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## **Finance Sub-Committee**

**12 September 2024**

### **Medium Term Financial Planning Assumptions**

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**Report of:** Adele Taylor, Interim Director of Finance & Customer Services and Section 151 Officer

**Report Reference No:** FSC/07/24-25

**Ward(s) Affected:** All wards and all members will be affected and impacted by the content of the MTFS

#### **Purpose of Report**

- 1 This report is an update paper, following the June Finance Sub Committee meeting and also the Working Group session in August, to further assist with development of the Medium-Term Financial Strategy (MTFS) 2025 to 2029.
- 2 The paper sets out the potential updated funding position since that time, including some sensitivity analysis on funding scenarios.

#### **Executive Summary**

- 3 The Medium-Term Financial Strategy (MTFS) for Cheshire East Council for the four years 2024/25 to 2027/28 was approved by full Council on 27 February 2024.
- 4 The MTFS is underpinned by a set of assumptions around income, expenditure and core funding that result in a 4-year position. The budget could only be balanced for the 2024/25 financial year by planned use of reserves. This is not sustainable in the medium to long term and needs to be addressed urgently for the Council to be financially sustainable. The gaps forecast in later years must be addressed as part of the business planning process this year, as well as the Council learning to live within its means by delivering all savings and containing approved growth within 2024/25, otherwise there will be increased

pressures in future years and preparing a balanced budget/ MTFS will continue to be challenging.

- 5 The budget assumptions were reviewed on a line-by-line basis by a Sub-Committee Working Group in August 2024. No specific changes to the assumptions were identified at this session, but it was agreed that additional sessions could be used for further review, as more information and certainty comes to light. The Working Group also considered a set of draft budget principles that could be followed to assist focus and clarity when making financial decisions.
- 6 The Council has engaged an external partner to work alongside officers and Members to identify opportunities to transform the way the Council operates, including areas that may go some way to closing the gap that has been identified in the MTFS. These will help the Council live within its means and can contribute to ensuring that committees are able to operate within the indicative cash limits that were set per committee. It may be, that following identification of these opportunities as well as any other savings, growth and increases in funding/ income, that the final budget allocations may not be as per these original indications - but that needs to be part of the consideration around the way in which the Council's resources are prioritised.
- 7 Since the Sub-Committee received the last budget assumptions report in June 2024 there is now potential scope to include increases to the forecast funding envelope and options are set out in detail in the main section of the report. These have been presented in a sensitivity analysis format to allow members to see the impact of these forecast changes from a high, medium and low viewpoint.
- 8 However, the First Financial Review report also on the agenda indicates significant in-year pressures, which need to be managed and mitigated.

#### RECOMMENDATIONS

The Finance-Sub Committee is asked to:

1. Note the updated information contained in the report in relation to potential improvements in the central funding assumptions.
2. Note the change in timeline for preparation of the MTFS 2025-29 and the public consultation period, as described in the report, as relating to the consideration of in-year financial pressures and the development of proposals from the Council's Transformation Programme.

## Background

- 9 The Medium-Term Financial Strategy (MTFS) for Cheshire East Council for the four years 2024/25 to 2027/28 was approved by full Council on 27 February 2024.
- 10 As a reminder, Table 1 below sets out the revenue budget estimates for the four years from 2024/25 to 2027/28 as at February 2024:

<b>Table 1 – Revenue Budget</b>	<b>Approved Net Budget 2024/25 £m</b>	<b>Estimated Position 2025/26 £m</b>	<b>Estimated Position 2026/27 £m</b>	<b>Estimated Position 2027/28 £m</b>
<b>Total Service Budgets</b>	<b>360.5</b>	<b>380.2</b>	<b>399.1</b>	<b>417.1</b>
Central Budgets:				
Capital Financing	28.5	43.0	57.1	69.8
Income from Capital Receipts	(1.0)	(1.0)	(1.0)	(1.0)
Use of (-) / Contribution to (+) Reserves	(12.2)	-	-	-
<b>Total Service and Central Budgets</b>	<b>375.7</b>	<b>422.2</b>	<b>455.2</b>	<b>485.9</b>
Funded by:				
Council Tax	(287.1)	(298.8)	(310.6)	(322.9)
Business Rate Retention	(56.6)	(56.6)	(56.6)	(56.6)
Revenue Support Grant	(0.4)	(0.4)	(0.4)	(0.4)
Specific Unringfenced Grants	(31.6)	(24.5)	(24.5)	(24.5)
<b>Total Funding</b>	<b>(375.7)</b>	<b>(380.3)</b>	<b>(392.2)</b>	<b>(404.4)</b>
<b>FUNDING POSITION (Cumulative)</b>	<b>-</b>	<b>41.9</b>	<b>63.0</b>	<b>81.5</b>

- 11 The table above highlights the fact that the Council faces a significant four-year funding gap. There will also be the requirement to increase general reserves to more appropriate levels, to support the future financial sustainability of the Council. Including proposals to build general reserves to the required levels, the funding shortfall over the medium term is in the order of c.£100 million, as reported in the previous Budget Assumptions report in June 2024.

### **Indicative budget envelope for 2025/26**

- 12 As reported in the June Finance Sub Committee budget assumption report there had been further refinement to some of the assumptions and resulting values in the budget. These changed the overall funding position for 2025/26 onwards as per the table below.

<b>Table 2</b>	<b>Estimated Position 2025/26</b>	<b>Estimated Position 2026/27</b>	<b>Estimated Position 2027/28</b>
<b>Scenario A – known items at June 2024</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Funding Position - February 2024 - Cumulative position</b>	<b>41.9</b>	<b>63.0</b>	<b>81.5</b>
Capital Financing budget – incremental impact for future years over estimated as at Feb 24. Positive impact over medium term and full review of capital programme to take place	(7.8)	(21.6)	(36.4)
Second homes - additional 100% council tax from April 2025	(2.5)	(2.0)	(2.0)
Pay pressure on the 2024/25 from the £1,290/2.5% pay offer (this will need to be funded in 2024/25 and then built into future years base)	+1.9	+1.9	+1.9
Contingency budget	+3.4	+10.0	+10.0
Risk of unachievable budget savings or growth demands exceeding estimates – early estimate	-	+15.0	+30.0
Replenish General Reserves up to c.£20m (£5m p.a.)	+5.0	+10.0	+15.0
<b>Revised Funding Position - June 2024 (Cumulative position)</b>	<b>41.9</b>	<b>76.3</b>	<b>100.0</b>

- 13 At this point therefore, we were not seeing a significant variation in the required MTFs position that would change the forecast funding gap of c.£100m over the medium term.
- 14 The report also highlighted various other potential changes that may improve or worsen this position further, but were not being included as they were not yet confirmed at that time.

### **Funding envelope options**

- 15 The assumptions around the funding envelope for the medium term as at February 2024, included council tax increases at 2.99% and also included central unringfenced grant funding levels in line with the provisional local government settlement which was announced in December 2023. There was a further announcement in January 2024 of additional unringfenced Social Care grant funding of £3m for Cheshire East Council for 2024/25, but this came too late to include in the MTFs for later years' forecasts.
- 16 Table 3 below sets out the revised grant funding estimates for the medium term based on the inclusion of this additional Social Care increased grant continuing into the medium term. Although this is yet to be formally confirmed, the general consensus from other local authorities and from financial advisors, Pixel Financial Management, is that this grant stream is more than likely to occur again for 2025/26, as the local government settlement is highly likely to be a rollover

settlement from 2024/25, due to the timing of the new Government coming into office. It is also considered likely that this new increased level of grant will remain at this level over the medium term.

- 17 For the same reasons, it is also considered likely that a further one-year allocation of the New Homes Bonus funding will occur again in 2025/26. This is less certain for the remaining years of the medium term, so has been excluded at this time.
- 18 Further to this, the likely position on the limitations on council tax increases for 2025/26 is predicted to be in line with 2024/25, which was 4.99% (including 2% ringfenced for Adult Social Care). There is the option, therefore, to increase the current assumption from 2.99% to 4.99% which further improves the position as can be seen in the table below.

<b>Table 3 – Medium scenario</b>	<b>Estimated Position 2025/26 £m</b>	<b>Estimated Position 2026/27</b>	<b>Estimated Position 2027/28 £m</b>
<b>Revised Funding Position - June 2024</b>	41.9	76.3	100.0
Social care unringfenced grant continuing over the medium term	(3.0)	(3.0)	(3.0)
New Homes Bonus – one year only	(3.5)	-	-
Additional Council Tax income	(5.9)	(12.3)	(19.3)
<b>Revised Cumulative position</b>	<b>29.5</b>	<b>61.0</b>	<b>77.7</b>

- 19 For comparison, Table 4 below sets out the position if none of the above funding improvements were to be included (i.e. current MTFS Feb 2024 position) and shows the scale of the difference.

<b>Table 4 – unchanged (low) scenario</b>	<b>Estimated Position 2025/26 £m</b>	<b>Estimated Position 2026/27</b>	<b>Estimated Position 2027/28 £m</b>
<b>Revised Funding Position - June 2024</b>	41.9	76.3	100.0
Social care unringfenced grant	-	-	-
New Homes Bonus	-	-	-
Council Tax income	-	-	-
<b>Cumulative position</b>	<b>41.9</b>	<b>76.3</b>	<b>100.0</b>
<b>Variance to Medium scenario</b>	<b>+12.4</b>	<b>+15.3</b>	<b>+22.3</b>

- 20 Table 5 below sets out a comparative “optimistic” position which includes grant funding for 2025/26 at increased levels as predicted by Pixel financial advisors. The assumption here is that these grants would remain at these levels, even if they were replaced by other funding streams (i.e. in the case of the New Homes Bonus ceasing). This is a high risk strategy and so it is not advised to include these grants at this increased level.

<b>Table 5 – optimistic (high) scenario</b>	<b>Estimated Position 2025/26 £m</b>	<b>Estimated Position 2026/27</b>	<b>Estimated Position 2027/28 £m</b>
<b>Revised Funding Position - June 2024</b>	41.9	76.3	100.0
Social care unringfenced grant	(5.0)	(5.0)	(5.0)
New Homes Bonus	(4.0)	(3.5)	(3.5)
Council Tax income	(5.9)	(12.3)	(19.3)
<b>Cumulative position</b>	<b>27.0</b>	<b>55.5</b>	<b>72.2</b>
<b>Variance to Medium scenario</b>	<b>-2.5</b>	<b>-5.5</b>	<b>-5.5</b>

- 21 A full detailed breakdown of the changes since the MTFS in February 2024 has been included at Appendix A which for clarity reflects all the adjustments shown in Tables 2 and 3 above.

### **MTFS timeline and progress**

- 22 As set out in the First Financial Review report elsewhere on the agenda, there are some significant pressures on the 2024/25 budget; whilst work is underway to manage and mitigate those pressures, there is likelihood of some adverse impact on our existing medium term estimates, and consequently our progress towards setting the 2025/26 budget.
- 23 In addition to understanding and managing/ mitigating existing financial pressures, the new MTFS will also need to fully reflect the impact of proposals that are emerging from the Transformation Programme (as reported to Corporate Policy Committee on 21 August 2024). It will be critical to have clarity on realistic profiles and level of savings, to effectively determine deliverable change in 2025/26 and beyond.
- 24 The preparation of proposals for the MTFS and the consultation period in order to support Member consideration and setting of the budget/ MTFS are now therefore likely to be later than originally planned, with the formal public consultation period more likely to begin in November.

## **Consultation and Engagement**

- 25 The annual business planning process involves engagement with local people and organisations. Local authorities have a statutory duty to consult on their budget with certain stakeholder groups including the Schools Forum and businesses. In addition, the Council chooses to consult with other stakeholder groups. The Council continues to carry out stakeholder analysis to identify the different groups involved in the budget setting process, what information they need from us, the information we currently provide these groups with, and where we can improve our engagement process.
- 26 Cheshire East Council conducted an engagement process on its Medium-Term Financial Plans through a number of stages running from 8 January 2024 to Council in February 2024.
- 27 The previous budget consultation launched on-line on 8 January 2024 and closed on 28 January 2024 and included details of the headline proposals for each Committee area. This consultation was made available to various stakeholder groups and through a number of forums as detailed in Annex 2 of the MTFS.

## **Reasons for Recommendations**

- 28 The Finance Sub-Committee co-ordinates the management and oversight of the Council's finances, performance and corporate risk management arrangements. The Sub-Committee will make recommendations to the Corporate Policy Committee regarding the development of the Medium-Term Financial Strategy and the setting and monitoring of the Capital and Revenue Budgets in accordance with the Corporate Plan and the Policy Framework.
- 29 This report enables the Committee to understand the assumptions underpinning the current MTFS and changes since that time. The Working Group will continue to review the detail behind the assumptions and the Committee will be informed of any changes required to accurately develop a robust budget for the MTFS for 2025/26 and over the medium term.

## **Other Options Considered**

- 30 Not applicable.

## Implications and Comments

### *Monitoring Officer/Legal*

- 31 The legal implications surrounding the process of setting the 2024 to 2028 Medium-Term Financial Strategy were dealt with in the reports relating to that process.

### *Section 151 Officer/Finance*

- 32 The current financial assumptions and revised timescales within this report provide up to date information on the Council's MTFS progress for the period 2025/26 to 2028/29, specifically aimed to setting the budget for 2025/26 which legally has to be completed by March 2025. Further details are contained within the body of this report.

### *Policy*

- 33 The Corporate Plan sets the policy context for the MTFS and the two documents are aligned. Any policy implications that arise from activities funded by the budgets that this report deals with will be dealt with in the individual reports to Members or Officer Decision Records to which they relate.
- 34 The latest Corporate Plan, now renamed the Cheshire East Plan, was approved for the one year period 2024/25 by Full Council on 17 July 2024 and the priorities contained within it will impact on the MTFS. The next Cheshire East Plan review will be timetabled accordingly to ensure any future impacts are considered alongside the Business Planning Process.

<b>An open and enabling organisation</b>
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### *Equality, Diversity and Inclusion*

- 35 Under the Equality Act 2010, decision makers must show 'due regard' to the need to:
- Eliminate unlawful discrimination, harassment and victimisation;
  - Advance equality of opportunity between those who share a protected characteristic and those who do not share it; and
  - Foster good relations between those groups.



- 36 The protected characteristics are age, disability, sex, race, religion and belief, sexual orientation, gender re-assignment, pregnancy and maternity, and marriage and civil partnership.
- 37 Having “due regard” is a legal term which requires the Council to consider what is proportionate and relevant in terms of the decisions they take.
- 38 The Council needs to ensure that in taking decisions on the Medium-Term Financial Strategy and the Budget that the impacts on those with protected characteristics are considered. The Council undertakes equality impact assessments where necessary and continues to do so as proposals and projects develop across the lifetime of the Corporate Plan. The process assists us to consider what actions could mitigate any adverse impacts identified. Completed equality impact assessments form part of any detailed Business Cases.
- 39 The Corporate Plan’s vision reinforces the Council’s commitment to meeting its equalities duties, promoting fairness and working openly for everyone. Cheshire East is a diverse place and we want to make sure that people are able to live, work and enjoy Cheshire East regardless of their background, needs or characteristics.

#### *Human Resources*

- 40 Any HR implications that arise from activities funded by the budgets that the budget report deals with will be dealt with in the individual reports to Members or Officer Decision Records to which they relate.

#### *Risk Management*

- 41 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 2024/25 budget and the assumptions underpinning it were factored into the 2024/25 financial scenario, budget and reserves strategy.

#### *Rural Communities*

- 42 The budget report, as approved at Council on 27 February 2024, 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)*

- 43 The budget report, as approved at Council on 27 February 2024, provides details of service provision across the borough.

### *Public Health*

- 44 Public health implications that arise from activities that the budget report deals with will be dealt with as separate reports to Members or Officer Decision Records as required.

### *Climate Change*

- 45 Any climate change implications that arise from activities funded by the budgets that the budget report deals with will be dealt within the individual reports to Members or Officer Decision Records to which they relate.

<b>Access to Information</b>	
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Appendices:	Appendix A – Forecast Funding and Central changes since the MTFS February 2024
Background Papers:	The following are links to key background documents:  <a href="#">Medium-Term Financial Strategy 2024-28</a>  <a href="#">Corporate Policy Committee 21 August 2024 - Approved Transformation Plan</a>  <a href="#">Finance Sub Committee 24 June 2024 Agenda</a>