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## **Corporate Policy Committee**

**Thursday, 6 February 2025**

### **Medium Term Financial Strategy 2025/26-2028/29 (Corporate Policy Committee)**

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

**Report Reference No: CP/16/24-25**

**Ward(s) Affected: All Wards**

**For Decision or Scrutiny: Both**

#### **Purpose of Report**

- 1 This report presents the Medium-Term Financial Strategy (MTFS) for Cheshire East Council for the four years 2025/26 to 2028/29. The Corporate Policy Committee is being asked to consider the relevant proposed budget changes in relation to the responsibilities of this Committee and also consider the feedback from the wider budget consultation.
- 2 The Committee is being asked to recommend a legally balanced budget which with the combination of income, use of resources, robust savings plans and the proposals for the use of Exceptional Financial Support (EFS) and increase in Council Tax, will ensure that income will cover ongoing costs and future commitments in a sustainable and manageable way for 2025/26, to the full Council meeting on 26 February 2025.

#### **Executive Summary**

- 3 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. 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.
- 4 The Council aims to achieve 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.

- 5 All councils are legally required to set a balanced budget each year.
- 6 The budget setting process for 2025/26 has enabled a set of proposals to be developed and challenged through a managed process that considered service changes, the Capital Programme and the supporting financial planning assumptions relating to funding levels.
- 7 There have been a series of distinct stages of the Budget Setting Process with reports in relation to the Council's financial position being taken to Corporate Leadership Team and all committees throughout 2024/25.
- 8 The MTFS Report provides financial background as well as setting out further details of the ongoing approach to funding the priorities set out in the Cheshire East Plan. It highlights the spending plans and income targets for the financial year starting 1 April 2025, as well as forecast estimates up to the 2028/29 financial year.
- 9 The Cheshire East Plan is a key strategic document for the Council, setting the vision and objectives for the whole organisation. It is a vital part of the Council's performance management framework and how the MTFS is delivered. The MTFS aligns resources to manage the costs associated with achieving the Council's vision.
- 10 A new Cheshire East Plan 2025-29 is being developed in parallel to the budget as the MTFS is the resource plan for its delivery. The draft Cheshire East Plan will follow the same timeline as the MTFS and be taken to Corporate Policy Committee and full Council in February 2025.

#### **Recommendations from Finance Sub Committee**

- 11 Finance Sub Committee in their meeting on 9 January 2025 made the following recommendations to the Corporate Policy Committee:
- 12 The Finance Sub Committee request that the Corporate Policy Committee consider the MTFS smoothing reserve to be disaggregated and returned to General Reserves.
- 13 The Finance Sub Committee request that the Corporate Policy Committee looks at the reserve situation and considers if they are adequate and have capacity to cover any above anticipated inflationary pay award in the region of a further 3% of what has been budgeted for.
- 14 This report provides the Medium-Term Financial Strategy (MTFS) Report (containing the Budget for 2025/26 that will be part of the recommendations) for the period 2025/26 to 2028/29 at **Appendix A**.

## RECOMMENDATIONS

The Corporate Policy Committee notes:

- a) The summary results of the Budget Engagement exercise undertaken by the Council, as set out in **Appendix B** and consider any implications for the MTFS.
- b) The draft report of the Council's Section 151 Officer, contained within the MTFS Report, regarding the robustness of estimates and level of reserves held by the Council based on these budget proposals (**Appendix A, Section 2, Section 25 Statement**). This remains a draft report and will be finalised following a recommendation by this committee to Full Council.
- c) The Council's Finance Procedure Rules remain unchanged and will always apply to ensure proper approval should any changes in spending requirements be identified (**Appendix A, Annex 9**).
- d) The report includes a change in MRP Accounting Policy, with effect from 1 April 2024 the effects for 2025/26 being reflected in the MTFS (**Appendix A, Annex 5, Section 3, para 5.52**).

The Corporate Policy Committee:

- e) Identifies any further budget change proposals, as related to the Committee's responsibilities, that could assist in presenting an overall balanced budget to Council for 2025/26.
- f) Recommend to Council the items below –

*That Council notes:*

- 1 The Report of the Council's Chief Finance Officer (Section 151 Officer), contained within the MTFS Report, regarding the robustness of estimates and level of reserves held by the Council based on these budget proposals (**Appendix A, Section 2, Section 25 Statement**).

*That Council, having given due regard to the report of the Chief Finance Officer, approves:*

- 2 The Revenue estimates for the 2025/26 budget (**Appendix A, Section 2, Overview**) and the medium-term Capital Programme estimates 2025-2029, as detailed in the Medium-Term Financial Strategy Report (MTFS) 2025-2029 (**Appendix A, Section 2, Capital budget**).
- 3 The setting of Band D Council Tax of £1,882.04 representing an increase of 4.99%. This is below the referendum limit (including 2% ringfenced for Adult Social Care) and arises from the provisional finance settlement (**Appendix A, Section 1, Key Funding Assumptions**).

**OR**

- 4 Subject to receiving permission from MHCLG, set a Band D Council Tax of £1,971.67 representing an increase of 9.99%. (See paragraphs 71 to 78).
- 5 The utilisation of up to £25.3m conditional EFS (Capitalisation Direction) via borrowing

to balance the 2025/26 budget shortfall (as reflected in **Appendix A, Section 2, Balancing the Budget**) and to delegate to the Chief Finance Officer (Section 151 Officer) to review the basis of funding through the 2025/26 year and report to the appropriate committee any recommended change to the funding basis of the EFS. The 2024/25 planned use of Flexible Capital Receipts is increased to £1.518m, an increase of £0.518m from the £1m approved in the 2024-28 Medium-Term Financial Strategy Report to fund transformational projects within the Council (**Appendix A, Section 1, Key Funding Assumptions**).

- 6 The 2025/26 planned use of Flexible Capital Receipts is £1.0m (**Appendix A, Annex 5, Section 3**).
- 7 The allocation of Revenue Grant Funding for 2025/26 of £397.080m (**Appendix A, Annex 3**), and delegates authority to the Chief Finance Officer, to approve supplementary estimates if the value of any named grant changes from the figures contained within Appendix A, Annex 3 (noting that all such variations will subsequently be reported to the appropriate committee, and that any new, previously unnamed, grants are subject to approval in-line with the Constitution).
- 8 The allocation of Capital Grant Funding for 2025/26 of £99.122m (**Appendix A, Annex 4**), and delegates authority to the Chief Finance Officer, to approve supplementary estimates if the value of any named grant changes from the figures contained within Appendix A, Annex 4 (noting that all such variations will subsequently be reported to the appropriate committee, and that any new, previously unnamed, grants are subject to approval in-line with the Constitution).
- 9 The Capital Strategy (**Appendix A, Annex 5**).
- 10 The Prudential Indicators for Capital Financing (**Appendix A, Annex 5**).
- 11 The Investment Strategy; including the financial limits for various classifications of investment, and the investment decision making process set out in the Strategy (**Appendix A, Annex 6**).
- 12 The Treasury Management Strategy (**Appendix A, Annex 7**) and the Minimum Revenue Position (MRP) Statement for 2025/26 to 2028/29 (**Appendix A, Annex 5**) which includes a change in the MRP Policy, with effect from 1 April 2024.
- 13 The Reserves Strategy (**Appendix A, Annex 8**), which includes proposed movements to and from reserves.

*That Council recognises that Corporate Policy Committee considered:*

- 14 The Budget Engagement exercise undertaken by the Council, as set out in the attached (**Appendix B**) and the results contained within that report.

## **Context for the Medium-Term Financial Strategy (MTFS)**

- 15 The MTFS and underpinning financial strategies underpin how Cheshire East Council will allocate resources, achieve the Cheshire East Plan and provide local services every day. The strategies must be affordable, based on robust estimates and balanced against adequate reserves.
- 16 The Cheshire East Plan 2021-25 was refreshed for 2024/25 and approved in July 2024. It articulates the vision of how these services will make Cheshire East an Open, Fair and Green borough:
- Open - We will provide strong community leadership and work transparently with our residents, businesses and partners to deliver our ambition in Cheshire East.
  - Fair - We aim to reduce inequalities, promote fairness and opportunity for all and support our most vulnerable residents.
  - Green - We will lead our communities to protect and enhance our environment, tackle the climate emergency and drive sustainable development.
- 17 **Appendix A, Annex 1** summarises the Cheshire East Plan on one page. A new Cheshire East Plan 2025-29 is now being developed in parallel to the budget as the MTFS is the resource plan for its delivery. This new plan is on the same agenda.
- 18 The MTFS and new Cheshire East Plan have been developed in parallel and the new plan aligns closely to the overall strategy for the original plan. Therefore, it is not expected that there will be any material changes that impact on the MTFS identified through the development of the delivery plan. If any material changes are identified later, these would need to be brought back for amended through Corporate Policy Committee and full Council.

## **The Financial Operating Cycle**

- 19 The Council operates a three-stage cycle to support its financial strategies, the stages are Plan, Monitor and Report. Progress against each element of this cycle is crucial to maintain sustainable services:

### **Plan**

- 20 The Council approved a four-year strategy in February 2024. In-year performance identified inflation factors and service growth that exceeded the budget, putting pressure on reserves.
- 21 The issues were also forecast to continue into the following financial year and beyond, therefore significant work had to be undertaken to mitigate these pressures as far as possible.
- 22 The reports received by committees in November 2024 set out the budget shortfall position for 2025/26 at that time and recommended that officers work with Members to develop further proposals to enable budgets to be managed within the overall estimated funding envelope for 2025/26.

- 23 At the time it was noted that further in-year analysis and the provisional local government funding announcements were due to follow and were then embedded into the current model.
- 24 Part of developing the plan is consulting and engaging with those potentially impacted. The Council launched local consultation on 19 December 2024 and reported the updated position at that time to all service committees during January.
- 25 Part of this consultation was around a new set of core budget principles included in the MTFS 2025-2029 as set out in **Appendix A, Section 1, Core Budget Principles**. These set out how we plan to prioritise funding over the life of the MTFS. Adhering to these principles is fundamental during times of exceptional financial pressure. The core budget principles are:
- Principle 1 – build and maintain an adequate level of reserves.
  - Principle 2 – raise Council Tax in line with the maximum allowable limit.
  - Principle 3 – optimise income generation.
  - Principle 4 – capital investment to maximise return on investment, align to the Council's Cheshire East Plan priorities and its Medium-Term Financial Strategy.
  - Principle 5 – alignment with the Cheshire East Plan aims.
  - Principle 6 – maintain tight financial control of in year budgets and management within budgeted cash envelopes.
  - Principle 7 – create and maintain central contingency and risk budgets to mitigate against the impact of short term non delivery of savings.

### **Monitor (and Manage)**

- 26 The Council regularly monitors the financial position and a single finance report is now considered at all service committees since the start of the financial year 2024/25. This ensures that there is a broader understanding of the overall financial health of the Council, as well as ensuring that financial decisions are not taken in isolation and without understanding wider implications than just a single service committee. It is important to note that monitoring also includes taking action where budgets are off track and is not just a passive assessment of our financial position.
- 27 The outturn position for 2024/25 is currently forecast to be an overspend of £18.3m at the Third Financial Review (FR3) position. The forecast has been reported to each service committee in January 2025, with detailed narrative on intended mitigating actions to reduce in-year and on-going pressures.
- 28 This financial year, an officer group, the Strategic Finance Management Board introduced weekly meetings, chaired by the S151 Officer and has led on a number of key tasks to urgently reduce spend and identify additional savings, including:
- (a) Line-by-line reviews of all budgets to further identify immediately any underspends and/or additional funding.



- (b) Stop any non-essential spend.
  - (c) Actively manage vacancies, particularly agency usage and reduce any overspends on staffing as soon as possible.
  - (d) Review of Section 106 legacy budgets, the effects of which are partly reflected in the FR3 forecast outturn as a one-off contribution to reserves.
  - (e) Review of capital receipts available and potential surplus assets that can be sold (for best consideration).
  - (f) Identification of any other areas of discretionary spend including grants awarded, where spend can be reduced or stopped.
  - (g) Review Debt management / overall level of bad debt provision – work undertaken to date, focusing on the Adult Social Care bad debt provision, has identified through adopting a new approach to reviewing and monitoring these debts, an improvement (reduction) of the Council's bad debt provision of £1.07m, further work is ongoing and will be updated at Outturn.
  - (h) Any directorate that is identified as being off target by more than 5% is subject to a detailed finance and performance review on a weekly basis through a financial recovery review process. This process has been put in place for Adults Services and Children and Families and has led to proposals in the current MTFS to appropriately right-size the budget based on the levels of activity in these services.
- 29 In addition to reporting at the formal 'financial review' points in the year, other progress reports have been taken to particular service committees on their items as appropriate. For example, reports on: high cost care packages in Adults and Children's Services; work between directorates to enhance the transition process from child to adult social care; safer walking routes for school children; libraries strategy; asset transfers and devolving services to town and parish councils; car parking; and the use of assets to support transformation of services (including for Special Educational Needs and Disabilities, and Extra Care Housing).
- 30 During the year, a working group, formed from members of the Finance Sub Committee, scrutinised the budget assumptions for income and expenditure that were included in the last approved MTFS report. These assumptions were revised as necessary for the next MTFS report in line with current information and analysis. **Appendix A** sets out the key expenditure and funding assumptions included in the MTFS 2025-2029.

## Report

- 31 Financial performance has been reported regularly to committees throughout 2024/25. This includes reporting on the final outturn position for 2023/24 which was presented in June 2024, and in-year financial reviews reported in September, November and January / February.
- 32 These reports are now single reports considered by all committees, and the way in which the reports were structured has been changed in this financial

year, including more performance and risk information but this will be built upon for the new financial year.

- 33 The reports have included information on budget variances, identification of any mitigating actions where budgets are off track, delivery against agreed savings as well as information on the Capital programme. It has also included information on corporate funding that all makes up the overall financial health of the organisation.
- 34 This MTFS includes the financial implications of transformational activity and so it will be important to embed more detailed reporting into the reports considered by committees for next year on this activity, especially where this will fall over more than one financial year.
- 35 Additional information on the Capital programme will also need to be included in the new financial year, including detail around the cost of borrowing especially given proposals around borrowing for EFS.
- 36 As important part of our reporting is our Statutory Accounts. The statutory accounts for 2023/24 were closed within the national deadline.

### **Transformation**

- 37 In the Section 25 report of the MTFS report approved by the Council for 2024/25, the S151 Officer stated that the Council must transform to create sustainable services and support infrastructure projects that reflect 'whole life' costs. This must cover the medium to long term and be backed by reserves that can manage any emerging risks.
- 38 As part of the Council's request for EFS, there were several conditions that would need to be met prior to formal approval, in summary the Council needed to:
  - Undergo an external assurance review on the Council's financial position and financial management policies, and the Council's work to improve its productivity and efficiency.
  - Produce an improvement and transformation programme within six months (by 27 August 2024) that is focused on delivering the Council's key objectives and securing the medium-term financial position.
  - The programme should incorporate any recommendations identified as part of the external review.
- 39 In August 2024, the Corporate Policy Committee considered the Council's Transformation Plan that required submission to the Ministry of Housing, Communities and Local Government (MHCLG) by no later than 27 August 2024. This was a formal requirement in order for the Council to access conditional EFS.
- 40 This Transformation Plan links closely with other improvement work, particularly in Children's services where the Council must respond to the external inspection and the need to improve outcomes for our children and young people. This transformation programme includes investment across all service



areas but is also aligned with the improvement plan following our ILACS (Inspection of Local Authority Children's Services) inspection.

- 41 As stated in previous reports, the Council needed to transform the way it delivers its services. Given that the gap between funding and our current responsibilities had been identified in February 2024 as growing to £100m by the end of 2027/28, including the need to replenish general reserves to a minimum of £20m.
- 42 During 2024/25, in developing this MTFS, the Council has worked with an external partner, Inner Circle, to develop a Transformation Plan. The Transformation Plan will support the delivery of approved/proposed savings, cost avoidance, cost mitigation and identify new savings for the coming years.
- 43 There are six programmes within the plan, each containing a range of projects and other initiatives across:
- Workforce
  - Social Care
  - Place
  - Early Intervention and Prevention
  - Digital
  - Special Projects
- 44 The revenue and capital implications for growth, investment and savings associated with the above initiatives have been reflected in the MTFS 2025/26 – 2028/29.
- 45 The approved Transformation Plan can be accessed here:  
<https://moderngov.cheshireeast.gov.uk/ecminutes/documents/s119439/CPC%20Transformation%20Plan%20V%200.01%20003.pdfBudget%202025/26>

## **Budget 2025/26**

- 46 **Appendix A, Section 2** sets out the S25 statement of the Chief Finance Officer (S151) and the planned response to setting the 2025/26 budget and reserves position and the transformational activity taking place during 2025/26 and beyond to help address the financial crisis the Council is facing.

## **The Medium-Term Financial Strategy (Key headlines)**

- 47 The Medium-Term Financial Strategy presented in **Appendix A** contains the following headlines for the 2025/26 financial year.
- 48 Overall net revenue spending on services is being increased by £26.7m to £402.4m in 2025/26, as shown in Table 1:

<b>Table 1: Summary position for 2025/26 to 2028/29</b>	<b>Revised Budget 2024/25 £m</b>	<b>Estimated Net Budget 2025/26 £m</b>	<b>Estimated Net Budget 2026/27 £m</b>	<b>Estimated Net Budget 2027/28 £m</b>	<b>Estimated Net Budget 2028/29 £m</b>
Adults, Health and Integration	138.0	159.4	157.2	158.8	160.2
Childrens Services	88.6	97.3	97.2	97.0	96.8
Place	92.2	91.0	95.2	96.6	103.8
Resources and Chief Executive's Office	41.7	42.8	47.2	49.1	50.6
Council Wide Transformation savings	0.0	-13.5	-34.2	-45.2	-45.2
<b>Total Service Budgets</b>	<b>360.5</b>	<b>377.1</b>	<b>362.6</b>	<b>356.3</b>	<b>366.1</b>
<i>CENTRAL BUDGETS:</i>					
Capital Financing	31.7	35.0	38.8	41.9	43.2
Flexible use of Capital Receipts	-1.0	-1.0	-1.0	-1.0	-1.0
Bad Debt Provision (change)	-0.1	-0.1	-0.1	-0.1	-0.1
Contingency Budget	0.0	16.0	30.9	42.8	55.7
Risk Budget	0.0	0.0	3.8	2.0	0.8
Pension adjustment	0.0	-0.7	-0.7	-0.7	-0.7
Use of (-) / Top up (+) Reserves	-15.4	1.3	5.0	8.9	8.9
<b>Total Central Budgets</b>	<b>15.2</b>	<b>50.5</b>	<b>76.6</b>	<b>93.7</b>	<b>106.8</b>
<b>TOTAL: SERVICE + CENTRAL BUDGETS</b>	<b>375.7</b>	<b>427.6</b>	<b>439.3</b>	<b>450.0</b>	<b>473.0</b>
<i>FUNDED BY:</i>					
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	-0.8	-0.8	-0.8	-0.8
Specific Unring-fenced Grants	-31.6	-37.1	-34.1	-34.1	-34.1
<b>TOTAL: FUNDED BY</b>	<b>-375.7</b>	<b>-402.4</b>	<b>-417.7</b>	<b>-437.0</b>	<b>-457.6</b>
Exceptional Financial Support - Capitalisation Direction		-25.3			
<b>Funding Position (+shortfall)</b>	<b>0.0</b>	<b>0.0</b>	<b>21.6</b>	<b>13.0</b>	<b>15.4</b>

Note – table may not add across/down due to roundings

- 49 Central government unringfenced grants (including Revenue Support Grant) will increase by £6.0m overall to £38.0m.
- 50 Funding from Council Tax increases by £20.2m, to £307.3m. This is on the basis of a proposed Council Tax increase of 4.99% from £1,792.59 to £1,882.04 for a Band D property. 2% (£5.7m) of the total Council Tax increase relates to Adult Social Care and partially supports the forecast growth in demand. This is set at the current limit for all councils.
- 51 Capital spending is forecast at £596.1m for the period 2025/26 to 2028/29 including £294m on Highways, £160m on Economy and Growth and £83m on Education and Children's Social Care.
- 52 The capital programme includes £142m for schemes that require financial contributions from Cheshire East for all or part of their funding.
- 53 In order to set a legally balanced budget, the Council has submitted an application to MHCLG to be allowed to have EFS. This is included in Table 1, and in this presentation assumes that this will be fully funded by borrowing. Further detail on this is included below.

### Capital Financing and Borrowing

- 54 In addition to funding from Council Tax, grants and other income, the Council also needs to appropriately manage its everyday cashflow through Treasury Management activity as well as consider how it funds its Capital programme.

All of this has an impact on the revenue budget, particularly in relation to the costs of borrowing to fund the Capital programme.

- 55 In order to reduce the significant pressure on the revenue budget the Council should aim to pay more back to current borrowing commitments in any one year than it adds with new borrowing, so bringing down the overall borrowing burden year on year to a more sustainable level.
- 56 As part of reviewing the MTFS, we undertook a Balance Sheet review through our Treasury Advisors, Arlingclose Ltd.
- 57 As part of that review, they considered the revenue impact of the current Minimum Revenue Provision (MRP) and Capital Financing Requirement (CFR) policy currently in place. We asked them to assess our alignment with current Chartered Institute of Public Finance and Accountancy (CIPFA) guidance.
- 58 As part of that review, they proposed changes which are set out in the Capital Strategy (**Appendix A, Annex 5, Section 3**) summarising the change in Accounting Policy required, and the effect of the change through the 2025/26 – 2028/29 MTFS against the Capital Financing Budget. In summary, these are below and set out in **Appendix A, Annex 5, Section 3, para 5.52**:
- 2024/25 £3.8m net improvement – to be reflected at Outturn
  - 2025/26 £4.2m net improvement – reflected in MTFS
- 59 Changes to the Accounting Policy need to be made in the current year 2024/25 due to new regulations coming in from 1 April 2025 and therefore have the benefit of reducing the 2024/25 charge to revenue with a betterment to the overall outturn position plus ongoing impacts from 2025/26 onwards reflected through the MTFS. Making such a change has long term implications and discussions with our external auditors, Ernst & Young, will take place before final implementation.
- 60 The Capital Financing Budget over the term of the MTFS will be impacted in several ways; the Dedicated Schools Grant deficit, EFS and borrowing to fund capital projects all have separate impacts and Table 2 below summarises those.

<b>Table 2: Capital Financing Budget - elements</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>2027/28 £m</b>	<b>2028/29 £m</b>
Interest Payable – DSG Deficit	5.6	6.4	7.4	7.4
Interest Payable – EFS	1.0	1.7	1.6	1.6
Interest Payable – Capital Borrowing	13.5	12.8	13.3	13.3
Interest receivable	(2.3)	(2.1)	(2.1)	(2.1)
<b>Total Net Interest</b>	<b>17.8</b>	<b>18.8</b>	<b>20.2</b>	<b>20.2</b>
MRP - EFS	0.5	1.3	2.1	2.2
MRP – Capital Borrowing	16.7	18.7	19.6	20.8
<b>Total MRP</b>	<b>17.2</b>	<b>20.0</b>	<b>21.7</b>	<b>23.0</b>
<b>Total CFB requirement</b>	<b>35.0</b>	<b>38.8</b>	<b>41.9</b>	<b>43.2</b>

61 The table assumes that the Accounting Policy change is adopted and that EFS is fully funded by borrowing.

62 As part of the building of the forecast for our borrowing costs, we need to make an assumption about what our likely Capital receipts will be over the life of the MTFS from the sale of any assets. Table 3 below sets out the latest prudent forecast for future year capital receipts based on the disposal programme.

<b>Table 3: Forecast – Prudent View</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28+</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Forecast (Prudent view)	9.07	10.94	12.75
Already included in MTFS / Capital Programme	(2.25)	(2.75)	(5.0)
<b>Additional Receipts Forecast</b>	<b>6.82</b>	<b>8.19</b>	<b>7.75</b>

63 It allows for some slippage / timing differences around actual receipts and adjustments for receipts already included in the currently approved MTFS 2024/25 either within the Capital programme or as part of the Capital Financing Budget.

64 As part of the strategic approach to balancing the 2025/26 budget and MTFS for 2025/26-2028/29, consideration will be given to the available capital receipts and their utilisation to support:

- Investment of transformational activities (e.g. revenue growth)
- Funding EFS costs – instead of additional borrowing – as set out in the Recommendations.
- Invest to save capital projects (E.g. transformation).

### **Dedicated Schools Grant (DSG) Deficit**

65 The risk to the Council remains regarding the High Needs spending from the Dedicated Schools Grant (DSG). The accumulated deficit is forecast to be £115.7m by the end of 2024/25. A statutory override was previously extended by a further two years by the previous Government, which means that DSG deficits do not have to be covered from the General Fund i.e. they are not cash backed up to 31 March 2026. The Provisional Settlement announcement by the current Government has delayed any update on the override until proposed reforms of the SEND system are announced. That is expected before the end of February 2025.

### **Exceptional Financial Support (EFS) (2024/25 and 2025/26)**

66 As noted in paragraph 27 above, the 2024/25 forecast in year overspend of £18.3m (as per Third Financial Review) will need to be funded from conditional £17.6m EFS (Capitalisation direction) and £0.7m from reserves. The forecast revenue cost of financing the £17.6m EFS over 20 years is £1.56m per annum and is reflected in the 2025/26 budget and MTFS 2025/26-2028/29.

- 67 Net revenue service expenditure in 2025/26 is expected to increase by £52.0m, however income from additional funding is only forecast to increase by £26.7m, creating a budget deficit of £25.3m, which will have to be funded by the use of conditional EFS (Capitalisation direction) due to lack of available reserves.
- 68 An urgent report was received by full Council on 11 December 2024, which was necessitated following a request from the Ministry of Housing, Communities and Local Government (MHCLG) received on 4 December 2024 to submit a formal request and supporting evidence for any EFS for future years by Friday 13 December 2024. At the same time, any revisions to previous in-principle decisions also needed to be submitted for the current year. The request at that time was £31.4m for 2025/26.
- 69 The revised gap for 2025/26 of £25.3m contained in Table 1 above now reduces the EFS required for 2025/26 by £6.1m. The paper also gave delegated permission to the S151 Officer to liaise with MHCLG on any changes following the finance settlement and other funding announcements which she will continue to do to advise them of the changes.
- 70 The use of EFS is included within this report based on it being in the form of a capitalisation direction, which is the most prudent view.

#### **Alternative option relating to Council Tax**

- 71 Cheshire East Council wrote to MHCLG to request permission to propose the option of increasing Council Tax above the referendum limit set by government.
- 72 The Council asked for permission, under arrangements for EFS, to propose an increase of up to 9.99%. This is 5% higher than the 4.99% increase or 'referendum limit', as set out by government in the local government finance policy statement 2025 to 2026. The MTFS attached at Appendix A has been prepared on the basis of a Council Tax increase of 4.99%, therefore this alternative option is only reflected in this section of the report.
- 73 The impact of that alternative option would be a revised budget shown in Table 4 below.
- 74 There would be increased Council Tax income in 2025/26 and over the medium term of £14.6m per annum with a further small residual incremental increase of c,£0.9m per annum from 2026/27 in line with the increasing taxbase.
- 75 This allows a small increase in the contingency budget in 2027/28 and 2028/29 which also may allow earlier replenishment of reserves.
- 76 Exceptional Financial Support in the form of a Capitalisation direction would be reduced from £25.3m to £10.6m and £6.1m in 2026/27.

<b>Table 4: Summary position for 2025/26 to 2028/29</b>	<b>Revised Budget 2024/25 £m</b>	<b>Estimated Net Budget 2025/26 £m</b>	<b>Estimated Net Budget 2026/27 £m</b>	<b>Estimated Net Budget 2027/28 £m</b>	<b>Estimated Net Budget 2028/29 £m</b>
Adults, Health and Integration	138.0	159.4	157.2	158.8	160.2
Childrens Services	88.6	97.3	97.2	97.0	96.8
Place	92.2	91.0	95.2	96.6	103.8
Resources and Chief Executive's Office	41.7	42.8	47.2	49.1	50.6
Council Wide Transformation savings	0.0	-13.5	-34.2	-45.2	-45.2
<b>Total Service Budgets</b>	<b>360.5</b>	<b>377.1</b>	<b>362.6</b>	<b>356.3</b>	<b>366.1</b>
<i>CENTRAL BUDGETS:</i>					
Capital Financing	31.7	35.0	38.8	41.9	43.2
Income from Capital Receipts	-1.0	-1.0	-1.0	-1.0	-1.0
Bad Debt Provision increase	-0.1	-0.1	-0.1	-0.1	-0.1
Contingency Budget	0.0	16.0	30.9	46.3	57.7
Risk Budget	0.0	0.0	3.8	2.0	0.8
Pension adjustment	0.0	-0.7	-0.7	-0.7	-0.7
Use of (-) / Top up (+) Reserves	-15.4	1.3	5.0	8.9	8.9
<b>Total Central Budgets</b>	<b>15.2</b>	<b>50.5</b>	<b>76.6</b>	<b>97.2</b>	<b>108.8</b>
<b>TOTAL: SERVICE + CENTRAL BUDGETS</b>	<b>375.7</b>	<b>427.6</b>	<b>439.3</b>	<b>453.5</b>	<b>475.0</b>
<i>FUNDED BY:</i>					
Council Tax	-287.1	-321.9	-341.1	-361.4	-382.9
Business Rate Retention Scheme	-56.6	-57.1	-57.1	-57.1	-57.1
Revenue Support Grant	-0.4	-0.8	-0.8	-0.8	-0.8
Specific Unring-fenced Grants	-31.6	-37.1	-34.1	-34.1	-34.1
<b>TOTAL: FUNDED BY</b>	<b>-375.7</b>	<b>-417.0</b>	<b>-433.2</b>	<b>-453.5</b>	<b>-475.0</b>
Exceptional Financial Support - Capitalisation Direction		-10.6			
<b>Funding Position (+shortfall)</b>	<b>0.0</b>	<b>0.0</b>	<b>6.1</b>	<b>0.0</b>	<b>0.0</b>

Note – table may not add across/down due to roundings

- 77 Any additional Council Tax would be an alternative way of funding current service provision and reduce the requirement to use capitalisation directions to be able to set a legally balanced budget. This would reduce the ongoing cost of borrowing over the next 20 years and would also increase the Council Tax base for the Council which would provide greater long-term financial sustainability.
- 78 At the time of writing this report, we have not been given a decision either way on the possibility of increasing Council Tax by up to an additional 5% and therefore the committee will need to consider any recommendation to full Council in that context. *At the time of publication, the recommendation further up in the report remains highlighted due to the Council awaiting a response from MHCLG.*

## Reserves

- 79 The Council needs to consider the appropriate level of reserves that it should hold. Reserves are amounts of money that are set aside for the following reasons:
- Earmarked reserves for specific purposes, recognising that expenditure will fall across different years from when the income related to that activity may be received.



- A “sinking fund” that smooths out expenditure that would otherwise create a single spike in one financial year. An example is an election reserve that spreads out a single years costs across the four year term.
- A general fund reserve that is set aside to mitigate against urgent expenditure that may be required due to an event outside the control of the Council.

80 Currently, the Council holds very low amounts of reserves and these have been historically low and reducing over a number of years. The MTFS must therefore deal with the replenishment of reserves whilst balancing the cost of doing so.

81 Table 5 below breaks down the current levels of reserves and the proposed replenishment of those reserves.

Table 5:

Earmarked Reserves	Opening Balance 01 April 2024 £000	Closing Balance Forecast 31 March 2025 £000	Closing Balance Forecast 31 March 2026 £000	Closing Balance Forecast 31 March 2027 £000	Closing Balance Forecast 31 March 2028 £000	Closing Balance Forecast 31 March 2029 £000
Adults and Health	5,226	2,378	1,399	1,399	2,796	4,194
Children and Families	1,724	0	0	0	0	0
Corporate Policy	20,772	7,618	7,587	5,256	7,411	11,656
Economy and Growth	2,777	903	0	0	0	0
Environment and Communities	870	152	0	0	0	0
Highways and Transport	908	488	400	400	400	400
<b>Earmarked Reserves Total</b>	<b>32,277</b>	<b>11,539</b>	<b>9,386</b>	<b>7,055</b>	<b>10,607</b>	<b>16,250</b>
General Fund Reserve	5,580	3,696	5,000	10,000	15,000	20,000
<b>Total Reserves</b>	<b>37,857</b>	<b>15,235</b>	<b>14,386</b>	<b>17,055</b>	<b>25,607</b>	<b>36,250</b>

82 At the 31 March 2025, the forecast balance in the General Fund Reserve will be £3.696m and the forecast balance in the earmarked reserves will be £11.539m of which, £2.378m is unallocated ring-fenced grant for Public Health specific use. The remaining earmarked reserves are set out below with the exception of £1.143m for Place Directorate services that are due to be fully utilised in 2025/26 (See **Appendix A, Annex 8, Section 4**).

83 The current balance in the General Fund does not align to the minimum level of reserves of £20m that the Council should be holding Therefore, the Council plans to increase the General Fund Reserve to £5m by 31 March 2026 and by £5m per annum over the medium term.

84 It is also recommended that any beneficial financial performance or additional income should be added to reserves in the first instance over the medium-term, which could reduce future years gaps earlier in the MTFS.

85 The strategy for managing reserves is included in the MTFS **Appendix A, Annex 8** and, the Council has set out some key principles that it needs to

continue to follow in the short and medium term to manage the financial uncertainty that it faces.

- 86 This includes an important Principle (7) – to create and maintain a central contingency and risk of undelivered savings budgets.
- 87 This recognises the request from Finance Sub Committee as reported in June 2024, to set aside a central contingency fund and risk budget against undeliverable savings to protect against the risk of underachievement of planned transformation savings and / or unforeseen growth in service budgets.
- Contingency Budget - The aim is to maintain this annual contingency budget over the medium term at 1.5% of the net revenue budget plus other known risks which if they materialise will be vired to the correct place during the financial year.
  - Risk Budget - The risk of underachievement of savings targets grows as more and more challenging savings are included in the budget setting. Setting aside a risk budget based on a percentage of the savings identified in any given year is prudent (currently 10%).
  - Any proposed use of these two Strategic Budgets in year will require the approval from both the Chief Executive and S151 Officer and will be determined against the criteria when creating the budgets as set out above. This will need to follow appropriate decisions to be approved and/or reported to the relevant committee at the earliest opportunity.
- 88 The following Strategic earmarked reserves are proposed within the Reserves Strategy (**Appendix A, Annex 8**), and in some cases, replenished over the four year MTFS as part of the Council's approach to improving the robustness of the MTFS and adequacy of Reserves:
- PFI Equalisation Reserve - Extra Care Housing – to meet future payments on the existing PFI contract.
  - Public Health unallocated ring-fenced grant – to be invested in areas to improve performance against key targets (subject to annual assurance sign off).
  - Insurance Reserve – to settle insurance claims and manage excess costs.
  - Transformation Reserve – to fund the Council's transformation programme costs.
  - Collection Fund Reserve - to manage cash flow implications as part of the Business Rates Retention Scheme.
  - Elections Reserve – to provide funds for Election costs every four years.
  - Flood Risk and Adverse Weather Events Reserve - to help the service manage risks such as the impact of adverse weather, specifically flooding or extensive periods where winter maintenance is required.
- 89 At 31 March 2026, the forecast balance in the earmarked reserves is £9.386m.
- 90 The proposals for the General Fund and the Earmarked Reserves are set out in **Appendix A, Annex 8**. It should be noted that the MTFS Earmarked Reserve

has been cleared as part of the movements to the General Fund Balance in forecasting the closing 2024/25 Reserves position.

- 91 Members will note within the Reserves Strategy (**Appendix A, Annex 8**), the proposal of building back the General Fund reserve to £20m in line with the Cheshire East Plan target, over the next four years. At 31 March 2025 these proposals anticipate that the balance will be £3.7m and a further contribution of £1.3m is planned for 2025/26 such that the General Fund reserve is £5m at 31 March 2026. In the event the 2025/26 pay award is higher than budgeted, the General Fund reserve will be used to support any difference in the first instance with the future year of the MTFS being adjusted to top up plans for future years.

### **Public Engagement on budget setting approach**

- 92 The Medium-Term Financial Strategy has been developed during 2024 and an online budget engagement survey was published on 19 December 2024.
- 93 During the engagement exercise, there were 304 responses, with additional feedback being provided by the Council's service committees. Appendix B provides information on the responses. A summary of feedback is provided below:
- 94 Budget engagement for 2024 to 2025 invited respondents to share their views on six principles that the Council proposed to use to shape its budget and financial strategy for 2025 to 2029.
- 95 Feedback on the principles is summarised below:
- 96 **Principle 1 - Resizing and reshaping the budget to protect services and support for Cheshire East residents who are most in need.** - Many supported funding for services that help the most in need, and recognised that the Council has an obligation to deliver these services. However, some respondents voiced concerns about this being at the expense of universal services for everyone. Some also responded expressing the view that social care should be funded by central government rather than Council Tax payers.
- 97 **Principle 2 – Investing in children's services – for example recruiting to additional posts to deliver the children's services improvement plan.** There was significant support for investment in Children's services and Children's services improvement – however, some respondents voiced similar concerns to those raised in relation to Principle 1 – that the council should set its budget to provide services for everyone equally and not focus on particular groups. Others felt that the budget was big enough, and that efficiencies should be sought before further recruitment was considered.
- 98 **Principle 3 – Investing in adult social care to ensure our budgets reflect the anticipated growth in demand and increasing complexity of need for those who require the most help – including ensuring that growing demands and staffing costs are fully funded in the budget.** People recognised that there is not enough money in the system to sustain social care services at current levels. Respondents also cited the challenge of recruiting to adult social care services. However, some were concerned about staffing costs. Other comments questioned who this support was for, reflecting comments made about Principles 1 and 2 about services for all.

- 99 **Principle 4 – Delivering transformation projects – doing things differently, including better management of grants, fees and charges for services, and focusing on helping people with additional needs to live more independently for longer, helping to put the council on a more sustainable financial footing for the long-term.** There was significant support from many respondents supporting transformation, however, some expressed concerns about the cost of transformation and what is actually deliverable. Some wanted more information in order to form a view. Some respondents, in responding to this and other principles also stated opposition to raising Council Tax.
- 100 **Principle 5 – Addressing new external costs, such as the increase in National Living Wage which can mean that the services the council commissions from external providers, including many adult social care services, cost more.** Respondents raised concerns about expenditure on external providers and ‘unnecessary projects’. Others commented on national government policy in relation to National Insurance and National Living wage.
- 101 **Principle 6 – Looking for other ways to change services to reduce costs, avoid costs, or increase income.** Respondents put forward a number of views and suggestions for other ways to change services to reduce costs, avoid costs, or increase income. These included improving productivity and efficiency, bringing more services back in house, reducing costs and use of consultants and stopping what were considered projects that do not have “measurable (£) benefits”.
- 102 Respondents were also asked how they get information about Council services and their communications preferences. These responses will inform the communications and engagement approach. Some voiced concerns about the Council’s approach to consultation and engagement, with some feeling the Council does not listen to residents.

### **Consultation with the business community**

- 103 The business planning process consisted of a business community survey, mirroring the main public engagement survey, which closed on 2 February 2025. A verbal update on responses to this survey will be provided at the meeting.

### **Reasons for Recommendations**

- 104 In accordance with the Budget and Policy Framework Rules of Procedure, Corporate Policy Committee has responsibility to recommend the Medium-Term Financial Strategy to Council for approval.
- 105 The recommended MTFS should be balanced to support the Council in its statutory duty.
- 106 The Council’s Section 151 Officer report, in accordance with Section 25 of the Local Government Act 2003 and Sections 32 and 43 of the Local Government Finance Act 1992, as amended by the Localism Act 2011, is included within the MTFS and provides commentary on the robustness of the estimates making up the Council Tax Requirement of £307,263,921. This is based on a total 4.99% Band D increase, which includes a 2% precept ringfenced specifically for Adult

Social Care services. Additionally, the report comments on the adequacy of the financial reserves for the Council. The S.25 statement of the Council's S151 Officer is included **Appendix A, Section 2** and Members should have due regard of this report in making their recommendations to Council or giving approval to recommendations at Council.

- 107 Further to the above statement it can be reported that the Medium-Term Financial Strategy Report 2025/26 to 2028/29 (**Appendix A**) is based on sound financial principles and reflects sufficiently detailed plans that can be implemented in a timely manner.

### **Other Options Considered**

- 108 The Council has a legal duty to set a balanced annual budget taking regard of the report from the Chief Finance Officer. Options cannot therefore be considered that would breach this duty. Any decision of the Committee must still recognise the requirement for the Council to fulfil this duty.
- 109 There is no option to “do nothing” to support spending plans for the Council in 2025/26. The Council has statutory obligations to provide certain services, which would be unaffordable based on the latest forecasts if the Council failed to levy an appropriate Council Tax.
- 110 The Council will continue to explore options to provide financial benefits through efficiencies, enhanced digital services, process reviews and sale, transfer or leasing of surplus assets.

### **Implications and Comments**

#### *Monitoring Officer/Legal*

- 111 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.
- 112 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 Officer (S151) as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.
- 113 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.

- 114 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.

#### *Section 151 Officer/Finance*

- 115 Please see all Sections of this report.
- 116 The Section 25 Statement of the Section 151 Officer provides information on the process and professional judgement of the Budget 2025/26. This is provided on page 42 of **Appendix A**.

#### *Policy*

- 117 The MTFS report outlines policy and budget proposals which will impact on service delivery arrangements.
- 118 The Cheshire East Plan will drive and inform Council policy and priorities for service delivery. The priorities and actions listed may have direct policy implications will be considered on a case-by-case basis.

#### *Equality, Diversity and Inclusion*

- 119 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.
- 120 The protected characteristics are age, disability, sex, race, religion and belief, sexual orientation, gender re-assignment, pregnancy and maternity, and marriage and civil partnership.
- 121 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.
- 122 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.
- 123 The proposals within the MTFS may include positive and negative impacts for individuals, groups and communities. A separate Equality Impact Assessment



for the budget as a whole is routinely included in the full MTFS report each year (See **Appendix A, Annex 11**).

- 124 The Cheshire East 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*

- 125 A number of the proposals will impact on staff. See **Appendix A, Section 2** for full list of change proposals.
- 126 Any restructures will follow the Council's established processes and will include consultation and engagement with staff and Trade Unions.

#### *Risk Management*

- 127 The steps outlined in this report mitigate the four main legal and financial risks to the Council's financial management arrangements:
- The Council must set a balanced Budget.
  - Setting the Council Tax for 2025/26 must follow a compliant process.
  - The Council should provide high quality evidence to support submissions for external assessment.
  - That Council borrowing will comply with the Treasury Management Strategy which is underpinned by the Prudential Code.
- 128 A risk assessment of the significant proposals being put forward has been carried out by each service and is included as part of the planning process.
- 129 It is important to note that the Council faces significant financial challenges in achieving its desired outcomes. Management of risk is embedded within the organisation to ensure the Council can seize opportunities, introduce new, innovative models of service delivery, focus on improving outcomes for residents and review its range of services whilst identifying and controlling any resulting risks. The approach to risk management will continue to be assessed as the Council's plans and financial strategy are implemented.

#### *Rural Communities*

- 130 The Cheshire East Plan, along with the 'Green' aim and supporting priorities will have direct and indirect implications for our rural communities across Cheshire East. These impacts will be considered and reported through individual work programmes as they are developed.
- 131 The MTFS report provides details of service provision across the borough. See **Appendix A, Section 2**.

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

- 132 The Cheshire East Plan, along with the 'Fair' aim and supporting priorities will have direct and indirect implications for children and young people and cared for children which will be considered individually and in line with the actions

required. These impacts will be considered and reported through individual work programmes as they are developed.

133 See **Appendix A, Section 2.**

#### *Public Health*

134 The Cheshire East Plan, along with the 'Fair' aim and supporting priorities will have direct and indirect implications for public health which will be considered individually and in line with the actions required. These impacts will be considered and reported through individual work programmes as they are developed.

135 See **Appendix A, Section 2.**

#### *Climate Change*

136 The Cheshire East Plan has a very strong environmental thread throughout with a specific aim for the Council to be 'Greener'.

137 A number of priorities and activities are listed which will support the Council's commitment of being carbon neutral.

<b>Access to Information</b>	
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Appendices:	Appendix A – Medium Term Financial Strategy 2025-2029 Appendix B – Budget Consultation Report
Background Papers:	The following are links to key background documents: <a href="#">Cheshire East Plan 2024/25</a> <a href="#">Medium-Term Financial Strategy 2024-28</a> <a href="#">Corporate Policy Committee 21 August 2024 - Approved Transformation Plan</a> <a href="#">First Financial Review 2024/25</a> <a href="#">Second Financial Review 2024/25</a> <a href="#">Third Financial Review 2024/25</a>

	<a href="#"><u>Council Tax base 2025/26</u></a> <a href="#"><u>Budget Consultation</u></a>
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