OPEN

Corporate Policy Committee

Thursday, 28 November 2024

Medium Term Financial Strategy Update and Consultation 2025/26 - 2028/29 (Corporate Policy Committee)

Report of: Adele Taylor, Interim Executive Director of Resources (S151 Officer)

Report Reference No: CP/21/24-25

Ward(s) Affected: All Wards

For Decision or Scrutiny: Scrutiny

Purpose of Report

1 The Medium-Term Financial Strategy (MTFS) sets out how the Council will resource the achievement of the Cheshire East Plan and is subject to consultation and approval on an annual basis.

2 This report sets out progress during this financial year against the gaps that had been identified in February 2024 when setting the budget and medium-term financial plan. Since then, there have been a number of reports that have updated the committee on the current financial forecasts for the medium term, taking into account the latest information from the in-year monitoring and the impact of the 30 October budget announcements and what that means for the 2025/26 budget setting.

3 This report sets out the process to be undertaken for budget consultation and stakeholder engagement for the financial year 2025/26 as part of the MTFS 2025-29.

4 Developing the MTFS requires a wide range of stakeholder engagement. Members are key stakeholders in their capacity as community leaders, but also in their capacity as decision makers in setting the Council's budget. The Finance-Sub Committee formed a working group to scrutinise the financial assumptions underpinning the current MTFS and

the latest report on those assumptions was considered early in November 2024.

5 Individual Committees have been asked to review the in-year budget position and consider how this performance will impact on services they are responsible for (see Second Financial Review report which is on the same Agenda as this report).

6 Stakeholder engagement on the overall budget will be undertaken as well as any necessary individual consultations for specific actions. The January cycle of Committee meetings will be the forum to scrutinise the draft proposals put forward, alongside other feedback from consultees. All feedback will be collated and provided as evidence to the Corporate Policy Committee on 6 February 2025.

7 Final approval of the 2025/26 budget will take place at full Council on 26 February 2025, following recommendation from the Corporate Policy Committee.

Executive Summary

8 The financial strategy underpins how Cheshire East Council will allocate resources, achieve the Cheshire East (Corporate) Plan and provide in the region of 500 local services every day. It must be affordable, based on robust estimates and balanced against adequate reserves.

9 There have been two previous reports to Finance Sub-Committee during 2024 setting out the budget assumptions underpinning the MTFS, including assumptions relating to funding, based on current expectations.

10 There has been a significant amount of work since that time to capture all the proposed budget changes for 2025/26 and over the medium term, both as a result of the transformation work and also outside of that programme, to ensure that a complete picture is being recorded.

11 The proposed budget changes put forward to date have been scrutinised in a series of officer challenge sessions to ensure accuracy, completeness and likelihood of success, to ensure that any future budget estimates are robust. See Appendix A for the full list of proposed growth and savings items per Committee.

12 Consideration has been made of the need to fully reflect the costs of services that the council is statutorily responsible to deliver, as well as recognising the importance of properly funding improvement activity within our Children's services. If we do not invest in this improvement activity the longer-term costs both financially, and in terms of the impact on our residents, will be much more significant within a short period of

time if investment is not made now. We also need to re-size our demand led service budgets recognising that the pressure that is currently being experienced will not reduce immediately as it is based on current people in care placements. Whilst transformation of services in the medium to long term can reduce overall costs, the immediate budget pressures need to be funded.

13 The proposed changes that have been compiled to date **do not yet go far enough to balance the budget** in line with the revised estimated funding envelope for 2025/26 as it is currently known. There are however a significant number of moving parts in terms of funding, that have a significant amount of uncertainty in them, and further detail is awaited via the Local Government Provisional Settlement.

14 The Chancellors Budget published on 30 October did not give detailed settlement information in terms of the extra grant funding announcements. However, analysis by Pixel, our financial advisors, has identified likely local allocations from the announced additional national funding levels. This has resulted in forecast increases totalling £3.8m for 2025/26 but this will not be certain until we see detailed information which is likely to be announced in late December. We are aware that the allocation of grant funding may not follow the way it has previously been allocated which could have a significant impact on what funding we may receive.

15 However, this does not take into account all of the potential changes to funding. Assumptions have also been made around the impact of changes to salary costs that impact both directly and indirectly on the costs of running services such as the increase in National Living Wage (NLW) and changes to National Insurance costs (NIC). We have included our current assessment of the potential impact of these costs but have not yet made a judgement on what, if any, funding may come through announcements that the public sector may receive some protection from NIC changes. These are included in our tables as part of the overall contingency line within the budget, recognising that the impact is subject to negotiation with suppliers and contractors and will not be equally felt across all services, but is a corporate issue that needs to be dealt with.

16 The Second Financial Review (FR2) forecasts (separate report on the Agenda) have shown an improvement of £6.5m compared to FR1 (reported to September committee meetings) but are still projecting an in-year adverse variance of £20.1m which remains a significant financial challenge for the Council. The FR2 forecast reserves, after agreed movements budgeted for in the 2024-28 MTFS, are currently £10.0m, being £0.5m of General Fund reserves (including the forecast use of £4m for transformation costs) and £9.5m of Earmarked reserves. The Council’s level of reserves is therefore insufficient to cover the current

forecast revenue outturn for the year without further action.

17 The in-year forecast does not assume the use of Exceptional Financial Support (EFS) that was agreed in principle with central government. The council remains in discussion with central government about the use of EFS which would ensure that the Council remained solvent during 2024/25. The way in which the EFS could be funded is through either capitalisation of revenue costs (using proceeds of any additional capital receipts identified) or through borrowing to fund the gap. Any gaps in future years funding could also be subject to EFS but this is not a long-term solution given this incurs further additional revenue cost to finance the borrowing required.

18 After taking into account the in-year position and the future forecast budget changes required to address known pressure, this leaves the position for 2025/26 where the current budget gap that needs to be closed is now £31.4m (see Table 1). It is recognised that this gap still needs significant further refinement subject to the announcement of the detailed Provisional Local Government Finance Settlement later in December, continued urgent focus on identifying additional savings, efficiencies and income, consider further significant service change/reductions and live discussions on our ability to capitalise costs through Exceptional Financial Support.

Table 1: Summary position for 2025/26 to 2028/29	**Revised Budget 2024/25 £m**	**Estimated Net Budget 2025/26 £m**	**Estimated Net Budget 2026/27 £m**	**Estimated Net Budget 2027/28 £m**	**Estimated Net Budget 2028/29 £m**
Childrens	89.0	**96.9**	**103.0**	**108.8**	**115.4**
Adults	137.5	**159.1**	**157.9**	**159.5**	**161.1**
Place	92.5	**95.9**	**96.8**	**97.8**	**99.1**
Corporate	41.5	**28.9**	**12.7**	**3.0**	**3.9**
Total Service Budgets	360.5	**380.8**	**370.4**	**369.2**	**379.5**
CENTRAL BUDGETS:					
Capital Financing	28.5	**36.8**	**38.5**	**40.3**	**41.8**
Income from Capital Receipts	-1.0	**-1.0**	**-1.0**	**-1.0**	**-1.0**
Contingency Budget	0.0	**9.3**	**20.6**	**26.7**	**33.1**
Risk Budget	0.0	**0.0**	**3.5**	**1.9**	**0.7**
Pension adjustment	0.0	**-0.7**	**-0.7**	**-0.7**	**-0.7**
Use of (-) / Top up (+) Reserves	-12.2	**5.0**	**5.0**	**5.0**	**5.0**
Total Central Budgets	15.2	**49.3**	**65.7**	**72.1**	**78.7**
TOTAL: SERVICE + CENTRAL BUDGETS	**375.7**	**430.1**	**436.1**	**441.3**	**458.3**
FUNDED BY:					
Council Tax	-287.1	**-307.3**	**-325.6**	**-345.0**	**-365.5**
Business Rate Retention Scheme	-56.6	**-57.1**	**-57.1**	**-57.1**	**-57.1**
Revenue Support Grant	-0.4	**-0.4**	**-0.4**	**-0.4**	**-0.4**
Specific Unring-fenced Grants	-31.6	**-33.9**	**-29.3**	**-29.3**	**-29.3**
TOTAL: FUNDED BY	**-375.7**	**-398.7**	**-412.4**	**-431.8**	**-452.3**
Funding Position (+shortfall)	**0.0**	**31.4**	**23.7**	**9.5**	**6.0**

19 The budget also needs to consider the revenue costs of the current and future capital programme for the next four years. More detail is included in the main body of the report but Table 2 below provides a summary of our forecast borrowing (includes Capital and DSG borrowing requirement – see Table 8).

Table 2 Estimated Net Borrowing	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Total Net Borrowing Requirement	282.2	375.2	412.1	448.5	449.6

20 The Capital Review to date has had a limited impact in the reduction in borrowing; although there has been slippage to future years projects that are still assumed to be delivered and so there has not been a reduction in significant amounts of borrowing within the overall programme. There remains a revenue pressure over the next four years before the impact of new growth requests. More detail is included within the main body of the report – paragraphs 44-51. The Capital Financing figures within Table 1 reflect the revenue cost of the current capital programme and the growth requests.

21 Due to the level of uncertainty set out above and ongoing development of the MTFS, the approach to stakeholder engagement and consultation on the budget for 2025/26 will be necessarily different this year.

22 In addition, the Council has already agreed a Transformation Plan setting out the programmes and projects for the medium to long-term. Any transformational savings for 2025/26 are built into the draft proposals listed in Appendix A.

23 The majority of proposals do not require formal consultation as they are achievable within existing policies or do not impact statutory services. However, it is good practice to give all stakeholders the opportunity to provide feedback on the proposals and draft budget, to help generate additional ideas and provide members with insights into the potential wider effects of their decisions.

24 The Council has a statutory obligation to consult businesses on the draft budget. This will be done through existing networks such as the Chambers of Commerce with feedback reported to Economy and Growth Committee in January 2025. Any business is welcome to provide comments for consideration as part of finalising the budget for 2025/26.

25 All stakeholders, businesses and residents are invited to give feedback on the overall approach to budget setting including the following principles and the draft budget 2025/26:

(a) taking the opportunity to resize and reshape the budget particularly for demand led social care services, supporting Cheshire East's residents most in need;

(b) investment in improvement in Children's Services;

(c) progressing transformation projects across the council to provide longer-term stability;

(d) addressing unfunded pressures such as National Living Wage increases;

(e) identifying specific proposals and service changes to deliver cost reduction, cost avoidance or additional income.

26 Any specific savings proposals requiring consultation as part of the budget setting process will be set out in the consultation documentation and for the relevant Committee meeting in January 2025.

RECOMMENDATIONS

The Corporate Policy Committee is being asked to:

(a) Note the forecast revenue budget position for the medium term as set out in Table 1 following the 30 October budget announcements;

(b) Note the draft growth and savings budget proposals for 2025/26 to 2028/29 as included in Appendix A;

(c) Note the detailed list of Capital Growth Requests in Appendix B;

(d) Note that officers will continue to challenge draft proposals and develop further proposals in consultation with Members prior to approval by Council;

(e) Note that discussions continue with central government about potential requirements around Exceptional Financial Support as part of the options to close the gaps in our budget;

(f) Note the approach to budget consultation and engagement;

(g) Note that Committees will be presented with the opportunity to review the full set of financial proposals, designed to achieve a balanced budget, as part of their January cycle of meetings prior to recommendations being made to Council for approval.

Background

27 The Council's financial resources are provided from a combination of local taxes, government grants, investment returns on assets and other direct contributions from individuals or organisations including fees and charges levied for services delivered. Financial plans are based on estimated spending and income over the next four years and the report of the Chief Finance Officer brings Members' attention to the processes and risks associated with developing these estimates.

28 The Council must demonstrate how we achieve best value for money based on Economy (how much we pay for things), Efficiency (how well we use things) and Effectiveness (how we use things to achieve outcomes). Public feedback and internal and external scrutiny create the necessary framework to hold the Council to account for achieving these aims.

29 All councils are legally required to set a balanced budget each year and the immediate focus will be on balancing the 2025/26 financial year, and on the whole medium term, as has been the case previously. This replicates the focus last year and reflects the extremely challenging circumstances all councils are still facing. It also recognises that decisions that are being made about resource allocation must not solely consider the immediate impact, but take into account the longer term impact. The Council must learn to live within its means, which is why we have focussed efforts on transforming the way we do things and not just simply focus on cutting costs as this is not sustainable in the longer term. The Council is facing immediate pressures that we must deal with whilst balancing our efforts over the longer-term to become fully financially sustainable.

Funding assumptions

30 Finance Sub-Committee received a report in June setting out the MTFS 2025-29 original planned timetable and budget assumptions underpinning the current MTFS. A working group then met during August to discuss these assumptions and their suitability for the medium term.

31 A further update report was then received in September setting out likely improvements to the funding envelope forecast over the medium term which reduced the overall 4-year target down from a savings position of c.£100m to c.£78m.

32 Since that report there have been some further refinements to the funding envelope for 2025/26 following the calculation of the taxbase for next year. Therefore, the revised funding envelope for 2025/26 increased from £380.3m (as set out in the MTFS in February 2024) to £394.8m as

at early October 2024. This is an increase of £14.5m. For context, the funding envelope for 2024/25 was approved at £375.7m.

33 The Chancellor then announced in the Budget on 30 October that Core Spending Power will increase by 3.2% in real terms (inclusive of assumed average Council Tax increases of 4.8% and taxbase increases of 0.8%), and that this will include an increase of £1.3bn nationally in grant funding. This, for example, compares to the increase announced for the National Health Service of £22bn and is insufficient to address the funding shortfalls and pressures being faced by the local government sector which are estimated to be in the region of £2.3bn for 2025/26 "just to stand still".

34 It was also confirmed that the increase planned for the Employer National Insurance (ENI) contributions (13.8% up to 15%, and a threshold reduction down from £9,100 to £5,000) will also be funded (assumed to be outside of the additional £1.3bn national allocation). This will be included in the MTFS at a net nil position on the assumption that the grant will cover the estimated additional cost of c.£3m. However, of particular concern is that although this ENI increase will also flow through to all external suppliers and will be particularly impactful to our social care providers, there is no specific funding set aside for this in the budget announcement. We await further detail on this and so the position for our funding against our internal costs may change.

35 The Budget did not give detailed settlement information in terms of the extra grant funding announcements. However, analysis by Pixel, our financial advisors, has identified some possible local allocations from the announced additional national funding levels. This has resulted in further forecast increases in funding totalling £3.8m for 2025/26 as shown in Table 3 below.

Table 3 – Budget announcements – grant improvements	**National allocation**	**Forecast additional grant 2025/26**
Social Care unringfenced (grant)	+£600m	+1.7m
Targeted additional unringfenced funding (grant)	+£700m	+£1.6m
Settlement Funding Assessment – inflationary increase (Business Rates baseline)		+£0.5m
Total		**£3.8m**

36 All items in Table 3 above will be classed as a permanent increase to the base budget except for the £1.6m targeted funding increase which is thought to be a one-year allocation only. These assumptions may yet

change depending on the way in which funding is allocated and there is a risk that funding may be lower than we anticipate and we will not know this until more detail is published, likely to be in December 2024 at the earliest.

37 There were also announcements on additional Homelessness grant (£230m), Disabled Facilities grant (£86m – capital monies) and SEND (£1bn – DSG funding) but our allocation for these is yet to be quantified with any certainty.

38 This takes the estimated funding envelope to **£398.7m** for 2025/26 as shown in Table 1. This figure is still £31.4m lower than the forecast service expenditure of **£430.1m** for next year.

39 A local government financial policy statement is due to be issued during November which will set out further details on 2025/26 and the multi-year settlement from 2026/27. The Provisional Local Government Finance Settlement is then due to be announced in late December alongside a consultation paper on principles for funding reform. There is then likely to be the Spending Review phase two in spring 2025 with a view to full implementation of multi-year settlements and funding reforms in December 2025.

40 This makes it very difficult to predict the funding levels over the medium term hence the approach to maintaining levels in line with 2025/26 where there is reasonable confidence. Council tax is projected to increase by 4.99% per annum over the next four years.

Proposed growth and savings budget changes

41 There has been a substantial amount of work undertaken since the September update to bring forward the detailed list of proposed budget change items included in the totals in Table 1 for 2025/26 and the later years. An internal management “MTFS tracker” system has been put in place to capture all proposals in one place. This includes all items identified with our transformation partner as per the Transformation Plan that was approved by the Corporate Policy Committee in August 2024.

42 A full list of the proposed growth and savings items, per committee is included in Appendix A.

43 Challenge sessions have since been held during October with every directorate to ensure that all proposals that have been put forward as changes for the next MTFS have been fully scrutinised for accuracy and completeness, including the ongoing effects of the pressures forecast for 2024/25. Some of the items that have been considered are as follows:

(a) Growth – demand/ complexity/ cost changes; to reflect elements that affect future years, respectively;

(b) Required investment in improvement activity in Children's Services to ensure we meet our statutory duties and provide a stable platform on which to transform our services;

(c) Contractual inflation;

(d) Revenue effects of capital projects – central financing and service budgets as part of the ongoing Capital Programme Review; and to bring the programme back to an affordable position;

(e) Housekeeping – items that are one-year only as opposed to permanent – to ensure correctly reflected in the MTFS tracker;

(f) Fees and charges – price/ income increases – all years;

(g) What discretionary services/ functions can be reduced/ stopped;

(h) Savings – transformation/ other - clarity on the level of actual savings and the realistic profile to ensure that these savings are deliverable.

44 Transformation plan proposals have been reviewed with relevant officers and support from Inner Circle, our transformation partner, to understand, interpret and develop the ideas initially put forward. All transformation proposals in the MTFS tracker have been reviewed against the following criteria:

(a) Clarity around what can change; how/ when can it be delivered - is the phasing correct and deliverable;

(b) Fully reflect the costs and benefits of change (net deliverable positions);

(c) Reflect realistic and deliverable savings per year - important to consider/ document the detail, establish expenditure and income budget impacts.

Capital programme review

45 The current capital programme for the next four years totals £493m of which £98m is currently forecast to be funded by borrowing. In addition, there are currently new growth requests for the period of the MTFS 2025-29 of £55m, the majority of which would need to be funded from borrowing, unless other savings can made within the programme or capital receipts are available. The detail for the new requests can be found in Appendix B.

Table 4 – Capital Programme Prudential Borrowing Forecast for MTFS 2025-29	2025/26 £000s	2026/27 £000s	2027/28 £000s	2028/29 £000s	Total Borrow-ing in Forecast £000s	Total Capital Prog 2025-29 £000s
Current Programme	57,996	14,802	25,044	-	97,842	492,795
New requests funded by borrowing	19,641	12,719	13,233	6,299	51,893	55,229
Changes to borrowing if approved	**77,637**	**27,521**	**38,277**	**6,299**	**149,735**	**548,024**

46 The Capital Review to date has had a limited impact in the reduction in borrowing; although there has been slippage to future years, projects are still assumed to be delivered, therefore, there has not been a significant reduction in the amount of borrowing within the overall programme. A complete list of the capital schemes within the current programme and slippage between MTFS 2024-28 and the Second Financial review will be made available to Councillors. Please also refer to the Second Financial Review report (separate report on the Agenda).

47 A revenue pressure remains against the Capital Financing budget over the next four years before the impact of any new growth requests. More scrutiny over the need to complete projects at all, needs to be assessed. Table 5 below shows the pressures on the Capital Financing budget of the current programme including the impact of any new scheme proposals, (subject to approval) by borrowing.

Table 5 – Capital Financing Budget (Revenue implications)	2025/26 £000s	2026/27 £000s	2027/28 £000s	2028/29 £000s
Original Capital Financing Budget (restated)	35,263	35,507	33,333	33,333
Capital Financing Requirement excluding new growth	36,346	37,295	37,674	36,743
(Savings) / Growth in cost to revenue of current programme	**1,083**	**1,788**	**4,341**	**3,410**
Capital Financing Requirement including new growth requests (as reflected in Table 1)	36,839	38,463	40,265	41,765
Total (Savings)/Growth in cost to revenue impact with new asks approved	**1,576**	**2,956**	**6,932**	**8,432**

48 The Capital Financing Budget (CFB) covers both the interest costs of borrowing as well as the Minimum Revenue Provision (MRP) charge to revenue each year. Isolating the annual MRP charge to the CFB arising from the capital borrowing gives more clarity over the capital impact to revenue before accounting for interest costs. Over the last 5 years there has been significant growth in the MRP charge to revenue and this growth is expected to continue unless we significantly reduce the amount of borrowing that is being used to fund the capital programme. The current level of growth is not sustainable.

Table 6 – Change to MRP charged to Revenue p.a. over time (with no new asks)	2025/26 £000s
Growth in last 5 years	9,233
Growth in next 5 years	6,584
Growth over 10 year period 2019/20 to 2029/30	15,817

49 The impact of borrowing for capital has a long-lasting impact on the revenue budget and the table below compares the ongoing MRP charged to revenue in different scenarios for the capital programme.

Table 7 – Impact of Minimum Revenue Provision charged to revenue	5 years ago 2019/20 £000s	Last year 2023/24 £000s	Current year 2024/25 £000s	5 years time 2029/30 £000s	15 years time 2039/40 £000s	25 years time 2049/50 £000s
Current programme with no new growth	9,528	17,496	18,761	25,345	18,024	9,989
If stopped all capital funded by borrowing at 31/3/25	9,528	17,496	18,761	20,856	14,212	6,948
If current capital programme and new growth goes ahead*	9,528	17,496	18,761	28,443	20,363	10,561
Difference between all stopped / new growth position	-	-	-	7,587	6,151	3,613

* only includes the current growth requests and does not take into account the possibility of any further new growth requests now or in future years that would require borrowing as funding.

50 In addition to the MRP charge, the capital financing budget includes the interest forecast that contains two elements of borrowing, capital and the Dedicated Schools Grant (DSG) deficit. Table 8 below provides a summary of the forecast borrowing below.

Table 8 - Borrowing	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m	2028-29 £m
Borrowing related to rising DSG deficit	120.1	155.2	186.1	210.3	228.3
Borrowing related to capital programme	162.1	220.0	226	238.2	221.3
Total Net Borrowing	**282.2**	**375.2**	**412.1**	**448.5**	**449.6**

51 Following the recent Budget, interest rates in the medium term are now expected to be slightly higher than previously forecast, the effects have

been included in the current figures for the MTFS. The total forecast for interest costs is found in Table 9 below

Table 9 - Cost of borrowing	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m	2028-29 £m
Capital element of borrowing	13.6	12.3	11.6	11.9	10.7
DSG deficit element of borrowing	4.9	5.6	6.4	7.4	7.7
Interest receivable	(3.8)	(2.3)	(2.1)	(2.0)	(2.0)
Net Cost of Borrowing	**14.7**	**15.6**	**15.9**	**17.3**	**16.4**

52 The financial impact of funding any Exceptional Finance Support (EFS) has not yet been included in the figures for the Capital Financing Budget above, nor the MRP calculations. However, the use of EFS will clearly have a direct impact upon the CFB and the effects will depend ultimately on the actual amount of EFS utilised from either the existing approved amount, any additional EFS amount sought/approved and the timing of when the any EFS is actual taken up (see also paragraphs 60-63).

In year forecast outturn (2024/25) impact

53 The Second Financial Review (FR2) projections (separate report) have shown an improvement on FR1 of £6.5m; but are forecasting an in-year adverse variance of £20.1m which remains a significant financial challenge for the Council.

54 FR2 forecast reserves, after agreed movements budgeted for in the 2024-28 MTFS, are currently £10.0m, being £0.5m of General Fund Reserves (including the forecast use of £4m for transformation costs) and £9.5m of Earmarked Reserves. The Council's level of reserves is therefore insufficient to cover the current forecast revenue outturn for the year without further action.

Dedicated Schools Grant

55 The key pressure on DSG relates to the high needs block where the SEND service continues to see a significant increase in the number of pupils with an EHCPs, and the associated school placement costs.

56 This has placed pressure on the grant used to provide funding for children with SEND in various settings and led to a £31.7m deficit in 2023/24. This adds on to the brought forward deficit of £46.9m to take the DSG Reserve to a £78.6m deficit position at the end of 2023/24.

57 This is an improvement on the budget gap as determined by the Council's DSG Management Plan that was reported to Children and Families Committee in April 2024 and set out the planned expenditure and income on high needs over the medium term.

58 The current forecast is showing an in-year deficit of £41.5m which would increase the overall deficit to £120.1m.

59 The cost of interest to fund the DSG deficit continues to place pressure on the Councils revenue budgets, with interest costs forecast to be in the region of £5m in 2024/25.

Exceptional Financial Support

60 This forecast for the in year 2024/25 outturn position does not assume the use of the Exceptional Finance Support (EFS) that was requested in 2023/24 and 2024/25, or therefore the cost of borrowing to finance any related borrowing costs. The EFS was agreed in principle, subject to a number of conditions being satisfied, including the submission of a transformation plan by the end of August 2024.

61 Given the budget shortfall of c.£31m for 2025/26, in the short term, the Council will need to look at all available options for balancing the 2025/26 budget as this will at least allow the Council time to consider the outcome of the spending review and changes to the local government funding formula and the announcements of the three year settlement from next spring. If a solution cannot be found then the S151 officer would need to consider the issuing of a S114 notice, although the Council is already taking many of the actions that would be required if that notice was issued.

62 With the very low level of reserves available as noted in the FR2 report and paragraph above, and the likelihood of being unable to find the level of further savings required to balance the budget on a recurring and sustainable basis, further Exception Financial Support needs to be considered, including all options of what form that may take including flexible use of capital receipts, potential flexibility around council tax etc.

63 Options around the form of what this may look like will need to be considered once there is more clarity on our overall funding levels as well as demonstrating that the council has taken all reasonable steps to live within our own means because exceptional financial support has ongoing revenue implications for a significant period of time.

Capital Receipts

64 A prudent view of the capital receipts available over the term of the MTFS is shown below.

Table 10 - Capital Receipts	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 & beyond £m
Capital receipts	2.3	9.0	10.9	12.7
Already included in MTFS / capital programme	(2.0)	(2.2)	(2.7)	(5)
Capital receipts available	0.3	6.8	8.2	7.7

Scenario planning and key risks

65 Although growth has been included to reflect the potential impacts of recent changes to cost drivers such as NLW within our contracts, there may yet be consequences that have yet to be assessed around other inflation factors that are, difficult to model with any certainty.

66 Concerns remain also that the government’s compensation plan for Employer National Insurance funding may not cover in full the increase in direct employment costs, currently estimated to be in the region of £3m. Government have set aside £4.7bn for the “direct impact of tax changes” on the public sector but as yet we have not received confirmation about the specific allocation which will hopefully be received as part of the November policy statement ahead of the December Provisional Local Government Finance Settlement.

67 The current statutory override for the DSG deficit was extended until the 31 March 2026. The current forecast deficit at the end of 2024/25 is £120.1m. Without the override the size of the negative reserve for the council would present a financial stability issue for the 2026/27 financial year. The council does not have sufficient reserves to be able to cover the cost of the cumulative deficit if the override is removed, which is forecast to be c.£155m by the end of 2025/26.

68 This is also before the cost of interest is considered. The forecast revenue cost of interest on borrowing to fund the deficit is anticipated to be in the region of £5m for 2024/25. This is also resulting in further pressure on the MTFS as the revenue impact linked to interest has to be built into future years budgets.

Consultation

69 Due to the level of uncertainty and ongoing development of the MTFS, the approach to consultation on the budget for 2025/26 will be necessarily different this year.

70 The Council has already agreed a Transformation Plan setting out the programmes and projects for the medium to long-term. Any transformational savings for 2025/26 are built into the proposals listed in Appendix A.

71 The majority of proposals do not require formal consultation as they are achievable within existing policies or do not impact statutory services. However, it is good practice to give all stakeholders the opportunity to provide feedback on the proposals and draft budget, to help generate additional ideas and provide members with insights into the potential wider impacts of their decisions.

72 The Council has a statutory obligation to consult businesses on the draft budget. This will be done through existing networks such as the Chambers of Commerce with feedback reported to Economy and Growth Committee in January 2025. Any business is welcome to provide comments for consideration as part of finalising the budget for 2025/26.

73 All stakeholders, businesses and residents are invited to give feedback on the overall approach to budget setting including the following principles and the draft budget 2025/26:

(a) taking the opportunity to resize and reshape the budget particularly for demand led social care services, supporting Cheshire East’s residents most in need

(b) investment in improvement in Children’s Services

(c) progressing transformation projects across the council to provide longer-term stability

(d) addressing unfunded pressures such as National Living Wage increases

(e) identifying specific proposals and service changes to deliver cost reduction, cost avoidance or additional income.

74 Any specific savings proposals requiring consultation as part of the budget setting process will be set out in the consultation documentation and for the relevant Committee meeting in January 2025.

75 The consultation will consist of an online survey, direct engagement with stakeholders directly impacted by any of the service specific proposals and use of existing networks and groups to gain both quantitative and qualitative feedback to inform decision making.

Timetable

76 The timetable to Budget Council in February 2025 is set out below:

Date	Who?	What?
Monday 2 December	Online survey covering principles, draft budget summary and any service specific proposals	Launch Budget Consultation and engagement activities
Monday 2 December to Sunday 5 January 2025	All stakeholders including businesses	Respond to formal consultation via meetings or online survey
December/January	Members	All members informal engagement events
Late December	Central Government	Local Government Provisional Finance Settlement
January 2025	CEC Officers	Collate survey and engagement responses and feed into service committees
January 2025	All committees	Analyse survey and engagement responses and finalise budget position
6 February 2025	Corporate Policy Committee	Recommend MTFS 2025-29 to Council
26 February 2025	Council	Approve 2025/26 budget, Council Tax and MTFS 2025-29

Consultation and Engagement

77 This report sets out the process to be undertaken for budget consultation and engagement for the financial year 2025/26 as part of the MTFS 2025-29.

78 Once a set of draft budget change proposals have been finalised and the consultation and engagement responses have been received, there will be opportunity during the January cycle of committee meetings to give formal feedback, from each committee, to the Corporate Policy Committee, ahead of the full Budget Council meeting in February 2025.

Reasons for Recommendations

79 In accordance with the Constitution, Committees play an important role in planning, monitoring and reporting on the Council's finances. Each Committee has specific financial responsibilities.

80 The Council's annual budget must be balanced. The proposals within it must be robust and the strategy should be supported by adequate reserves. The assessment of these criteria is supported by each Committee having the opportunity to help develop the budget and financial proposals before they are approved by Full Council.

81 The consultation and engagement process provides an important opportunity for interested parties to understand and comment on how the Council proposes to balance the Council's budget in line with its commitment to be open and transparent in its decision making.

82 The purpose of the consultation and engagement activity is to obtain feedback on the draft budget, broad budget proposals and principles, and meet the statutory obligation to consult businesses. The Council will also undertake specific consultation on individual proposals with people who would potentially be directly affected such as staff and trade unions if required before implementation. This means that some proposals may change during the financial year, and this will be recognised when the overall strategy is presented to Council in February.

Other Options Considered

83 The Council has a legal duty to set a balanced annual budget taking regard of the report from the Chief Finance Officer. As such options cannot be considered that would breach this duty. Any feedback from the Committee must still recognise the requirement for Council to fulfil this duty.

84 There is no option to "do nothing". The Council has statutory obligations to provide certain services, which would be unaffordable if the Council failed to levy an appropriate Council Tax.

85 There is the option to delay publication of the consultation and engagement activity until after the Provisional Local Government Finance Settlement has been confirmed, which is usually late December, and adopt the minimum level of engagement. This is not desirable because it is not transparent and leaves very little time for consultation and meaningful engagement activities.

86 There is also the option of consulting on the material in a detailed line by line format for all changes to the Council's budget. This approach is now not favoured and has come under criticism in the past years for being too lengthy and not helpful to gaining feedback on the proposals that are most likely to affect residents.

Implications and Comments

Monitoring Officer/Legal

87 The Council must set the budget in accordance with the provisions of the Local Government Finance Act 1992 and approval of a balanced budget each year is a statutory responsibility. Sections 25 to 29 of the Local Government Act 2003 impose duties on the Council in relation to how it sets and monitors its budget and require the Council to make prudent

allowance for the risk and uncertainties in its budget and regularly monitor its finances during the year. The legislation leaves discretion to the Council about the allowances to be made and action to be taken.

88 The provisions of section 25 of the Local Government Act 2003, require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the chief finance (s.151) officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.

89 The Council should therefore have robust processes in place so that it can meet statutory requirements and fulfil its fiduciary duty. It must ensure that all available resources are directed towards the delivery of statutory functions, savings and efficiency plans. Local authorities are creatures of statute and are regulated through the legislative regime and whilst they have in more recent times been given a general power of competence, this must operate within that regime. Within the statutory framework there are specific obligations placed upon a local authority to support communities. These duties encompass general and specific duties and there is often significant local discretion in respect of how those services or duties are discharged. These will need to be assessed and advised on as each circumstance is considered.

90 The financial position of the Council must therefore be closely monitored, and Members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered, and that new expenditure is contained within the available resources. Accordingly, any proposals put forward must identify the realistic measures and mechanisms to produce those savings or alternative mitigations.

91 This report provides an update towards the setting of the budget for 2025/26 and clarifies the proposals going forward. It would be appropriate to consult on the proposals beyond the statutory consultation requirements, as this may help to facilitate early implementation of proposals once the budget is set.

Section 151 Officer/Finance

92 The current financial assumptions and revised timescales within this report provide up-to-date information on the Council’s MTFS progress for the period 2025/26 to 2028/29, specifically aimed to setting the budget for 2025/26 which legally has to be completed by March 2025. Further details are contained within the body of this report.

Policy

93 The Cheshire East Plan 2021-25, refreshed for 2024/25 approved in July 2024, has driven and informed Council policy and priorities for service

delivery. A new Cheshire East Plan from 2025 is being developed in parallel to the budget and the MTFS is the resource plan for its delivery. The draft Cheshire East Plan will follow the same timeline as the MTFS and taken to Corporate Policy Committee and full Council in February 2025. The Plan will set out the vision and priorities for Cheshire East.

Equality, Diversity and Inclusion

94 Under the Equality Act 2010, decision makers must show “due regard” to the need to:

(a) Eliminate unlawful discrimination, harassment and victimisation;

(b) Advance equality of opportunity between those who share a protected characteristic and those who do not share it; and

(c) Foster good relations between those groups.

95 The protected characteristics are age, disability, sex, race, religion and belief, sexual orientation, gender re-assignment, pregnancy and maternity, and marriage and civil partnership.

96 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.

97 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 Council Plan and the MTFS. 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.

98 The proposals within the MTFS include positive and negative impacts. A separate Equality Impact Assessment for the budget as a whole is routinely included in the full MTFS report each year.

99 The Council 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

100 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

101 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

102 The budget report, as approved at Council on 27 February 2024, provides details of current service provision across the borough. Appendix A sets out any future impacts for 2025/26 and beyond.

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

103 The budget report, as approved at Council on 27 February 2024, provides details of current service provision across the borough. Appendix A sets out any future impacts for 2025/26 and beyond.

Public Health

104 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

105 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:	Adele Taylor Interim Director of Finance and Customer Services (Section 151 Officer) adele.taylor@cheshireeast.gov.uk
Appendices:	Appendix A – List of proposed growth and savings items per Committee. Appendix B – Detailed list of Capital Growth Requests
Background Papers:	The following are links to key background documents: Cheshire East Plan 2024/25 Medium-Term Financial Strategy 2024-28 Corporate Policy Committee 21 August 2024 - Approved Transformation Plan Finance Sub Committee 24 June 2024 Agenda Finance Sub Committee 12 September 2024 Agenda