Appendix A2 - Budget Assumptions Medium-Term Financial Strategy 2024-2028

The notes below provide additional detail on budget assumptions within the MTFS. These assumptions will assist members, committees and officers in developing proposals for consultation as part of the process to set the 2024-2028 MTFS.

A Working Group of the Finance Sub-Committee is being recommended to review these details with the Chief Finance Officer with the intention of providing feedback to the Sub-Committee in September.

The headings below relate to the summary lines within Table 1.

Total Service Budgets

1 Service (base) budgets refer to net day-to-day revenue costs of running all the services including items such as employee pay, supplies and services, contracts and transport costs.

2 Payments to Cheshire Pension Fund for all employees are included in the net service budgets. The current three-year valuation period started in April 2022 with a reduced payover rate of 26.7% when compared to the 2022/23 level, to be reduced further by 1.5% per annum for the two years to 2025/26. There is a target minimum level of 20% over the longer term.

3 Income from fees and charges and service specific grants is also included in the net service budgets. There is no mandatory central increase applied to all fees and charges. Instead, services complete a Charging and Trading strategy to assist in optimising the level of income received from fees and charges based on market forces and user behaviour. Grants that relate to a specific service are treated as service income as conditions apply that will prevent spending on such grants on other services. A full list of grants is included as an appendix in the MTFS. Annex 7 of the MTFS

Central Budgets

4 **Capital Financing**: The Capital Financing budget represents the revenue implications of the capital programme. It includes interest payments on borrowing for example but also includes the revenue income from investments. This budget is increasing steadily over the 4 year MTFS period from £19m to £22m by 2026/27 to support borrowing on major projects. The Council increases spending on Capital Financing to ensure the capital programme is affordable on an annual basis. Capital spending includes Highways and Regeneration projects across

the borough. The annual increase reflects the size of the Council's ambitious programme, as well as returns on investment income that can reduce the impact of increasing interest rates on borrowing.

5 The current assumption on project delays is that unspent capital budgets will automatically be slipped into the next financial year unless re-profiled to future years. The assumption for 2023/24 will be that the MTFS 2023-27 approved budget of £214.6m and the slippage from 2022/23 £8.8m is the revised budget for 2023/24.

6 **Income from Capital Receipts**: Sale of Council assets usually provides a capital receipt. The Council is permitted to use such receipts to fund transformation costs or fund items within the Capital Programme. The 2023/24 to 2026/27 MTFS proposes the annual use of £1m to support transformation costs. This reflects a reasonable level of change to ensure services remain sustainable and meet the needs of residents. Expectation of annual receipts at this level is reasonable based on recent trends of income from Right-to-Buy properties and Farm's Estate sales and assets no longer required by the Council (surplus assets).

7 **Bad Debt Provision change**: The Council collects approximately £90m of debt annually (excluding local taxation), related to a wide range of services. Bad debt relates to uncollectable income, such as debt with individuals or organisations that enter into administration. It is responsible to reflect the annual impact of bad debt within the Council's revenue budget. The Council will continue to enforce debt payments in an appropriate way taking into account the circumstances of the debtor. The level of Adult Social Care debt is expected to reduce by the end of 2023/24. The budget reflects this for one year and then returns to zero as the level of debt and the provision required is then forecast to remain at a constant lower level.

8 **Use of / Contribution to Earmarked reserves**: this is the planned movements in and out of various earmarked reserves including the MTFS reserve, Collection Fund reserve, Capital Financing reserve and Transformation reserve, which support service delivery where budgeted to do so. For further information on earmarked reserves levels see Annex 13 of the MTFS

Funded By:

9 **Council Tax**: The level of income the Council receives from Council Tax is based on two main variables; council tax levels set by Cheshire East Council and the number of properties charged, referred to as the

taxbase. Appendix A1 sets out the specifics that make up the Council Tax budget. This includes the following items –

(a) Percentage increase (base) – forecast at this point to be a maximum of 2.99% per annum over the medium term.

(b) Percentage increase (ASC precept) – additional flexibility to raise income to support Adult Social Care has once again been granted by Central Government. It is uncertain as to whether this will continue past 2024/25 therefore no assumption has been included after this time.

(c) Council Tax Support Scheme – A budget based on current claimant caseload is included in the taxbase calculation. This increased in recent years due to the pandemic. It is also increased each year in line with the council tax percentage increase and reflects any changes that may be approved at December Council.

(d) Taxbase – the taxbase calculation is the number of Band D equivalent properties in the borough after taking account of reductions for discounts, exemptions, collection rates, council tax support payments and premium property income. There has been a steady increase in the taxbase of between c.1-2% per annum due to increased house building in line with, or in some cases exceeding, the Local Plan targets. The medium term includes increases in new homes to continue at similar levels, albeit is reducing slightly to be prudent.

(e) Exemption for Foster Carers and Care Leavers – this exemption is funded by the Collection Fund earmarked reserve annually.

(f) Discretionary discounts (other) (S13A) – Landlords are currently able to gain an exemption of a maximum of 4 weeks between tenants.

(g) Empty Homes Premium - In common with most Billing Authorities, Cheshire East Council charges a Council Tax premium of 100% on property that has been empty for 2 years or more in order to encourage homes to be brought back into use. The Local Government Finance Act 1992 (amended) enables Councils to charge a premium on empty properties.

(h) Additional flexibilities were introduced in subsequent Government budgets and Cheshire East now charges the following premiums for empty properties:

Time empty/unfurnished	Premium
2 to 5 years	100%
5 to 10 years	200%
Over 10 years	300%

Second Homes Premium (from April 2024) – In February 2023 Council approved that, subject to Regulations being passed following the Levelling-Up and Regeneration Bill, a premium would be applied to second homes of up to 100% and to amend the timing of the premium on empty and unoccupied property with effect from 1 April 2024. The Bill is still going through the House of Lords and is currently at committee stage and without a next date of hearing. If it is passed during 2023/24 the Council would be able to do the following:

- Implement the Empty property premium and bring the imposition of the current 100% premium forward from 2 years to 1 year with effect from April 2024
- Implement a premium on second homes of up to 100% with effect from April 2025

The reason for the different dates is that the second homes premium requires 12 months notice to owners whereas the Empty premium does not.

(i) Loss on Collection – Write offs – This is an annual charge to write off debts that are no longer viable to collect.

(j) Collection rate – this has been maintained at 99% due to strong overall collection over a three-year period.

(k) Collection Fund surplus/deficit – any surplus or deficit that arises from fluctuations from the estimates listed above are managed through the Collection Fund earmarked reserve to help maintain a stable annual revenue budget.

10 **Business Rates Retention**: the current scheme is very complex and the system of tariff, levies and compensation grants makes it extremely challenging to estimate business rates with any great certainty. The budget for business rates is therefore forecast to remain static over the medium term and any fluctuations are managed through the Collection fund earmarked reserve. Current values for each of the discounts and

exemptions are set out in Appendix A1. The government intend to review business rate retention, although the date of completion for this review is unknown.

11 **Revenue Support Grant**: this is currently very low at £0.4m per annum. The government intend to review this grant as part of the Fairer Funding Review, although the date of completion for this review is unknown.

12 **Specific Unringenced Grants**: Appendix A1 lists the main specific grants receivable and current values. Only the unringfenced grants are included in the funding envelope as shown in Table 1. These total £26.4m for 2023/24.