

OPEN

Finance Sub-Committee

Tuesday, 25 June 2024

Medium Term Financial Strategy Assumptions and Reporting Cycle for 2024/25 to 2028/29 (Finance Sub Committee)

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

Report Reference No: FSC/06/24-25

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

Purpose of Report

- 1 This report confirms the baseline assumptions for net revenue expenditure and core funding, to assist with development of the Medium-Term Financial Strategy (MTFS) 2025 to 2029.
- 2 The baselines in this report provide early planning targets for each Service Committee as part of the 2025/26 budget setting process. At this stage the figures are based on the MTFS approved at full Council on 27 February 2024 plus known changes since that time. Approving these indicative baselines now and providing a high-level timeline allows Members, Committees and Officers to begin early development of financial proposals for consultation in line with the Transformation work.

Executive Summary

- 3 The Medium-Term Financial Strategy (MTFS) for Cheshire East Council for the four years 2024/25 to 2027/28 was approved by full Council on 27 February 2024.
- 4 The MTFS is underpinned by a set of assumptions around income, expenditure and core funding that result in a 4-year position. The budget could only be balanced for the 2024/25 financial year by forecast

use of reserves. This is not sustainable in the medium to long term and needs to be addressed urgently for the Council to be financially sustainable. The gaps forecast in later years must be addressed as part of the business planning process this year as well as the Council learning to live within its means by delivering all savings and containing approved growth within 2024/25 otherwise this increases pressures in future years and widens the gap that will have to be closed.

- 5 These assumptions are reviewed on an annual basis and are adjusted for information as and when it becomes available. Most notably Central Government announce the Local Government Provisional Settlement in late December every year.
- 6 The Finance Sub-Committee are being asked to confirm the current assumptions and apportion indicative targets to all areas so that all Committees can develop plans in preparation for budget consultation and engagement events in the autumn of 2024 as per the timeline set out in Appendix C.
- 7 The Sub-Committee is also being asked to again form a Working Group to further review these assumptions over the summer with the aim of feeding back in September. Feedback will reflect any up-to-date information that could change the service or central budgets, or the funding envelope, before the launch of the Budget Consultation for 2025/26.
- 8 The Council has engaged an external partner to work alongside officers and members to identify opportunities to transform the way the Council operates including areas that may go some way to closing the gap that has been identified in the MTFS. These will help the Council live within its means and can contribute to ensuring that committees are able to operate within the effective cash limits that are being set per committee. It may be, that following identification of these opportunities as well as any other savings, growth and growth in funding/income, that the final budget allocations may not be as these original proportions indicate but that needs to be part of the discussion around the way in which the Council's resources are prioritised.
- 9 The Finance Sub-Committee are also being asked to approve the MTFS timeline at Appendix C which builds on the draft timetable that was approved at Finance Sub-Committee on 22 March 2024 and layers in the projected timeframes for the transformation programme which is being run alongside the business planning activity.
- 10 In addition to the usual comprehensive reporting at First, Second and Third Financial Reviews (September, November and January cycles), in recognition of the Council's challenging financial position and the

importance of achieving a balanced outturn, it has been agreed all committee meetings during 2024/25 receive an update report on the delivery of the approved budget policy change items. This will be based on the tables of budget policy items as included in the report received on 22 March. Appendix D shows the current progress against each item and includes RAG-ratings, accompanying commentary and forecast impact on outturn in respect of each item.

RECOMMENDATIONS

The Finance-Sub Committee is asked to:

1. Approve the budget assumptions underpinning the Medium-Term Financial Strategy for 2025-29, for planning purposes, as set out in **Appendix A1**.
2. Approve the setting up of a Finance Sub-Committee Assumptions Working Group to meet informally with the Chief Finance Officer to review the current assumptions with the aim of feeding back to the September committee meeting; the group to be made up of at least four members of the Sub-Committee.
3. Approve indicative savings targets and budget envelopes for each committee for 2025/26 as shown in Table 7 and **Appendix B**.
4. Approve the combined Budget setting and transformation timeline as set out in **Appendix C**.
5. Note the 2024/25 Budget change items progress as set out in **Appendix D**.

Background

- 11 The Medium-Term Financial Strategy (MTFS) for Cheshire East Council for the four years 2024/25 to 2027/28 was approved by full Council on 27 February 2024.
- 12 Table 1 sets out the revenue budget estimates for the four years from 2024/25 to 2027/28:

Table 1 – Revenue Budget (See Appendix A2 for further commentary on budget rows)	Approved Net Budget 2024/25 £m	Estimated Position 2025/26 £m	Estimated Position 2026/27 £m	Estimated Position 2027/28 £m
Total Service Budgets	360.5	380.2	399.1	417.1
Central Budgets:				
Capital Financing	28.5	43.0	57.1	69.8
Income from Capital Receipts	(1.0)	(1.0)	(1.0)	(1.0)
Use of (-) / Contribution to (+) Reserves	(12.2)	-	-	-
Total Service and Central Budgets	375.7	422.2	455.2	485.9
Funded by:				
Council Tax	(287.1)	(298.8)	(310.6)	(322.9)
Business Rate Retention	(56.6)	(56.6)	(56.6)	(56.6)
Revenue Support Grant	(0.4)	(0.4)	(0.4)	(0.4)
Specific Unringfenced Grants	(31.6)	(24.5)	(24.5)	(24.5)
Total Funding	(375.7)	(380.3)	(392.2)	(404.4)
FUNDING POSITION (Cumulative)	-	41.9	63.0	81.5

- 13 The table above highlights the fact that the Council faces a significant four-year funding gap. There will also the requirement to increase General Reserves to bring the Council up to more appropriate reserves levels to assist with future financial sustainability. This takes the funding shortfall over the medium term up to c.£100 million.
- 14 As was noted at the time of setting the MTFS, a factor affecting our future financial sustainability is the increasing cost of Capital over the life of the budget. This is impacted by a number of factors including increases in borrowing rates, where we have chosen to forward fund capital schemes before some monies are received and the impact of borrowing against our DSG deficit.
- 15 Table 2 sets out the revenue and capital budget for 2024/25 as split over the Committees:

ALL COMMITTEES - Summary					
	Revenue Budget			Capital Budget	Total Revenue and Capital Budget
	2024/25			2024/25	2024/25
Service Area	Expenditure £000	Income £000	Net £000	£000	Net £000
Adults and Health	223,849	-86,407	137,442	799	138,241
Children and Families	99,583	-10,620	88,963	38,908	127,871
Corporate Policy	111,416	-69,760	41,656	10,379	52,035
Economy and Growth	36,169	-8,227	27,942	80,263	108,205
Environment and Communities	65,291	-16,642	48,649	18,978	67,627
Highways and Transport	28,669	-12,839	15,830	66,452	82,282
Finance Sub-Committee	18,727	-3,500	15,227	0	15,227
Total Cost of Service	583,704	-207,995	375,709	215,779	591,488

16 Table 3 below sets out the capital budget and funding for the four years from 2024/25 to 2027/28.

Table 3 – Committed and New Capital Schemes	Prior Years £m	Four Year Forecast				Total £m
		2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	
Expenditure						
Children and Families	34.9	38.9	25.6	10.8	11.6	121.8
Adults and Health	0.2	0.8	-	-	-	1.0
Highways and Transport	312.6	66.5	59.1	41.7	103.0	582.8
Economy and Growth	128.9	80.3	67.4	10.4	17.5	304.4
Environment and Communities	5.3	19.0	19.0	1.4	-	44.7
Corporate Policy	79.2	10.4	6.5	2.5	-	98.6
Total Expenditure	561.1	215.8	177.6	66.8	132.1	1,153.4
Funding						
Grants and Other Contributions	358.8	158.8	92.6	46.3	101.3	757.7
Capital Receipts	0.3	1.8	31.8	1.2	0.5	35.7
Borrowing	202.0	55.2	53.2	19.3	30.2	360.0
Total Funding	561.1	215.8	177.6	66.8	132.1	1,153.4

Budget Assumptions and Task Group

- 17 Appendix A1 sets out the detailed assumptions contained within each line in Table 1. Appendix A2 provides brief explanations for each to assist with understanding of the individual rows.
- 18 The recommendations ask for approval to establish a working group so that members of the Sub-Committee can review these assumptions in detail with the Chief Finance Officer. Providing feedback to the Sub-Committee in September will assist in setting the baseline for the MTFS consultation material.

Indicative budget envelopes for 2025/26

- 19 Since the publication of the MTFS there has been further refinement to some of the assumptions and resulting values in the budget. These change the overall funding position for 2025/26 onwards as per the table below.

Table 4	Estimated Position 2025/26 £m	Estimated Position 2026/27 £m	Estimated Position 2027/28 £m
Scenario A – known items			
Funding Position - February 2024 (as per Appendix A1) Cumulative position	41.9	63.0	81.5
Capital Financing budget – incremental impact for future years over estimated as at Feb 24. Positive impact over medium term and full review of capital programme to take place	(7.8)	(21.6)	(36.4)
Second homes - additional 100% council tax from April 2025	(2.5)	(2.0)	(2.0)
Pay pressure on the 2024/25 from the £1,290/2.5% pay offer (this will need to be funded in 2024/25 and then built into future years base)	+1.9	+1.9	+1.9
Contingency budget	+3.4	+10.0	+10.0
Risk of unachievable budget savings or growth demands exceeding estimates – early estimate	-	+15.0	+30.0
Replenish General Reserves up to c.£20m (£5m p.a.)	+5.0	+10.0	+15.0
Revised Funding Position - June 2024 (Cumulative position)	41.9	76.3	100.0

- 20 At this time, we are therefore not seeing a significant variation in the MTFS resulting funding position that changes the forecast funding gap of c.£100m over the medium term.
- 21 There are, however, various other potential changes that may improve or worsen this position further but are not being included as they are not yet confirmed.

- 22 Scenario B: Improved funding case: sets out the additional funding that may be included in the provisional settlement which is usually announced around December each year. See Table 5 below.

Table 5	Estimated Position	Estimated Position	Estimated Position
Scenario B – Improved funding Case	2025/26 £m	2026/27 £m	2027/28 £m
Revised Funding Position - June 2024 (from Scenario A table)	41.9	76.3	100.0
Social care unringfenced grant forecast increased to mirror final settlement from February 2024 in future years	(3.0)	(3.0)	(3.0)
New Homes Bonus – further one-off allocation for 1 year only	(3.5)	-	-
Improved Funding Case (Cumulative position)	35.4	73.3	97.0

- 23 Scenario C: Worse Case: sets out the additional potential pressures currently identified but not fully quantified/known. See Table 6.

Table 6	Estimated Position	Estimated Position	Estimated Position
Scenario C – worse case	2025/26 £m	2026/27 £m	2027/28 £m
Revised Funding Position - June 2024 (from Scenario A table)	41.9	76.3	100.0
Pay inflation – Union request at £3,000/10% level (this would need to be funded in 2024/25 and then built into future years base)	+12.5	+12.5	+12.5
Worst Case (Cumulative position)	54.4	88.8	112.5

- 24 The revised funding position as per Table 4 that needs to be addressed in setting the budget for 2025/26 has been allocated to each committee as appropriate depending on the change item, or based pro rata on net budgets for 2024/25, and includes savings and growth proposals already put forward as part of the MTFs in February 2024 for the 2025/26 financial year. This gives an early indicative budget target and budget envelope for each committee. A summary table is included in Table 7 with the detail behind the indicative targets included at Appendix B.

Table 7	MTFS			See Appendix B for calculation	
Indicative target budget envelopes 2025/26	Net Budget Approved 2024/25 £m	Net change estimated for 2025/26 £m	Net Budget Forecast 2025/26 £m	Indicative Target Budget change for 2025/26 compared to 2024/25 original budget £m	Target budget envelope 2025/26 £m
Adults and Health	137.4	9.9	147.3	(7.7)	129.8
Children and Families	89.0	6.5	95.4	(5.0)	84.0
Corporate Policy	41.7	(1.4)	40.3	(2.4)	39.3
Economy and Growth	27.9	1.2	29.1	(1.6)	26.3
Environment and Communities	48.6	2.1	50.8	(2.7)	45.9
Highways and Transport	15.8	1.5	17.3	(0.9)	14.9
Finance Sub (Central)	15.2	26.7	42.0	27.4	42.6
Total Service Budget	375.7	46.5	422.2	7.1	382.8
Finance Sub (Funding)	(375.7)	(4.6)	(380.3)	(7.1)	(382.8)
Net Position	0.0	41.9	41.9	0.0	0.0

- 25 Finance Sub Committee are being asked to approve these indicative budget change targets to help underpin and focus the transformation work and savings ideas generation work. Early ideas to close the gap are to be submitted by the end of July as per the timeline at Appendix C and committees are encouraged to work together to achieve the balancing of the net budget in totality to match the overall funding envelope available.
- 26 Further detailed review work will continue during the first quarter of 2024/25 to fully analyse the 2023/24 outturn results and the impact that may have on the current financial year (2024/25) but also 2025/26 and beyond. Therefore, the indicative targets will need to be kept under review and amended as further information comes to light. It is important to note therefore, that the figures contained in Table 7 and Appendix B are only an early indication at this stage as to the Council's financial position, to help focus ideas generation.
- 27 As further information becomes available on items contained in Scenario B and C above (tables 5 and 6 above), these will be factored into the overall position.

Timeline

- 28 The MTFS timeline included at Appendix C for approval sets out the business planning process for the year through to setting of the 2025/26 budget at full Council in February. The transformation work currently underway has been overlaid with the business as usual process to align the two and deliver both projects in tandem and help avoid any duplication or gaps.

Progress on 2024/25 MTFS budget change items

- 29 Appendix D contains the progress against the 2024/25 MTFS budget change items which have been reported to each individual service committee during June. This progress is noted in the form of a RAG rating, associated commentary and impact on the forecast outturn position if known.
- 30 The position for the Environment and Communities Committee has not yet been reported due to the scheduled item being postponed until the July committee date.
- 31 The summary of the progress against budget change items is shown below in Table 8.

Table 8	2024/25 Budget change items as per MTFS £m	2024/25 Budget change items - Forecast Outturn £m
Adults and Health	+1.136	+1.136
Children and Families	+9.909	+9.909
Corporate Policy	+0.489	+0.957
Economy and Growth	+3.316	+4.410
Environment and Communities	-0.052	TBC
Highways and Transport	+4.869	+4.869
Finance Sub (Central)	+2.916	+2.916
Total Service Budget change items	+22.583	+24.197
Finance Sub (Funding)	-22.583	-22.583
Net Position	-	+1.562

Consultation and Engagement

- 32 The annual business planning process involves engagement with local people and organisations. Local authorities have a statutory duty to consult on their budget with certain stakeholder groups including the Schools Forum and businesses. In addition, the Council chooses to consult with other stakeholder groups. The Council continues to carry out stakeholder analysis to identify the different groups involved in the

budget setting process, what information they need from us, the information we currently provide these groups with, and where we can improve our engagement process.

- 33 Cheshire East Council conducted an engagement process on its Medium-Term Financial Plans through a number of stages running from 8 January 2024 to Council in February 2024.
- 34 The budget consultation launched on-line on 8 January 2024 and closed on 28 January 2024 and included details of the headline proposals for each Committee area. This consultation was made available to various stakeholder groups and through a number of forums as detailed in Annex 2 of the MTFS)

Reasons for Recommendations

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

Other Options Considered

- 37 Not applicable.

Implications and Comments

Monitoring Officer/Legal

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

Section 151 Officer/Finance

- 39 The financial assumptions and timetable within this report provide up to date information on the Council's MTFS process. Confirming baseline information at this stage does not create any limitations to the budget setting process for 2025/26. Approving baselines provides context and guidance that will help to develop consultation material. Providing a set

of baselines that balance across the medium term is important in supporting a responsible review of net costs.

- 40 The figures provided in this report can now trigger a review of net spending. The review can create opportunities to vary the assumptions via wide-ranging consultation with stakeholders.

Policy

- 41 The Corporate Plan sets the policy context for the MTFS and the two documents are aligned. Any policy implications that arise from activities funded by the budgets that this report deals with will be dealt with in the individual reports to Members or Officer Decision Records to which they relate. Any review of the Corporate Plan priorities will impact on the MTFS, so the plans for such a review will be timetabled accordingly.

Equality, Diversity and Inclusion

- 42 Under the Equality Act 2010, decision makers must show ‘due regard’ to the need to:
- Eliminate unlawful discrimination, harassment and victimisation;
 - Advance equality of opportunity between those who share a protected characteristic and those who do not share it; and
 - Foster good relations between those groups.
- 43 The protected characteristics are age, disability, sex, race, religion and belief, sexual orientation, gender re-assignment, pregnancy and maternity, and marriage and civil partnership.
- 44 Having “due regard” is a legal term which requires the Council to consider what is proportionate and relevant in terms of the decisions they take.
- 45 The Council needs to ensure that in taking decisions on the Medium-Term Financial Strategy and the Budget that the impacts on those with protected characteristics are considered. The Council undertakes equality impact assessments where necessary and continues to do so as proposals and projects develop across the lifetime of the Corporate Plan. The process assists us to consider what actions could mitigate any adverse impacts identified. Completed equality impact assessments form part of any detailed Business Cases.
- 46 The Corporate Plan’s vision reinforces the Council’s commitment to meeting its equalities duties, promoting fairness and working openly for everyone. Cheshire East is a diverse place and we want to make sure

that people are able to live, work and enjoy Cheshire East regardless of their background, needs or characteristics.

Human Resources

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

Risk Management

- 48 Financial risks are assessed and reported on a regular basis, and remedial action taken if and when required. Risks associated with the achievement of the 2024/25 budget and the assumptions underpinning it were factored into the 2024/25 financial scenario, budget and reserves strategy.

Rural Communities

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

Children and Young People including Cared for Children, care leavers and Children with special educational needs and disabilities (SEND)

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

Public Health

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

Climate Change

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

Access to Information	
Contact Officer:	<p>Adele Taylor</p> <p>Interim Director of Finance and Customer Services (Section 151 Officer)</p> <p>adele.taylor@cheshireeast.gov.uk</p>
Appendices:	<p>A1 – MTFS Budget Assumptions 2024-28</p> <p>A2 – MTFS Budget Assumptions 2024-28 explanatory information</p> <p>B – Indicative allocation of targets 2025/26</p> <p>C – MTFS Timeline</p> <p>D – 2024/25 Budget change items progress</p>
Background Papers:	<p>The following are links to key background documents:</p> <p>Medium-Term Financial Strategy 2024-28</p>