1. 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. Activity is required to ensure the Council balances its expenditure and income without serious impact on essential Council services.

6. Background

6.1. 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 Local Authority in the Northwest of England, responsible for approximately 500 services, supporting over 398,000 local people. Gross annual spending is over £700m, with a revised net revenue budget for 2022/23 of £328.4m.

6.2. The management structure of the Council is organised into four directorates: Adults, Health and Integration; Children's Services; Place; and Corporate Services. The Council's reporting structure provides forecasts of a potential year-end outturn within each directorate during the year, as well as highlighting activity carried out in support of each outcome contained within the Corporate Plan.

6.3. The political structure of the Council is organised into six committees, with a single sub-committee, all with financial responsibilities acutely aligned to the management structure. Performance against the 2022/23 Budget within each Committee, and the sub-committee, is outlined in Table 1 below.

6.4. **Table 1 – Revenue Outturn Forecast split by the Six Service Committees and the Finance Sub-Committee**

2022/23 (GROSS Revenue Budget £474.2m)	Revised Budget (NET) £m	Forecast Outturn £m	Forecast Variance £m	Change since First Review £m
Service Committee				
Adults and Health	120.9	129.8	8.9	(2.8)
Children and Families	74.5	78.5	4.0	0.5
Corporate Policy	39.7	40.1	0.4	(0.4)
Economy and Growth	23.6	23.8	0.2	(0.0)
Environment and Communities	44.4	46.1	1.7	(0.2)
Highways and Transport	13.8	14.3	0.5	-
Sub-Committee				
Finance Sub	(316.9)	(323.9)	(7.0)	-
TOTAL	**-**	**8.7**	**8.7**	**(2.9)**

6.5. The Council set a balanced net revenue budget of £327.7m at its meeting in February 2022. Current forecasts against the revised budget of £328.4m, shows a potential net expenditure of £337.1m. This position is despite significant and challenging mitigation work by staff. All staff were recently issued with information on spending controls, with ongoing communication planned on this topic.

6.6. The in-year position is significantly mitigated through use of one-off balances and grants. This means underlying spending is proving extremely difficult to mitigate and is likely to continue at levels outside of the MTFS without significant action. The LGA forecast ongoing spending increases too, presenting a potentially more serious threat to the Council's finances.

6.7. The LGA and CCN have ongoing campaigns to raise awareness of the difficulties facing Local Authority budgets. Information on these campaigns can be accessed at the following websites:

6.7.1. Local Government Association: www.local.gov.uk

6.7.2. County Councils Network: www.countycouncilsnetwork.org.uk

6.8. Each of the Council's Directorates are facing specific financial challenges as outlined in the following paragraphs:

6.8.1. **Adults, Health and Integration** is forecasting an overspend of £8.9m. It is driven by four factors, significant price increases for commissioned care, an increase in activity due to an increase in the number of people seeking, and eligible for social care, an increase in the complexity of need for individuals eligible for and receiving care and support and continuing NHS hospital pressures requiring support for discharge. All driven in part by covid scarring, but also reflective of the long-term demographic trend.

6.8.2. The Inflationary pressures affecting the whole of the economy have a bigger impact on adult social care than the economy in general; pay inflation in the sector is higher than average, energy utilisation in care settings is very significant and fuel costs affect the cost of delivering domiciliary care. It is not anticipated that these pressures will ease soon and there is no basis at present to assume that prices will fall in the medium-term. The department continues to receive a large number of requests to increase prices which it is currently refusing.

6.8.3. It should be noted that the Directorate has been tracking its 2022/23 MTFS savings activity, and by the plans and measures put in place when the budget was set, the Directorate has been successful in delivering the activity and planned expenditure reductions in most cases. However, these savings have been more than off-set by the significant cost pressures outlined above.

6.8.4. To address the forecast overspend we are working with NHS partners, the voluntary sector and providers to put in place a programme to drive down expenditure, by focusing on preventing people from being admitted to hospital, increasing our use of technology, working with the voluntary sector to delay the use of care provision, supporting unpaid carers to enable them to do more and providing extra funding to domiciliary care providers to avoid the use of expensive residential and nursing care. We are also starting an intensive programme of reviews to reduce existing packages of care where appropriate and where we believe that there are alternative options to care, such as using supermarkets to deliver shopping, and we are reviewing all outstanding debt that is not secured on property to ensure that we have robust collection arrangements in place. Whilst this is anticipated that these actions will have an impact in year, these actions will also reduce the growth pressure in future years.

6.8.5. The current forecast is an improvement from the first quarter of £2.8m. The beneficial financial impact of the work set out above has been factored into this forecast. The forecast assumes a best-case scenario;

that the estimates of impact are correct and delivered in full. However, there are a number of risks that should be noted. Whilst the trajectory for growth in activity appears to have stabilised, the trajectory for price increases has not, and may increase further, and there is no assessment of further market failure and potential costs. Also, we have not yet reached the period of “winter pressures” and there is no allowance in the forecast for extra unplanned activity, over that already set out in the Winter Plan.

6.8.6. The far bigger impact on the forecast is the use of a number of one-off opportunities available in-year, including the use of grants, one of which includes the Ukraine Grant which has been used to off-set the cost of the Communities Team, because most of their current work is supporting refugees and asylum seekers. In this context significant work is being undertaken to identify long-term changes in service models and service delivery to stabilise future demand and costs.

6.8.7. **Children and Families directorate** is responsible for delivering the council’s statutory duties and responsibilities in respect of children in need of help, support and protection and ensuring they have access to a high-quality education and learning experience. These duties are spread across three directors for; Strong Start, Family Help and Integration, Children’s Social Care and Education and Skills.

6.8.8. The directorate brings together the council’s duties in relation to children identified and assessed to need help, support, protection, looked after by the council and young people with care experience (leaving care service). It includes a range of services targeted to support families and help to avoid the need for children to become ‘looked after’ and Youth Justice Services and adoption services. 27% of the overall children’s budget is committed to meeting the costs of care for our Cared for Children linked to the cost of placements. The remaining balance of the budget is given to children’s services is related services such as: youth services, children’s centres, early help, child in need, child protection, leaving care, early years and youth justice.

6.8.9. The education budget represents the council's responsibilities for education and learning funded by the dedicated schools grant (DSG) and council’s revenue budget. The council budget includes school admissions, place planning, home to school transport and school improvement.

6.8.10. Transport services make up 60% of the Education and Skills budget. 14% of the budget is given to support children with SEND such as short breaks and respite care. The remaining budget is for services such as attendance and education psychology. The service also supports inclusion and other groups of vulnerable children and the education of children looked after through the virtual school. In addition to the £74.5m council budget for the children’s directorate the service also oversees the

£316m DSG budget of which £180m is given to academies and £65m is earmarked for council-maintained schools and the council for education services such as admissions, early years education and special educational needs. £71m used for the council and settings for education services such as admissions, early years education and special educational needs placements.

6.8.11. Despite growth allocated within the MTFS process, significant in year pressures are evident. These are primarily a result of unforeseen inflationary impacts and increase in demand and are centred in the main, on children's placements, post-Covid complexity of need and school transport budgets. Whilst in year mitigations and activity to avoid spend and reduce costs are in place, the forecast for the end of year is an increasing deficit position. All indications are demand, complexity and cost will continue to increase and therefore it is vital that the directorate and the service committee reviews its options to address the financial challenges for 2023/24 and beyond.

6.8.12. The children's directorate is committed to increasing the pace of implementing reforms and service improvements, to make financial savings by reducing demand for expensive, reactive services. We will consider savings proposals and decisions to refocus and realign non statutory services to both modernise and future proof our model and ensure that spend is delivering best outcomes for children and best value. This may include a review of commissioned services, a review of delivery models and buildings in line with the Family Hub model, a review of the leadership structure, a refreshed sufficiency strategy for children's placements with an ambitious programme to support children within their families where it is safe to do so along with the ongoing activity to avoid spend and reduce cost and support children live as close to home when they need care. Alongside this activity we will invest in capacity and innovative practice by drawing on the transformation fund to test out and pilot invest to save models. We will also draw on the transformation fund ensure that we are able to meet the challenges of the Joint Targeted Area Inspection (JTAI) improvement plan and ringfenced grant for the Delivering Better Value (DBV) programme to address the growing demand in special educational needs services.

6.8.13. The key pressures facing the service of £4m relate to:

- Children's social care in terms of additional number of children in care and a significant increase in prices from providers.
- Home to school transport – for a variety of reasons including additional SEND transport demand and contract price increases.
- Educational Psychologists – additional permanent and agency staff to meet demand.

6.8.14. These have been offset by mitigating actions where possible to achieve the £4m forecast pressure.

6.8.15. **Corporate Services Directorate**, which includes the Housing Benefits (HB) Payments Centre, has a net budget of £39.7m. At the First Finance Review the forecast overspend was £0.8m, taking into account the estimate for the pay award. At mid-year, the overspend had reduced to £0.4m.

6.8.16. Pressures in the service are partially offset by underspends forecast to be achieved from additional or over-recovered income, through in-year vacancies and through ceasing non-essential spending. The overall underspend across the services is forecast at £1.7m which is being offset by a £1.2m overspend within the shared ICT Service Delivery service, and a £0.2m overspend within the Transactional Service Centre (TSC), hosted by Cheshire West and Chester.

6.8.17. The ICT shared service is forecasting an overspend of £2.4m of which CEC's share is £1.2m. The overspend is primarily due to insufficient commissioned project hours, agency costs, a reduction in schools income against budget and reduction in BAU from each council due to policy savings related to B4B programme (£0.8m) which may not be fully achieved due to in year pressures from other contract costs. Staffing cost are forecast to be underspent by £1.4m compared to budget but this is not sufficient to offset the loss of income and contract pressures.

6.8.18. The overspend in TSC is a result of a reduction in schools income against budget and temporary additional resources required to deal with the consequences of the implementation of Unit 4 ERP, including reducing the backlog of requests. Discussions are on-going about the future support model.

6.8.19. The additional cost of the nationally agreed pay award is £0.8m and is being mitigated by strict vacancy management, review of agency numbers and spend, which are particular issues in ICT and Legal Services, and through ceasing non-essential spend.

6.8.20. The HB Payments Centre assumes a balanced position. It should be noted, however, that this is a volatile budget which will be kept under regular review.

6.8.21. **Place Directorate** continues to experience impacts on its budgets from covid pressures totalling £3.4m. There is an additional £0.5m pressure for Place from pay inflation. £1.5m of savings have already been introduced by services in Place to mitigate these resulting in a current forecast of £2.4m pressure overall across the Place budget.

6.8.22. The main ongoing pressures within Place are increased costs of waste and recycling services, increased costs of maintenance for the environmental hub, shortfalls in Planning income, delays in accommodation reviews, inflationary increases for energy, maintenance and business rates, shortfall in parking income due to changes in customer behaviour since the pandemic and increased costs for local bus operators.

6.8.23. Services are working on revised forecasts and we expect this position to improve further through stopping all non-essential spend, vacancy management, review of agency staff and capitalisation of officer time. Further savings ideas are being developed to help offset in-year and future years pressures.

6.9. General Reserve balances are risk assessed and it was highlighted in the MTFS that emerging risks such as inflation and particularly the DSG deficit, as having no alternative funding. To address the issue of emerging financial pressure Senior Officers at the Council have set up Action Plans, which will continue to be developed to identify activities required to bring spending back in line with the MTFS. Actions may be required in-year to provide financial stability for future years. Such decisions will be appropriately governed and communicated ensuring relevant consultation and impact assessments are addressed.

6.10. The emerging Action Plans reflect the Committee Structure to allow member oversight of the activities being carried out to manage in-year spending. Any appropriate decisions required from members will be brought to the Committee’s attention via the Action Plans, to ensure appropriate context is provided.

6.11. There is a clear ambition for each Committee to achieve spending in-line with the approved MTFS for all years. However, in some cases, given the seriousness of the financial pressure being put on the Council, Committee members should consider options to exceed financial performance targets to retain an overall balanced position.

6.12. Whilst some inflation factors may be temporary, the Action Plans must also consider the medium-term resilience of mitigation activity. For example, the use of one-off balances, to mitigate in-year spend, may be effective in the short term, but would not be effective if spending is likely to recur in later years.

6.13. The Government announced its Autumn Statement on 17 November 2022. The statement has provided some further information to assist local authorities in their business and financial planning for the future. The statement will be analysed to understand the financial effects on the Council’s MTFS. This will require more detailed local information being released from government, but the timing of this is not yet known

6.14. Headlines from the Autumn Statement in relation to Council funding include:

6.14.1. No cuts to the funding allocations announced in Spending Review 2021.

6.14.2. Additional grant funding for adult social care.

6.14.3. Delaying adult social care charging reforms.

6.14.4. Increasing referendum levels and Adult Social Care precept related to Council Tax.

6.14.5. Freezing the business rate multiplier but with compensation to Local authorities for the loss of income.

6.15. The development of the MTFS has been significantly delayed due to emerging pressures and uncertainty. Consultation on potential impacts of the financial pressures on the current MTFS will be circulated in due course to gather stakeholder views that can inform future decision making. This process will run concurrently with Member and Committee engagement leading up the budget Council meeting in February 2023.

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 2022 to 2026 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 for 2022/23.

8.1.2. Other implications arising directly from this report relate to the internal processes of approving supplementary estimates and virements referred to above which are governed by the Finance Procedure Rules.

8.1.3. Legal implications that arise when activities funded from the budgets that this report deals with are undertaken, but those implications will be dealt with in the individual reports to Members or Officer Decision Records that relate.

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 help to ensure that resources are used effectively, and that business planning and financial decision making are made in the right context.

8.2.2. Financial plans are predicated on robust estimates and supported by adequate reserves. The issues raised in this report present significant challenges to this assessment due to ongoing uncertainty about costs, achievement of actions and use of reserves. It is therefore important for ongoing effort to be put in to achievement of the Action Plans and associated financial targets.

8.2.3. 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.

8.2.4. 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.

8.2.5. 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.

8.2.6. 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.

8.3. Policy

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

8.3.2. The forecast outturn position, ongoing considerations for future years, and the impact on general reserves will be fed into the assumptions underpinning the 2023 to 2027 Medium-Term Financial Strategy.

8.4. Equality

8.4.1. In setting the 2022/23 budget, an Equality Impact Assessment was prepared to show that proposals included positive and negative impacts in headline terms. Any equality implications that arise from activities funded by the budgets will be dealt within the individual reports to Members or Officer Decision Records to which they relate. These will be reviewed, as appropriate in the light of the mitigation actions referred to in this report.

8.5. Human Resources

8.5.1. This report is a backward look at Council activities and states the forecast year-end position. Any HR implications that arise from activities funded by the budgets that this report deals with will be dealt within the individual reports to Members or Officer Decision Records to which they relate.

8.6. Risk Management

8.6.1. 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.

8.6.2. 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.

8.9. Public Health

8.9.1. 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.

8.10. Climate Change

8.10.1. Climate change 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.

Access to Information	
Contact Officer:	Alex Thompson Director of Finance and Customer Services (Section 151 Officer) alex.thompson@cheshireeast.gov.uk 01270 685876
Appendices:	**Annex 1 including:** **Section 1** provides information on the overall financial stability and resilience of the Council. Further details are contained in the appendices. **Appendix 1** Adults and Health Committee. **Appendix 2** Children and Families Committee. **Appendix 3** Corporate Policy Committee. **Appendix 4** Economy and Growth Committee. **Appendix 5** Environment and Communities Committee. **Appendix 6** Finance Sub-Committee. **Appendix 7** Highways and Transport Committee. **Appendix 8** Update to the Treasury Management Strategy. **Appendix 9** Update to the Investment Strategy.
Background Papers:	The following are links to key background documents: Medium-Term Financial Strategy First Financial Review, Item No.14 Financial Review 2022/23, Item No. 5