CHESHIRE EAST COUNCIL

REPORT TO: CABINET

Date of Meeting:	15th October 2012
Report of:	Lisa Quinn, Director of Finance & Business Support
Subject/Title:	3 Year Medium Term Financial Strategy 2013/2016
Portfolio Holder:	Cllr Peter Raynes – Finance Portfolio Holder

1.0 Report Summary

1.1 This report sets out the latest medium term financial forecasts for the Council and highlights those areas needing further consideration by elected Members in setting an appropriate Financial Strategy. The Council's response to the forecasts will aid Member decision making on the level of resources available to support local services.

2.0 Decision Requested

2.1 To note the unprecedented scale and nature of the financial challenge facing the Council over the next 3 years and beyond.

2.2 To note and comment on the financial assumptions which are under consideration by elected Members as part of the Council's budget setting process for this 3 year period.

2.3 To agree the proposed approach to balancing the Council's medium term budget, using five key measures and applying 'Our principles to underpin budget decisions' as introduced in the 3 Year Council Plan for 2013-2016.

3.0 Reasons for Recommendations

3.1 The purpose of developing a clear Financial Strategy is to show how the allocation of our limited resources will support delivery of the objectives and priorities set out in our new 3 Year Plan for the Council, despite the financial challenges we collectively face.

3.2 There is no doubt that funding for local government will further reduce significantly over the next 5 years, and is likely to continue to reduce beyond this timeframe to 2020. Developing a clear, resourced, longer-term plan, where we agree our purpose, the sort of Council we want to be, the outcomes we want to achieve for local people in Cheshire East, and our priorities for action and investment, will maximise our ability to remain financially resilient despite undergoing significant change.

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Members

5.1 All ward Members.

6.0 Policy Implications including - Carbon reduction
- Health

6.1 The Council's medium term financial strategy has strong links with the resourcing of the Council's objectives around carbon reduction and health improvement. The development of the 3 Year Council Plan will ensure that these issues remain priorities and that there are clear plans in place to address them.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

7.1 These are set out within this report.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 The development of the Medium Term Financial Strategy will respond to the content of the new 3 Year Council Plan. The Plan will require Constitutional changes which are currently being discussed by the Council; in particular, development of Policy Development Groups, the establishment of an Executive Monitoring Board, and the development of the Health and Wellbeing Board. Other Constitutional changes may emerge as the detail of the 3 Year Plan and the related Financial Strategy is finalised and agreed.

9.0 Risk Management

9.1 It is important to note that, the Council faces significant financial challenges in achieving its desired outcomes. Appetite for risk will need to be developed for different courses of action, particularly in relation to seizing opportunities for introducing new, innovative models of service delivery, and a different range of service providers. A revised approach to risk appetite and management will be further considered by Cabinet and Council as the 3 Year Plan and budget are developed over the next 4 months.

9.2 The steps outlined in this report will significantly mitigate the four main legal and financial risks to the Council's financial management:

- The Council must set a balanced Budget.
- The Council must set a legal Council Tax for 2013/2014.
- The Council should provide high quality evidence to support submissions for external assessment.
- Council borrowing will comply with the Treasury Management Strategy, which is underpinned by the Prudential Code.

9.3 A risk and equality assessment will be carried out by the proposing Directorate or Group for all key proposals as part of the development of detailed action plans for their implementation. This will be in line with our agreed approach to Corporate Risk Management.

10.0 Background and Options

10.1 Local Authority finances in England are undergoing significant changes as part of the Coalition Government's overall deficit reduction programme. National Government grant funding for Local Authorities is reducing rapidly, with more reliance being placed on locally funding local services.

10.2 The annual revenue budget for Cheshire East Council is funded by a combination of council tax, service user charges, and (relatively low) Government grants. From April 2013, the level of Government funding will place a greater reliance on local economic growth, through the partial use of local Business Rates income to determine each council's allocation. Overall funding is still expected to reduce, but will vary dependent on local levels of house building and commercial development, which is more unpredictable at a local level. These major changes in national arrangements for resource allocation create a much higher degree of uncertainty for local councils in their future resource planning.

10.3 **Table One** (below) sets out the revised financial forecast for Cheshire East Council for the period 2013/2014 to 2015/2016. This updates the information previously published in the Council's Business Plan in February 2012.

Table One: Funding Available reduces by almost £30m over the Medium Term (-11.4%)

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Funding				
Grant Funding	101.2	99.0	93.1	80.8
Council Tax	178.6	163.4	163.4	163.4
Central Adjustments	-27.5	-32.6	-29.9	-20.6
Funding Available to Services	**252.3**	**229.8**	**226.6**	**223.6**
Directorate Spend	252.3	254.4	233.1	234.2
Funding Gap / (Surplus)	**0.0**	**24.6**	**6.5**	**10.6**
Position as at February 2012	*0.0*	*13.1*	*7.4*	-

Source: Cheshire East Finance

10.4 The Council approaches budget setting by considering 'Five Measures' that will support balancing the financial position over the medium term.

The Five Measures	
Measure One	Challenge Financial Assumptions
Measure Two	Review Local Taxation
Measure Three	Manage Reserves
Measure Four	Manage Cost Drivers
Measure Five	Manage Income

Each measure requires Members and officers to consider the levels of risk and the impact on local people, whether they are direct service users or not.

What is causing the Revenue Funding Gap?

10.5 Before attempting to address the funding gap, it is important to understand the causes behind it. Looking at each of the Five Measures, it is possible to see how changes to local authority funding and certain key local assumptions impact on the overall financial position of the Council.

Measure One – Challenge Financial Assumptions

10.6 The overall Funding Available to Services (see Table One) will vary depending upon certain financial assumptions, such as the level of Government Grant, interest rates and the revenue impact of capital spending.

Current assumptions:

- Government Grants represent the funding available from the new Business Rates Retention Scheme plus the Council's allocation of Revenue Support Grant and un-ringfenced specific grants. Ringfenced grants are included within Directorate Spend. The expectation is that grant funding will reduce by 20% over the next 3 years despite the inclusion of the new Council Tax Support Grant.

- No growth in business rates is included and no benefit is expected from any change in employment levels that could reduce expenditure on Council Tax Support.

- No return of any Government contingencies are expected at this stage (ie funding held back by the Government in relation to the New Homes Bonus, Local Authority Central Spend Equivalent Grant (LACSEG) and the safety net, where an element could be returned to councils but amounts and timing are unclear).

- Newly available homes are expected to increase steadily from c.600 dwellings in 2013 to c.800 in 2015, this will impact on the New Homes Bonus available to the Council.

- Central Adjustments are mostly detailed in the February Business Plan and include increases in borrowing costs, maintaining the Reserves Strategy and reductions in the ex-employee pension costs.

- Capital Financing Costs are included in Central Adjustments. The overall Capital Programme relates to projects that usually take more than one year to complete. At the end of each project, the Council will normally own a new asset, or have extended the life of an existing asset. The programme is funded by a combination of borrowing, capital receipts, revenue and external contributions and Government Grants. To support further spending on capital projects will inevitably increase the demand for local borrowing, as each other funding source is reducing. This increases the requirement for capital projects to generate revenue savings or be self-funding.

- Capital financing costs are also reduced by applying returns on Council investments. The Treasury Management Strategy provides information on the Council's approach to investment and is updated at each quarterly review of performance.

- The Capital Programme has been subject to significant review by a Capital Visioning Group, attended by the Portfolio Holder for Finance, Leader of the Council and Director of Finance & Business Services, in September 2012. The purpose of the review was to ensure existing plans align with Council priorities, as well as to free up financial and physical capacity for future investments.

- **Table Two** (below) shows the Capital Programme as reported in the First Quarter Review (August 2012). Overall £41m of expenditure in the existing Capital Programme will be recommended for removal or deferral. Further work will continue to focus on decisions around the most appropriate methods for funding capital expenditure. Adjustments from the Capital Visioning Group will be formally reported as part of the Mid-Year Review (due November 2012).

Table Two: Work of Capital Visioning Group has reduced the original forecasts

	Forecast Expenditure 2012/13 £m	Forecast Expenditure 2013/14 £m	Forecast Expenditure 2014/15 £m	Total Expenditure (3 years) £m
Original Forecast	82.0	73.8	29.4	185.2
Reductions	-10.2	-12.5	-1.4	-24.1
Deferrals	-3.7	-9.8	-3.5	-17.0
Revised Forecast	**68.1**	**51.5**	**24.5**	**144.1**

Source: Cheshire East Finance

Measure Two – Review Local Taxation

10.7 The current view of funding does not include an increase in Band D Council Tax, no increase in the Council's taxbase and no funding from supplementary business rates or Business Improvement Districts. It assumes a net nil position on the Council's collection fund and no impact from changing discount levels.

10.8 Income from Council Tax is expected to reduce by £15.2m (8.5%) to reflect the new arrangements for awarding Council Tax Support (formerly Benefit) which will be treated as a discount on the bill. Council Tax Support is partially funded by Government Grant. It is assumed that the impact of the new scheme will be cost neutral, but this is currently subject to consultation.

Measure Three – Manage Reserves

10.9 The Council's Reserves Strategy was published alongside the Business Plan in February 2012. The Council manages financial reserves to protect against risk and support investment. The minimum level of reserves reflects emergency requirements, but also the fact that in-year spending may exceed in-year funding. If risk can be reduced then the minimum level will also reduce accordingly. However, the reliance on local funding sources and the overall reducing levels of Government funding means that both risks and investment on innovation may increase in the short to medium term. This uncertainty means that a cautious approach needs to be adopted and reserves should provide a sufficient "cushion" against unforeseen changes which impact negatively on the Council's finances.

10.10 **Table Three (below)** shows an update of the Reserves Strategy following the publication of the Council Statement of Accounts for 2011/2012 and the 2012/2013 First Quarter Review. Earmarked Reserves are set aside for specific, often statutory, purposes. They have been reviewed regularly in the last two years and there is no expectation that significant sums will be released back to General Reserves in the medium term.

10.11 School balances stand at c.£15m at March 2012 representing an increase of £5m on the position as at March 2011. The Council is not able to access these balances and as such they are not reflected below or in the Council's medium term financial planning.

Table Three: Reserves are due to increase to cover strategic needs

Detail	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Estimated Balance @ 1st April	**11.4**	**11.5**	**21.1**	**27.2**
Projected Increases in Reserves				
- Planned Contribution to Reserves	7.6	9.6	6.1	1.6
Projected Use of Reserves				
- Funding Supplementary Revenue Estimates	-0.3			
- Estimated Impact of 2012/2013 Spending	-7.2			
Sub total changes	0.1	9.6	6.1	1.6
Forecast General Reserves @ 31st March	**11.5**	**21.1**	**27.2**	**28.8**
Risk Assessed Minimum Level ****UNDER REVIEW****	15.0	15.0	15.0	15.0
(Under achievement of Risk assessed minimum) / Un-Allocated Balance	**-3.5**	**6.1**	**12.2**	**13.8**
Earmarked Reserves at 31st March 2012	**£m**			
- Insurance Reserve - Cheshire County Fund	1.7			
- Insurance Reserve - Cheshire East Fund	1.4			
- PFI Equalisation Reserve	0.9			
- Carry Forwards by Service Managers	0.8			
- Invest to Save Reserve	0.7			
- Other items	2.8			
Total Earmarked Reserves (excl Schools)	8.3			

Source: Cheshire East Finance

Measures Four & Five – Manage Cost Drivers and Income

10.12 The Directorate Level Spend, shown in Table One, reflects the position after existing spending plans have been implemented (as contained in the Business Plan agreed in February 2012).

10.13 The assumption is also that spending will reduce sufficiently to cover the Funding Gap from previous years. Budget levels are currently programmed to reduce by 7.2%.

How can the Council meet the Financial Challenges?

10.14 The previous section has highlighted key issues which have caused a funding gap, and why the overall funding gap has increased since February. The Council must therefore develop a set of actions in relation to each 'Measure' that will assist in closing the gap.

10.15 Options related to each of the Five Measures are set out below.

Measure	Areas for Consideration
Measure One Challenge Financial Assumptions	Additional funding may be possible from the following: - Business growth (1% business rates growth = £0.3m additional income). - Return of Government contingency funding (up to 13% of current funding levels). - Additional new homes (every additional band D property equates to £1,400 of bonus funding). - Improved employment levels which will reduce the call on Council Tax Support (funding expected of £15.2m but liabilities currently exceed this by £2.2m). Funding Available to Services can also change if the following areas are adjusted: - Revenue costs of the Capital Programme. This issue has already been subject to a Capital Visioning Review by the Leader of the Council and the Portfolio Holder for Finance. The results of this review will be reported in the Mid-Year Review (November 2012). - Contributions to/from reserves.
Measure Two Review Local Taxation	The Council can review current funding assumptions: - Council Tax Band D (1% change = £1.6m). - Changes in the taxbase (0.1% = £0.16m). - Impact on collection rates can generate a surplus or a deficit. - Some Council Tax discounts can be reduced through the Technical Reforms (up to £3.6m of additional income). - The outcome of the consultation on Council Tax Support to see if a scheme that delivers additional savings could be introduced. - Introducing a business rate supplement for specific purposes (1p on the multiplier = £2.1m). - Introducing business improvement districts for specific

	purposes.
Measure Three Manage Reserves	The Reserves Strategy 2012/2015 can be reviewed to reconsider: - Risks associated with medium term spending plans. - Other emerging risks which may require funding from reserves. - The strategic use of reserves to support innovation.
Measures Four & Five Manage Cost Drivers & Income	The Council's 3 Year Plan 2013/2016 will almost certainly necessitate major changes to the way services are delivered and funded to achieve the required outcomes. In order to manage the difficult budget setting decisions necessary over the next 4 months, a set of principles have been developed which will be applied consistently to guide these during the budget process. These principles are: 1. We will be policy-led and stick to our decisions. 2. We will make decisions based on evidence of need and of what works. 3. We are planning for at least 3 years. 4. We must be a more productive and affordable organisation. 5. We will stop doing some things to focus on those that matter most to local people. 6. We will invest in innovative new ways of providing services. 7. We will ensure that those who provide services, whether in-house or externally, give real value-for-money. 8. We will promote self-reliance and capacity in local communities to reduce demand on public services. 9. We will focus our limited resources on prevention and early intervention. 10. We will invest in infrastructure to promote local economic growth and access to job opportunities.

Developing the 3 Year Council Plan and Financial Strategy

10.16 The timetable to deliver the 3 Year Council Plan and the supporting Financial Strategy will be the same for each of the two elements. Over the next few months, the Council will have an open and honest dialogue with residents, local businesses, community organisations and partner organisations, in order to fully develop its 3 Year Plan. As our Purpose states, we want to be "a Council that works in partnership with others to ensure the best outcomes for local people". We can only achieve positive outcomes in Cheshire East if we work in close collaboration on joint approaches with local communities, voluntary and faith organisations, businesses, and the wider public service network locally.

10.17 The key stages in developing the 3 Year Council Plan and Financial Strategy are as follows:

October – December:
Open dialogue with residents, businesses, town and parish councils, and partners through special events, the Council's website, and other communication channels – to gain support for our proposed approach and to get views on the future role of the Council, its priorities, and how it can change its ways of delivering local services to provide better value-for-money for local people.

December - February
Further dialogue on detailed budget proposals and action plans for major services changes which respond to significantly reduced funding, whilst delivering on key priorities. Final 3 Year Plan and Financial Strategy considered by Council on 21st February 2013.

February – March
Communication with residents, businesses and partners about the final 3 Year Plans and how these will be delivered.

10.18 This public-facing dialogue will be accompanied by extensive communication and engagement with all elected Members and staff over the same period.

10.19 To support decision making in relation to specific financial issues, in addition to the above, two task groups have also been established:

A ***Central Finance Group*** consisting of the Portfolio Holder for Finance and the Director of Finance and Business Services will work with services to review all the financial planning assumptions behind these figures.

A ***Human Resources Task Group*** consisting of the Head of Human Resources and Organisational Development and representatives from all major services will review pressures and policies in relation to the Council's staff pay budget.

11.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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