

CHESHIRE EAST COUNCIL

Cabinet

Date of meeting: 17 December 2008
Report of: Interim Chief Finance Officer
Title: Medium Term Financial Strategy

1.0 Purpose of Report

- 1.1 The purpose of the report is to demonstrate that Cheshire East Council will set a balanced budget for 2009/10 in line with its corporate priorities, to provide a summary view of the Medium Term Financial Strategy ahead of the budget setting report to Cabinet in February 2008 and to inform Members of future financial pressures.
- 1.2 The Financial Planning process was reported to Cheshire East Cabinet on 16th June 2008. It detailed the four stages of the process as follows:

Stage 1 – Apr to Jun 2008 – 2008-09 Baseline

Stage 2 – Jun to Sep 2008 – High Level Planning

Stage 3 – Oct to Dec 2008 – Refinement and Adjustment of Options

Stage 4 – Jan to Feb 2008 – Finalisation of 2009-10 Budget

Stages one and two are now complete and stage three is well underway. Plans are now being made for stage four, which includes the Budget consultation events that will be held in January 2009 and the final budget setting report to Cabinet and Council in February 2009. This report details progress to date and the work that is still to be completed.

2.0 Decision Required

- 2.1 To approve the Medium Term Financial Strategy as detailed in the report.
- 2.2 To note the progress in the development of the Council's three-year Capital Programme for 2009/10 to 2011/12 as detailed in Section 13.
- 2.3 To note the risks and mitigation measures identified in Section 15.

3.0 Corporate Planning Process

- 3.1 The Cheshire East Council Corporate Plan is being developed as an interim Plan to allow Cheshire East to develop its Medium Term Financial Strategy (MTFS) and to set its Budget for 2009/10. Cheshire East Cabinet will approve the Interim Plan in early 2009 and it will be reported to Council on 24th February 2009. By setting out the Council's priorities and objectives individual services will be able

to develop delivery plans which will enable staff to understand their key priorities and actions. This will ensure that the Council delivers on its stated objectives and key priorities.

- 3.2 The Corporate Plan has been developed using the community priorities, outlines in the Interim Cheshire East Sustainable Community Strategy, as the starting point and also takes into account the priorities and objectives of the four local authorities that will come together to form Cheshire East. These priorities have been published by each authority and have been developed based on consultation with communities and partners.
- 3.3 The Corporate Plan sets out Cheshire East's strategic direction for 2009/10 and also sets out the priorities for its first year. The Council has 12 priorities that directly support the seven Community Strategy themes, and reflect our areas of responsibility.

Children and Young People

- Providing security, care and stability for vulnerable children
- Improving educational attainment

Adult Health and Well-being

- Maximising choice to support older people and disabled people who want to live in their own homes
- Providing leisure facilities to encourage healthier communities

Stronger Communities

- Devolving decision making and budgets to create greater local choice

Safer Communities

- Improving community safety to reduce crime and fear of crime by targeting anti-social behaviour and drug and alcohol abuse
- Improving road safety

Tackling Exclusion and Promoting Equality

- Improving service provision to rural areas
- Appropriate transport for the public and service users

Local Economy

- Supporting the local economy to increase prosperity

Environmental Sustainability

- Managing waste to create less and recycle more
- Tackling climate change
- Improving roads and highways

In addition a further four priorities have been set to **Build the New Council** into a flagship authority fit for the 21st century:

- Achieving seamless transition to new authority

- Providing excellent customer services
- Increasing value for money through transformational change and new ways of working
- Harmonising and stabilising Council Tax and maintaining a balanced budget

3.4 As the MTFS is developed, recognition must be given to the importance of the Comprehensive Area Assessment (CAA) in terms of assessing the effectiveness of the Council's partnerships in service delivery. Funding is increasingly being directed towards regional and local partnerships and this requires a different approach to the application of available resources. Further work will be undertaken to ensure that there are effective links with the development of the Local Area Agreement (LAA).

4.0 Financial Planning Process

4.1 Cheshire East Cabinet approved the Financial Planning Process on 16th June 2008. The Financial Planning Process is now being aligned with the Corporate Planning process to ensure that budget proposals are designed to deliver the Council's Corporate Priorities as described in Section 3. The Financial Planning Process includes four stages briefly described as follows:

Stage 1 – Apr to Jun 2008 – 2008/09 Baseline

Work to disaggregate the County Council's 2008/09 Budget and to aggregate those of the District Councils has now been completed. This provides a notional baseline Budget for 2008/09 for Cheshire East Council and gives an indication of the scale of its financial responsibilities.

Stage 2 – Jun to Sep 2008 – High Level Planning

This stage is now complete and involves making some high level planning assumptions to establish the overall financial envelope, both revenue and capital, within which the Council will need to operate and then setting financial parameters for the design of individual services. The overall financial envelope takes into account factors such as inflation, government grant, Council Tax, transitional costs and any appropriation to/from reserves.

Stage 3 – Oct to Dec 2008 – Refinement and Adjustment of Options

This stage involves making any necessary adjustments to the high-level options and then undertaking detailed planning and budget modelling. This includes the outcome of the grants and balance sheet disaggregation and discussions with Cheshire West & Chester. It also involves work on Fees & Charges, including harmonisation issues, and the development of the Capital Programme for 2009/10 to 2011/12. The work is being aligned with the Corporate Plan priorities. The output from this stage will be detailed budget proposals for consultation in January 2009.

Stage 4 – Jan to Feb 2009 – Finalisation of 2009/10 Budget

This stage involves budget consultation, final adjustments and refinements and the setting of a balanced Budget and Council Tax for 2009-10. Budget Consultation events will be held in mid January and targeted at Cheshire East Council's key stakeholders.

- 4.2 The Financial Planning process is now at Stage 3 and the initial financial position for the next three financial years i.e. the net position on the Council's General Fund if no targeted additions or reductions were made to any of the budgets is as follows:

2009/10	£15.342m deficit
2010/11	£ 5.487m surplus
2011/12	£ 3.262m surplus

- 4.3 The table below shows a summary of the initial view of the potential funding gap for 2009/10:

Financial Scenario 2009/10 Budget	£m
Financial Envelope (Council Tax/Formula Grant)	234.774
Less: Inflationary Impact, Capital Financing and Business Case Assumptions	31.689
Amount Available at Current Year Prices	203.085
Base Budget (Net of Specific Grants and Income)	232.450
Gross Funding Gap	29.365
Adjusted by: Growth Pressures, Savings, New Income and Exceptional Inflation	14.023
Net Funding Gap	15.342

- 4.4 Cheshire East Cabinet has set an ambitious target of £35m savings, which will include income generation, for the three-year planning period. This will address the funding gap in year 1 and will enable re-investment in Cheshire East's priority service areas over the three-year period. Significant progress has been made in balancing the 2009/10 Budget.

- 4.5 To date there has been four opportunities to consult with key stakeholders:

- The Members Compass event on 27th June 2008 provided an opportunity to simulate the decision making process related to the budget setting exercise. Members, officers and key stakeholders attended the event.
- The Financial Planning Process, budget progress and financial scenario were presented to the Staffing Committee on 16th September 2008. Union representatives also attended the meeting.
- The Budget Consultation exercise was announced at the Key stakeholder event on 27th November 2008.
- Again, the Financial Planning Process, budget progress and financial scenario were presented to the Performance & Capacity Advisory Panel on 11th December 2008. Further consultation will be undertaken through the task groups that have been established by the Panel.

5.0 Update on Cheshire County Council Disaggregation

5.1 Disaggregation of County Budget

The disaggregation of the County budget was undertaken during Stage 1 of the Financial Planning Process and was finalised at the start of Stage 2. The exercise was undertaken on a formulaic basis to establish a 2008/09 budget that could be aggregated with the Cheshire East District budgets to provide a base position for 2009/10 and for the ongoing financial scenario as part of the MTFS. This exercise did not, however, determine the budget funding for Cheshire East. The financial envelope is determined by the disaggregation of Grant funding and the Council Tax Base for Cheshire East.

5.2 Disaggregation of County Grant Funding

The disaggregation of the County Formula Grant and Specific Grants was agreed locally, in accordance with the delegation approved at Cheshire East Cabinet on 17th July 2008, by the Department for Communities and Local Government (DCLG) deadline of 24th October 2008. This exercise is described in more detail in Section 6.2 and Section 9.1.

5.3 Disaggregation of County Balance Sheet

The County Council's assets and liabilities, as at 31st March 2009, need to be allocated to the two new Authorities on a fair, equitable and transparent basis. The balance sheet by its very nature will not be finalised until the County's accounts are closed for 2008/09 (September 2009). Hence the 2007/08 balance sheet position has been used as a basis for agreeing the principles by which the assets and liabilities will be distributed. The final balances will not be known until later, but this in itself does not affect the ability of both organisations to agree a basis of allocation.

The DCLG has set out guidelines for the process, and a date for local agreement to be achieved by 31st December 2008, in the Local Government (Structural Changes) (Transfer of Functions, Property, Rights and Liabilities) Regulations 2008. Substantial progress has been made towards achieving this deadline.

A meeting will be held on 19th December 2008 to finalise the agreement of the disaggregation of the County balance sheet in accordance with the delegation made by Cheshire East Cabinet on 4th November 2008. The meeting will be attended by the Performance & Capacity Portfolio Holders, the equivalent Members from Cheshire West & Chester Council, the S151 Officers and the relevant finance, property and legal officers. This will enable an agreement to be made by 31st December 2008. The outcome will be reported to Cheshire East Cabinet on 6th January 2009.

6.0 Update on Council Tax and Formula Grant

6.1 Council Tax

Council Tax will be harmonised from day one to the lowest Band D level of the predecessor authorities, which is Crewe & Nantwich (£1,182.56). The Council Tax Base has increased by 1% and was approved at Council on 9th December 2008. The Council Tax Base increase has been assumed at 0.7% for 2010/11 and 2011/12.

A 1% change in Council Tax income equates to approximately £1.7m. Obviously the Council can choose to decrease or increase the Band D level, however, Members will be aware that the government has legal powers to 'cap' any Council's budget where it is considered that the level of increase is deemed to be unreasonable. In his statement on 26th November 2008 Local Government Minister John Healey stated that:

'Last year, I made clear that the Government expected the average council tax increase in 2008/09 to be substantially below 5%. The actual increase was 3.9 per cent – the lowest increase for 14 years and the second lowest ever.'

'We also kept our promise to deal with excessive increases by taking capping action against eight authorities.'

'For 2009/10 the Government again expects the average council tax in England to be substantially below 5 per cent.'

'And again, we will not hesitate to use our capping power as necessary to protect council tax payers from excessive increases.'

The current proposal for Council Tax for 2009/10 is a Band D level of £1,196.01. This results in an estimated Council Tax income of £173.024m for 2009/10 and the following percentage change in each area:

Congleton (08/09 £1,208.09)	1.00% decrease
Crewe & Nantwich (08/09 £1,182.56)	1.14% increase
Macclesfield (08/09 £1,196.01)	0.00% no change

The proposal also includes the removal of Green Waste charges at Crewe & Nantwich. The current annual income for Green Waste charges is approximately £0.4m. This will harmonise the Green Waste policy for Cheshire East.

The Council Tax level will not be finalised until early February 2009 and will be reported to Council on 24th February 2009.

6.2 Formula Grant

In July 2007 DCLG stated that its intention was to constrain the amount of Formula Grant that goes to any restructured area to the sum of the proposed formula grant for its constituent authorities. In areas where the new unitary

authorities are created along sub-county boundaries DCLG suggested that the best method of splitting the formula grant, that would have gone to the County Council, is through negotiation by the shadow authorities, with help from the existing County Council. DCLG indicated that the split would then be added to the sum of the formula grant intended to go to its constituent District Councils. DCLG required the data on the split of Formula Grant to be provided no later than 24th October 2008. This ensured that the split was included in the provisional settlement for 2009/10 that was published for consultation to the usual timetable.

Cheshire East Cabinet delegated the agreement of the split of the Formula Grant to the Portfolio Holder Resources in consultation with the Leader and the other Performance & Capacity Portfolio Holders on 17th July 2008. In discussions with Cheshire West & Chester it was agreed that, where possible, the local agreement would be based on the fall back figures provided by DCLG. The final agreement included a local calculation of the Capital Financing element of the formula based on the current estimated property split identified as part of the disaggregation of the Cheshire County Council Balance Sheet. The locally agreed formula for Cheshire East and Cheshire West & Chester was submitted to DCLG on 23rd October 2008. This resulted in Formula Grant funding for Cheshire East of £61.75m for 2009/10 and £63.487m for 2010/11. A prudent 2% increase has been projected for 2011/12, as this settlement will be part of the next comprehensive spending review.

7.0 Update of Inflationary Projections

7.1 Pay Inflation

The initial financial scenario included pay inflation of 3%. This was a prudent initial estimate of the likely pay award for 2009/10. The pay award for 2008/09 has not been settled yet but a provisional pay award based on a main increase of 2.45% has been made. Given this position, and the current economic environment, the pay inflation projection for 2009/10 has been reduced to 2.5%. The projections for 2010/11 and 2011/12 have been maintained at 3% to cover the risk of future volatility.

7.2 Pension Increase

Based on a current view of the Cheshire Pension Fund and the expected harmonised pension contribution for 2009/10 the projected increase is £0.91m. It is expected that there will be no increase for 2010/11 and a relatively modest increase in pension costs of £0.646m in 2011/12.

7.3 Non-Pay Inflation

The initial financial scenario included non-pay inflation of 2.5%. The scenario also included exceptional inflation for key pressure areas of expenditure related to various contractual agreements e.g. Residential/Domiciliary Care, Roads Maintenance, Landfill and Household Waste contracts. This projection was made before the current economic difficulties came to light. Based on current

Government inflationary expectations the main non-pay inflation projection has been reduced to 0.5% but the exceptional inflation projection will be reviewed further before any changes are made to the main scenario. The inflation projections for 2010/11 and 2011/12 have been maintained at 2.5% with provision for exceptional inflation to cover the risk of future volatility.

7.4 Capital Financing Costs

The initial financial scenario included an expected net capital financing cost of £9.977m based on the expected borrowing position, related to the inherited capital programme, and the projected level of investment income. The initial projections were calculated before the recent sharp reductions in interest rates. The net capital financing cost has been recalculated to reflect the significant impact on the level of investment income. The current scenario reflects a projected net capital financing cost of £12.324m, however, Treasury Management advisers are forecasting a possible further cut in base rate to 1.75%. The investment income will be reviewed on an ongoing basis and further significant reductions in income may have to be reflected.

8.0 Update on Transitional Costs

- 8.1 The transitional costs that will be incurred in the current financial year 2008-09 will be funded from the reserves of the existing Cheshire East authorities. The transitional costs are being managed closely to ensure that the reserves inherited by Cheshire East Council are maximised but also to ensure that day one delivery is achieved. The Budget Setting report in February 2009 will include a Reserves Policy & Strategy that will estimate the opening reserves position for Cheshire East Council based on the estimated final balance sheet position of the existing Cheshire East authorities. The Reserves Policy and Strategy will also assess the risks against the reserves position.
- 8.2 The Transitional Costs position at the half-year mark was reported to Cheshire East Cabinet on 4th November 2008. The forecast net Transitional Cost for Cheshire East is £3.654m, which includes both revenue and capital items. If we compare this with the Cheshire East share of the £3m Business Case projection, which is £1.5m, it appears to be a significant increase. However, if we compare costs on a like for like basis the forecast Transitional Costs for Cheshire East, against the original forecast of £1.5m, is £2.069m an increase of £0.569m. The remaining costs relate to Customer Access and ICT development, which has been agreed as necessary expenditure ahead of day one. This amounts to £1.585m but mitigates costs in future years.
- 8.3 The Voluntary Redundancy process commenced on 1st December 2008 and seeks to assist the achievement of staff reductions required due to the establishment of the new authority and the re-design of services to be delivered. It will ensure that, where Voluntary Redundancy requests are accepted, the savings expected from the staffing reductions can be realised as quickly as possible. The associated Transitional Costs, which were forecast in the original Business Plan, will be funded from existing authority reserves where the cost is incurred prior to 31st March 2009 and from the Cheshire East reserves in

2009/10. When the severance costs are identified the cost profile will be updated in the three-year financial scenario.

9.0 Update on Major Income Streams

9.1 Specific Grants

DCLG originally indicated that the disaggregation of the County Specific Grants for Cheshire East and Cheshire West & Chester would have to be agreed locally for each grant by 31st July 2008. In the event of no local agreement by this date DCLG indicated that they would implement fallback allocations. Following further discussions with DCLG recognition was given to the complexity of the exercise and the deadline was extended to 24th October 2008 in line with the deadline for Formula Grant agreement. This was agreed on the basis of the fallback position being made available by the various Government departments and local agreement in the main being based on the fallback position.

Accordingly the proposed County disaggregation of each specific grant was examined and compared with the Government department fallback calculation in order to take a view on the best way forward in each case. The proposed County disaggregations generally reflected current spending patterns and locally determined needs, whereas the Government fallback calculations were determined nationally by formulae based on the important factors for a particular grant. Specific Grants that were not from the main Government departments (e.g. Learning and Skills Council) were excluded from this exercise and are being considered separately, but the same approach is being followed.

In the majority of cases it was agreed that the Specific Grants would be split in accordance with the Government department fallback calculation. There were a small number of grants where Government departments did not provide a fallback position and therefore a local agreement was reached based on the suggested County split. For a small number of other grants it was decided that a local agreement would provide a fairer split of grant, would enable the authorities to meet their service commitments more effectively and would ensure that the value of the grant available to the two authorities collectively was maximised.

There are a number of grants where the organisations that provide the service operate on a pan Cheshire basis. The organisations concerned are Connexions, Cheshire YOT (Youth Offending Team), Cheshire DAAT (Drug & Alcohol action Team). It was agreed that, although these Specific Grants will be disaggregated between the two authorities, they will be passported to the pan Cheshire organisations concerned.

Excluding Dedicated Schools Grant, which is dealt with in Section 10, the agreed disaggregation of specific grants to Cheshire East is as follows:

	2009/10	2010/11
	£m	£m
Area Based Revenue Grants	23.9	23.8
Specific Revenue Grants (excluding Dedicated Schools Grant)	35.5	36.8
Specific Capital Grants	16.9	20.2

9.2 Service Income and Fees & Charges

Income from customers is an important element of the Council's finances and contributes greatly to achieving a reasonable net Budget and Council Tax level. The sensitivity of income (e.g. to upturns or downturns in demand) is a significant factor in the risk assessment that supports our budgeting process and the determination of the appropriate level of General Fund balance.

The setting of prices for 2009/10 will be particularly challenging, in the light of local, national and international economic circumstances at the present time. Nevertheless, the Council will also be mindful of the need to harmonise pricing policies as soon as is practicable and to maintain or increase income from services, to help improve budget sustainability.

With regard to harmonisation, it is accepted that this will not be achievable (or necessarily desirable) for Day 1, in respect of certain services. In those cases, plans will be made to achieve harmonisation over an appropriate timeframe.

The main items currently being considered in respect of fees and charges may be summarised as follows:

People

- Reviewing in-house social care provision and related charges
- Harmonisation of cultural and leisure services fees and charges

Places

- Introduction/harmonisation of car parking charges
- Review/harmonisation of search fees
- Review/harmonise pest control service and related charges
- Harmonisation of:
 - Burial and cremation fees
 - Licence fees
 - Market rents
 - Environmental health-related fees and charges

10.0 Dedicated Schools Grant and Schools Budgets

- 10.1 The Government has announced the revised indicative allocations of the Dedicated Schools Grant (DSG) for 2009/10 and 2010/11. These revised

allocations update the indicative allocations announced in the School Funding Settlement 2008 – 2011 in November 2007. They are based on the Guaranteed Units of Funding for 2009/10 and 2010/11 for each local authority announced in November 2007, but using the Department's revised projections of pupil numbers for January 2009 and January 2010, which make use of the January 2008 numbers. The guaranteed unit of funding per pupil through DSG will increase, on average, nationally by 3.7% in 2009/10 and 4.3% in 2010/11.

- 10.2 Allocations of DSG for the three-year period continue to be based on the 'spend plus' method, which uses authorities' historical levels of expenditure as the basis for distribution. This method has helped to protect Cheshire County Council's historic top-up to school funding over and above the former Formula Spending Share, the benefit of which will pass on to Cheshire East Council. However, Ministers are considering reviewing the basis from 2011/12 onwards.
- 10.3 As with previous years, final allocations for the 2009/10 DSG will depend on actual pupil numbers using the January 2009 Pupil Level Annual School Census (PLASC) and the March Early Years Census (EYC) dates. Hence final allocations will not be known until May/June 2009. Schools must be issued with their budgets by the end of March 2009, so for planning purposes October 2008 pupil census numbers are being used and the early years numbers used in the 2008/09 DSG allocation by the DCSF. This is in preference to the numbers behind the indicative DSG allocation provided by the DCSF as historically they have been found to be over-inflated. Consequently, the Authority is assuming a final DSG allocation of £192.52m in 2009/10 and £197.551m in 2010/11. The DCSF guidance sets out the arrangements for carrying forward surplus or deficit amounts of DSG in the event of actual allocations varying from indicative amounts.
- 10.4 The Minimum Funding Guarantee (MFG) increase for primary, secondary and special schools will be set at 2.1% per pupil for 2009/10. The MFG continues to be problematic to deliver and still restricts local authorities' ability to direct funding to schools in the way they feel best meets local needs and priorities. MFG protection for schools, which should be strictly time-limited, becomes locked into formula budgets 'in perpetuity', and effectively acts as a top-slice upon all other schools. The cost of the MFG in Cheshire County Council has increased significantly since the concept was introduced and this will need to be reviewed in the light of the new Council's experiences.
- 10.5 The Council will also have to agree the amount of central expenditure within total Schools Budgets for each financial year, which is also funded by DSG. Central expenditure covers those items, which are not delegated to schools' budgets through the funding formula, and include early years (SureStart), costs of Special Educational Needs such as Out of County placements, and education other than at school.
- 10.6 Central expenditure is cash-limited in accordance with a DCSF formula, and can only be exceeded with the approval of the Schools Forum. However, the rules around this limit will be lifted for the first financial year of the new Council i.e. 2009/10 budgets.

- 10.7 Work is ongoing in preparing the DSG budget in terms of reviewing the disaggregated budget, updating for inflation including exceptional inflation and updating for policy changes. The budget will need to be considered by the Schools Forum in January prior to formal Council budget setting.

11.0 Reserves Policy & Strategy

- 11.1 The Cheshire East Council Reserves Policy and Strategy will be reported to Cheshire East Cabinet in February 2009. When reviewing their Medium Term Financial Strategies and preparing their annual budgets, local authorities have to consider the establishment and maintenance of reserves. These can be held for three main purposes:

- A **working balance** to help manage the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- A **contingency** to cushion the impact of unexpected events or emergencies – this also forms part of general reserves
- A means of building up funds, often referred to as **earmarked** reserves, to meet known or predicted liabilities

In order to assess the adequacy of unallocated general reserves when setting the budget, Chief Finance Officers need to take account of the strategic, operational and financial risks facing the authority. Local authorities therefore adopt formal risk management processes. Setting the level of general reserves is just one of several related decisions in the formulation of the MTFS and the budget for a particular year. Account has to be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements.

- 11.2 At 1st April 2009 Cheshire East Council is initially forecast to hold general reserves, before the funding of transitional costs, totaling £18.259m. The table below shows the anticipated position for each local authority contributing to the reserves for Cheshire East Council. County's Reserves have been split to reflect the position for Cheshire East only based on an estimated proportion pending the agreement of the Balance Sheet disaggregation position.

Contributing Authority	General Reserves
	£m
Cheshire CC	11.927
Macclesfield BC	2.434
Congleton BC	2.145
Crewe & Nantwich BC	1.753
Balance as at 1st April 2009	18.259

- 11.3 The Transitional Costs incurred in 2008/09 will be funded from the above existing authority reserves and it is also intended that Transitional Costs for 2009/10 will

be met from the Cheshire East general reserves. However, contributions will be made each year to replace those reserves if required.

- 11.4 Local Authorities have previously adopted a broad principle that General Fund Reserves would be prudent if equivalent to 5% of the net revenue budget requirement. Based on current budget estimates for 2009/2010 this would equate to £11.7m rising to £12.5m for 2011/2012. However, as part of the Reserves Policy & Strategy a more detailed risk assessment is being undertaken to establish the adequate level of reserves for Cheshire East Council. Risks taken into account include the financial impacts of incidents including:

- Health and safety violations
- Other breaches of legislation
- Disruption to services as a result of fire, flood or other incidents
- Impacts of industrial action within the Council or its suppliers
- Interest rate falls or adverse changes in the general economy that are greater than as assumed when preparing the budget
- Failure of market investments
- Unforeseen service pressures
- Non-achievement of expected income levels
- Loss of external funding
- Late delivery of savings/efficiency/income generation projects

- 11.5 The existing authority earmarked reserves are also being reviewed to establish the likely opening balance for Cheshire East. For each reserve held by a local authority there should be a clear protocol setting out:

- the reason for/purpose of the reserve
- how and when the reserve can be used
- procedures for the reserve's management and control
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy

The Council's earmarked reserves will be reviewed annually as part of the budgets setting process.

12.0 Updated Financial Scenario

- 12.1 As part of the main three-year financial scenario a budget scenario has been built for People, Places and Performance & Capacity. Each budget scenario has been developed from the estimated 2008/09 Base Budget, the financial impact of existing authority MTFS assumptions, Business Case assumptions and exceptional inflation expectations. The scenarios also included target savings to meet the funding deficit and the longer-term reprioritisation of resources. A significant amount of work has been done through the project workstreams to establish a deliverable budget for each service taking account of the following key dependencies:

- The development of the Interim Sustainable Community Strategy and Corporate Plan and work with partners and stakeholders (e.g. Health)
- The HR Workstream (staff structures, aggregation and disaggregation of existing staff, appointments and severance)
- Organisation design principles and decisions
- Service design principles and decisions
- Decisions on shared services
- Parallel work with Cheshire West & Chester including grant, capital programme and balance sheet disaggregation

12.2 In order to prepare the Budget for 2009/10, and develop projections for the MTFS, a number of proposals are under consideration. A range of service re-design, improvement and efficiency options have been identified reflecting Community and Corporate objectives and particularly realising the aspirations of the *People & Places* Business Case. The main budget proposals under consideration are summarised as follows:

People

Children & Family

- Refocus of specific grants to assist with the financing of core services
- Rationalising business support functions
- Invest in foster care – to save costs of residential care

Adults Social Care & Health

- Integration of social care teams
- Invest in enabling and prevention initiatives – to save costs of care
- Reviewing in-house provider services
- Invest in policies to increase community-based services – to save costs of residential care
- Rationalising business arrangements (e.g. service user transportation, flexible/ mobile working, business support)

Health & Wellbeing

- Rationalisation of service/ staffing structures
- Creation of a Leisure Trust
- Rationalisation of supplies and services budgets

Places

Environment Services

- Rationalisation of service/ staffing structures
- Harmonisation of car park charging policies
- Rationalising/ harmonising operational arrangements (e.g. waste/ recycling collection and disposal)

Planning & Policy

- Rationalisation of service/ staffing structures

Safer & Stronger Communities

- Rationalisation of service/ staffing structures

Regeneration

- Rationalisation of service/ staffing structures
- Review of public transportation arrangements

Performance & Capacity

- Rationalisation of service/ staffing structures
- Reducing corporate and democratic core expenditure
- Rationalising business arrangements (e.g. ICT, premises, supplies and services budgets, flexible/ mobile working, business support)

- 12.3 The financial scenario has been updated to reflect the assumptions made in the update of inflationary projections in Section 7 and the above budget proposals. The current proposal for a balanced budget is reflected in the table below:

Financial Scenario 2009/10 Budget	£m
Financial Envelope (Council Tax/Formula Grant)	234.774
Less: Inflationary Impact, Capital Financing and Business Case Assumptions	29.086
Amount Available at Current Year Prices	205.688
Base Budget (Net of Specific Grants and Income)	232.450
Gross Funding Gap	26.762
Adjusted by: Growth Pressures, Savings, New Income and Exceptional Inflation	14.023
Budget Proposals	12.739
Net Funding Gap	0.000

It must be stressed that this is an initial view of a balanced budget position and there is a significant amount of work to be done into January 2009 to ensure that Cheshire East Council is setting a robust and deliverable budget and building a sustainable MTFS. The main financial scenario must be constantly reviewed to reflect the latest expectations in the UK economy given the current volatility. The base budget assumptions and the budget proposals will continue to be thoroughly reviewed for deliverability. The three-year scenario reflects a reduced projected surplus in 2010/11 and 2011/12 as a reflection of the uncertainty and risk of the future funding and inflationary position. The three-year projection is currently:

2009/10	£0.000m initial balanced position
2010/11	£1.787m surplus
2011/12	£1.862m surplus

13.0 Capital Programme

13.1 As part of the budget setting process the Council also approves a 3-year Capital Programme. The capital planning process for Cheshire East has involved:

- a review of the schemes that the Council will inherit from existing authorities which it is committed to deliver;
- a review of the proposals that were in the Medium Term Financial Strategies of the existing authorities;
- identification of capital Transitional Costs;
- the inclusion of new priorities for Cheshire East Council.

13.2 The Capital Programme for Cheshire East has been developed using existing Capital Programmes for the District councils of Congleton, Crewe & Nantwich and Macclesfield and disaggregation of the County's Capital Programme going forward. All Councils have been involved in this process and have agreed the list and categorisation of schemes in their current capital strategies. The review has also taken account of the agreed distribution of capital Specific Grants and any agreements arising out of the County's Balance Sheet disaggregation.

13.3 At this stage the following key assumptions have been made; all of which will need to be adjusted at various points throughout the budget setting cycle:

- The 2008/09 Programme of each authority will be delivered as planned, and within the currently identified resource envelope (both absolute and mix).
- No account has yet been taken of appropriate 'financial envelope' or relative political priorities of the new authorities.
- It has been assumed that all authorities have reviewed 2008/09 programmes to ensure their expected contribution to Transitional Costs can be accommodated from within existing resources (where appropriate).
- The detailed management of the Council's disaggregated schemes will be agreed ahead of 1st April 2009.

13.4 The outcome of this review has produced the following analysis:

- A. 2009/10 commitments arising out of 2008/09 programme total £53.9m. Included within this total is £19.9m relating to schemes which are not yet contractually committed but which have been identified as still required.
- B. Estimated block allocations are expected to total £35.3m.
- C. Additional new start bids, currently identified, total £5.5m.

The analysis shows that just through the aggregation of the current Capital Strategies of Congleton, Crewe & Nantwich, Macclesfield and the County (part thereof) the proposed capital expenditure for the budget period is £94.7m in 2009/10, £59.8m in 2010/11, and £48.0m in 2011/12.

13.5 The draft Capital Programme, as it currently stands, does not include any new capital bids for 2009/10 and later years. However, all Government funding allocations have been utilised and any additions to the programme can only be accommodated by either deleting existing items or increasing the level of

prudential borrowing. The new starts figures have been adjusted to take into account the need to use part of the new year funding allocations to complete committed schemes. It should be noted that only the committed element of the Transforming Learning Communities (TLC) programme is included in the draft programme at present.

- 13.6 The financing of the Capital Programme is complex but based on the above analysis the proposed funding sources would be as follows:

	09/10 £m	10/11 £m	11/12 £m
External			
Grants	44.1	37.9	31.5
Contribution	4.7	0.2	0.1
Internal			
Capital Receipts	18.3	7.2	3.1
Borrowing	26.9	14.0	12.8
Revenue Contribution	0.7	0.5	0.5
Total	94.7	59.8	48.0

Whilst a high proportion of the Capital Programme will be funded by external sources, as shown above, an element of the programme has a direct impact on Cheshire East Council's revenue budget.

- 13.7 The financing budget, at present, allows for up to £25.0m of new borrowing in 2009/10 and £25m in each of the years 2010/11 and 2011/12. The above draft Capital Programme requires £26.9m of new borrowing in 2009/10, hence a shortfall of £1.9m.
- 13.8 The current draft Capital Programme has been built up from the existing capital programmes of both the Districts and the County. As such it has not been scrutinised in any great detail in order to establish whether or not it matches the priorities of the new Council. It is therefore essential that a Member and officer scrutiny be carried out to understand, in more detail, the nature of the proposed expenditure and the resultant outputs and outcomes. Whilst a great deal of focus will inevitably be on the proposed new starts some scrutiny of ongoing schemes is also required in order to ensure that this expenditure can still be justified.

14.0 Legal Implications

- 14.1 None.

15.0 Risk Assessment

- 15.1 A detailed risk assessment, including mitigation measures, will be undertaken as part of the budget setting process and will be included in the reports to Cabinet and Council in February. The risk assessment will include the following broad risk issues:

Inflation Risk

Although the inflation forecasts are on the downside for 2009/10 the current volatility in the economy makes this a higher risk than in recent years. This will be continually reviewed.

Investment Risk

The failure of the Icelandic Banks, and the subsequent freezing of their assets in the UK, has demonstrated the current risk to investments. In his statement on 26th November 2008 John Healey said the following:

‘Mr Speaker, turning to Icelandic Banks. Authorities are very uncertain about how much they will recover as they prepare their budgets so soon after the failure of these banks.

I therefore propose – exceptionally – to make a regulation which will mean they need not make provision in their 2009/10 budgets for any possible loss on these investments. This will give them time to adjust their medium term financial plans and be clearer about recovering their money before making decisions which affect their budgets or council tax.’

However, the possible future impact, based on the recovery of the Cheshire East share of the affected County investments, still needs to be included as a risk against the Cheshire East reserves. There is also a risk to the Council's projected investment income given the current low interest rates and the continuing downward forecast.

Collection Rate Risk

The Council's collection rates for Council Tax and Business Rates could suffer in 2009/10 for a number of reasons:

- Impact on individuals and businesses due to the current and forecast economic difficulties
- Revenues Service delivering the transition from three collecting authorities to one collecting authority
- Revenues Service delivering transformational change to move from three Revenues systems to one system within the first financial year

Transitional Cost Risk

The risks associated with Transitional Costs have been managed closely throughout the current financial year. A management framework is in place and Members have been given regular updates on the Transitional Cost position. An initial share agreement has been made with regard to the contribution from each existing Council. This is also being closely monitored to assess the affordability position in each Council.

Grant Funding Risk

Cheshire East Council has relatively good certainty around its Specific Grant position for 2009/10 and 2010/11. However, care must be taken in placing too much reliance on Specific Grant funding for the support of core services. The risk to the availability of funding from 2011/12 needs to be considered.

Service Income and Fees & Charges Risk

Care must be taken with income projections from 2009/10 onwards given the current difficulties in the economy. The existing Councils' difficulties with the achievement of income budgets will be considered as part of the examination of base budgets.

Risk to Reserves

The Reserves Policy & Strategy will include a detailed risk assessment as part of the identification of the Council's adequate level of reserves. Each of the broad risks included in this section will be translated into a financial impact to ensure that the 2009/10 Budget and the MTFS is based on a robust financial position.

Base Budget Risk

The establishment of a base budget for Cheshire East has been a complex and detailed exercise. There is still further work to be done as part of the refinement of the budget to ensure that each service budget has been properly identified and mapped to the Council's new structure.

Budget Proposal Risk

Many of the budget proposals that have been identified through the budget setting process are ambitious and transformational. There are a number of risks associated with the major projects that will be required to deliver these proposals including:

- Late delivery of projects
- Non-achievement of expected cost reductions/income generation
- Availability of resources to deliver
- Impact on existing service delivery

Capital Programme Risk

Cheshire East Council will need to reconsider the risks associated with the existing Council capital commitments from 2008/09 and also the impact of new proposed schemes on the revenue budget. New schemes will have to be based on a business case that fully assesses the revenue impact as well as the availability of capital resources. Consideration will also have to be given to the availability of staffing resources to deliver the Capital Programme.

16.0 Medium Term Financial Strategy – Next Steps

- 16.1 The following broad timetable identifies the work still to be completed up to the setting of the 2009/10 Budget and Council Tax in February. It must be stressed, however, that the refinement of the new Council's budget will continue into the first quarter of 2009/10 to ensure that the budgetary control framework can be effectively delivered.

Item	Date
Review of Base Budget and Budget Proposals	Dec 08/Jan 09
Review of Fees & Charges	Dec 08/Jan 09
Review of Capital Programme	Dec 08/Jan 09
Development of Reserves Policy & Strategy	Dec 08/Jan 09
Development of Treasury Management Strategy	Dec 08/Jan 09
Detailed Risk Assessment	Dec 08/Jan 09
Budget Consultation	Mid Jan 09
Budget Setting and Council Tax - Cabinet	Feb 09
Budget Setting and Council Tax - Council	Feb 09

16.2 Budget Consultation

Local authorities have a statutory duty to consult on their budget with certain stakeholder groups such as the Schools Forum. In addition other groups have also been consulted by the existing Councils including social care users/carers, Connexions, Primary Care Trusts, Local Strategic Partnerships, Police and Fire. In the case of County this has taken the style of formal meetings and has been based around a document setting out draft budget and policy options.

There will not be a detailed budget proposal document available for the consultation exercise for the 2009/10 Budget process but there will be headline budget information that can be presented in the context of the emerging Corporate Plan priorities and the overall ambitions of the new Council.

The following consultation exercises will be undertaken:

- a. Schools Forum – consultation on Schools Budgets to link in with Schools Forum meeting schedule
- b. Main Budget Event – to concentrate on the 2009/10 Budget and future priorities, targeted at all stakeholders not included in specific events. The event will include break out sessions based on People and Places.
- c. Breakfast Event – for the business community
- d. Evening Event – for Parish Councils
- e. Trade Unions – to link in with Staffing Committee consultation with the Unions

Consultation with the public will use existing mechanisms such as customer contact points, the website, publications and the citizens panel. Consultation with staff will be conducted through current communication mechanisms such as Talking East.

A simplified approach has had to be taken to the 2009/10 Budget Consultation exercises, however, feedback will be sought from key stakeholders to establish what improvements can be made for the 2010/11 planning process. One of the initial recommendations is that the consultation should start much earlier in the planning process to maximise the contribution from stakeholders, to link with policy consultation and to make the exercise more meaningful.

16.2 Value for Money Agenda

Cheshire East Council must be geared up for delivering the Value for Money agenda from Day 1. The Council's Business Transformation Strategy is currently being developed and the delivery of value for money services through transformational and innovative change will be at the Strategy's core. The MTFS must be linked to all the Council's key strategies in order to maximise the effective use of resources.

17.0 Conclusion and Reasons for Recommendation

- 17.1 The Medium Term Financial Strategy needs to be approved by Cheshire East Cabinet to provide the basis for the 2009/10 Budget Setting process.
- 17.2 Cheshire East Council also needs to demonstrate that the Medium Term Financial Strategy is based on a robust Financial Planning Process. The report details the significant progress that has been made in the development of the 2009/10 Budget and the Medium Term Financial Strategy.
- 17.3 The Council's three-year Capital Programme will be a key vehicle for the delivery of the Council's corporate objectives and priorities. Good progress has been in the development of the Capital Programme. It is now necessary to establish the new capital requirements that will come forward as part of the transformational projects.
- 17.4 It is important to demonstrate that the risks associated with the Financial Planning Process are being identified and effectively mitigated and managed.

For further information:

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Background Documents:

Cabinet Report – Financial Planning Process – 16th June 2008
Cabinet Report – The Management and Funding of Transitional Costs – 16th June 2008
Cabinet Report – Disaggregation of Specific Grants and Formula Grant – 17th July 2008
Cabinet Report – Disaggregation of Cheshire County Council Balance Sheet – 4th November 2008
Cabinet Report – Review of Transitional Costs Mid-Year – 4th November 2008
Cabinet Report – Council Tax Base 2009/10 – 2nd December 2008
Local Government (Structural Changes) (Transfer of Functions, Property, Rights and Liabilities) Regulations 2008

Documents are available for inspection at:

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