

## Cabinet

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**Date of Meeting:** 10 November 2020

**Report Title:** Medium Term Financial Strategy 2021/22 – 2024/25

**Portfolio Holder:** Cllr Amanda Stott Portfolio Holder for Finance, ICT and Communication

**Senior Officer:** Alex Thompson, Director of Finance and Customer Services

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### 1. Report Summary

- 1.1. The Council's Medium-Term Financial Strategy (MTFS) sets out the financial implications of the Council's Corporate Plan and how this can be funded over the period of 3-4yrs. The Council is required by law to approve a balanced budget, where gross expenditure is matched by available resources, on an annual basis as part of the MTFS.
- 1.2. The current MTFS, which included the approved 2020/21 budget, was agreed by Council in February 2020. Even without the implications of COVID the MTFS included a potential deficit of £12m for 2021/22. This forecast recognised the risk of further reductions in New Homes Bonus as well as growth in demand, particularly within Adult and Children's Services. Additional impacts were included for inflation such as staff pay and increasing premises costs (regarding utilities and business rates). Mitigating these rising costs was an estimated increase in Council Tax of 1.99%, in-line with target inflation rates.
- 1.3. Without the implications of COVID-19 the current MTFS would provide the starting point for the development of proposals to address the gap and to consider emerging pressures and demands such as demographic growth and pay and prices inflation over the next 3 years. However, the impact of COVID has been substantial and caused significant issues with forecasting and understanding the medium-term financial impacts.

- 1.4. Cheshire East Council is not alone in facing financial pressure from COVID-19. There has been regular reporting to Cabinet on the COVID-19 financial implications for all councils, including Cheshire East Council. Furthermore, it has exposed underlying weaknesses in the structure and sufficiency of the local government financial system and its ability to meet demand for services and to support local communities and the economy. Independent assessment from the Institute of Fiscal Studies for the LGA shows that the sector requires an additional £5.3bn to standstill and £10bn investment to rebuild and recover from COVID.  
<https://www.local.gov.uk/publications/re-thinking-public-finances>
- 1.5. There is clear evidence of the additional costs of direct expenditure and lost income related to the pandemic response. The latest position is summarised in the separate report on this agenda.
- 1.6. There is significant uncertainty at national level. The Chancellor of the Exchequer has cancelled this year's Autumn Budget due to the Coronavirus. Instead a Winter Economy Plan was announced. The Chancellor announced on 21 October that there will be a one-year Spending Review. <https://www.gov.uk/government/news/spending-review-to-conclude-late-november> . This will set budgets for all departments, except NHS, schools and major infrastructure projects. The pending review will conclude "in late November". It is not yet clear what that means for the local government financial settlement for 2021/22. It is clear, however, that all local authorities are legally required to set a budget by March 2021.
- 1.7. Planning for the MTFS is an ongoing process, and the Council has, in most years, followed a path of establishing the parameters for the planning process, then proposing variations to achieve a sustainable strategy and then consulting on the proposals. The launch of the consultation process has taken place in November in recent years.
- 1.8. Overview and Scrutiny Committees play an important role in scrutinising the draft proposals and providing feedback to the Cabinet to inform the final draft of the MTFS presented to Council. The final step is approval by Council in line with the Constitution and relevant legislation.
- 1.9. The impact of the COVID-19 pandemic has been significant and has created difficulties in achieving timescales for financial planning for several reasons. The shifting pattern of the financial implications on the Council's finances, delays to government announcements on future funding models and reduced capacity to manage the process will inevitably mean some differences in the timescales for developing the 2021/22 MTFS process.

- 1.10. This report sets out the activities to date and current estimated timescales. Work is ongoing to develop budget proposals, which will be subject to scrutiny and consultation before a final MTFS can be produced. This process of development and review will enable the robustness and feasibility of the proposals to be tested. The recommendation in this report is to publish financial proposals for consultation in December 2020.

## **2. Recommendations**

That Cabinet:

- 2.1. Note the Pre-COVID financial assumptions, contained within the Financial Implications of this report, that were originally included as part of the Medium Term Financial Strategy (Council - February 2020), and identified potential financial deficits beyond 2020/21.
- 2.2 Note the approach to consultation.
- 2.3 Approve the timescales for consultation on the 2021/22 to 2024/25 Medium Term Financial Strategy as identified in Appendix 1.

## **3. Reasons for Recommendations**

- 3.1. The Council is required to consult on the proposals within the annual budget. This is required in general terms with businesses but may also require consultation with service users on specific proposals, although where proposals relate to universal services the requirements can be covered through a single consultation document on the overall budget.
- 3.2. The Council must set a balanced budget for each financial year based on robust estimates and supported by adequate reserves. This requirement is significantly supported by meaningful consultation as this improves the assurance that proposals will be delivered within manageable levels of risk.
- 3.3. Establishing key dates for the consultation process manages expectations for stakeholders.
- 3.4. Appendix 1 sets out the target dates for the Medium-Term Financial Strategy process and expected key announcements from Government.
- 3.5 The above timescales may be subject to review by Cabinet depending on announcements and guidance from Central Government linked to the response to COVID-19 or associated fiscal events.

## **4 Other Options Considered**

- 4.5 Publishing the draft MTFS in October was considered but at this time the level of financial uncertainty associated with the pandemic meant that the proposals for the MTFS were not finalised. Consultation at this time would have therefore caused confusion and unnecessary uncertainty.
- 4.6 Delay publication until after the local government finance settlement has been confirmed, which is usually in late December leading to a minimum level of engagement with stakeholders. This is not desirable because it is not transparent.

## **5 Background**

- 5.5 Planning for the 2021/22 to 2024/25 Medium-Term Financial Strategy is underway but is being significantly interrupted by the ongoing response to the COVID-19 pandemic. Proposals to vary the current budget are being developed in line with the priorities included within the Draft Corporate Plan, currently under consultation, and subject to a separate report on this agenda.
- 5.6 The draft priorities within the Corporate Plan are provided at Appendix 2.
- 5.7 Proposals will recognise growth and savings requirements to ensure the published draft MTFS is both robust and transparent to enable members in making informed decisions.
- 5.8 The priorities listed in the Corporate Plan are subject to consultation and responses to the consultation will support Cabinet in determining the viability of budget proposals as they are being developed. The consultation on the draft Corporate Plan runs until 27 November 2020.
- 5.9 In the meantime, any clarity emerging from Government in relation to the parameters supporting the financial settlement will also provide evidence as to the level of change required to achieve financial stability.

## **6 Implications of the Recommendations**

### **6.5 Legal Implications**

- 6.5.1 The Medium-Term Financial Strategy is a part of the Council's Budget and Policy Framework and as such requires approval by Council.
- 6.5.2 The Council should have robust processes so that it can meet statutory requirements and fulfil its fiduciary duty.

- 6.5.3 Any legal implications arising from this report will be addressed through the budget setting process.

## **6.6 Finance Implications**

- 6.6.1 The current Medium-Term Financial Strategy highlighted a potential deficit of £12m in 2021/22, reducing to £6.1m and £4.5m in 2022/23 and 2023/24 respectively. These estimates were based on several financial assumptions, the most significant items are listed below:
- 6.6.1.1 Growth in ASC (+£4m pa) & CSC (+£1.3m pa)
  - 6.6.1.2 Growth in Waste Services (+£0.7 m pa)
  - 6.6.1.3 Growth in ICT Comms / IIP programmes (+£0.8 m pa)
  - 6.6.1.4 Growth from Pay inflation of 2% (+£4m pa)
  - 6.6.1.5 Growth in capital financing costs (+£2.5m pa)
  - 6.6.1.6 Grants continue for Better Care Fund, but New Homes Bonus reduces (£6m pa reduction in income)
  - 6.6.1.7 Income from Council Tax increases of 1.99%, including new homes (£7m pa increase in income)
- 6.6.2 The impact of COVID-19 was reported to Cabinet in October as part of the Mid-Year Review. This highlighted that Collection Fund losses and additional expenditure associated with the Capital Programme could be deferred to later years, which would also have an impact on the MTFS. The Council continues to support the government, in understanding the financial implications from COVID-19. Working with organisations such as the LGA and CCN, we are lobbying for a coherent and sustainable funding model which responds to the financial impact on the Council's MTFS from the pandemic and rebuilds our local communities and economy.
- 6.6.3 As mentioned above, a further impact from COVID-19 is that government has deferred decisions associated with local government financing, such as potential changes under the Fairer Funding and Business Rate Retention consultations. The local government settlement announced in 2019 was part of a spending round, that did not extend beyond 2020/21. This means estimates on the Local Government Settlement are currently based on significant uncertainty.

## **6.7 Policy Implications**

- 6.7.1 The draft Corporate Plan sets out a new vision, values, aims and priorities for Cheshire East. These are summarised in Appendix 2.

## **6.8 Equality Implications**

- 6.8.1 An Equality Impact Assessment will be completed to support the MTFS, setting out the implications and mitigation.

## **6.9 Human Resources Implications**

- 6.9.1 Consultation on the proposals will include staff. Any changes involving staff will be managed in consultation with staff and Trade Unions.

## **6.10 Risk Management Implications**

- 6.10.1 There are significant risks associated with the financial consequences of the pandemic, recovery and COVID-scarring. These are set out in more detail in the Strategic Risk Register.

## **6.11 Rural Communities Implications**

- 6.11.1 There are no direct implications for rural communities.

## **6.12 Implications for Children & Young People/Cared for Children**

- 6.12.1 There are no direct implications for children and young people.

## **6.13 Public Health Implications**

- 6.13.1 The Coronavirus pandemic has had a significant impact on public health.

## **6.14 Climate Change Implications**

- 6.14.1 The draft Corporate Plan has a very strong environmental thread throughout with a specific aim for the Council to be 'Greener'.
- 6.14.2 A number of priorities and activities are listed which will support the Council's commitment of being carbon neutral by 2025, including the delivery of an Environmental Strategy and a Carbon Action Plan.

## **7 Ward Members Affected**

7.5 All Members will be engaged in the engagement process.

## **8 Consultation & Engagement**

8.5 A proposed process is set out above.

## **9 Access to Information**

9.5 The Following are links to key documents and websites:

9.5.1 [Cheshire East Council MTFS](#)

9.5.2 [Local Government Association](#)

9.5.3 [Institute for Fiscal Studies](#)

## **10 Contact Information**

10.5 Any questions relating to this report should be directed to the following officer:

Name: Alex Thompson,

Job Title: Director of Finance and Customer Services

Email: [alex.thompson@cheshireeast.gov.uk](mailto:alex.thompson@cheshireeast.gov.uk)