Appendix A2 - Budget Assumptions Medium-Term Financial Strategy 2026-2030

The notes below provide additional detail on budget assumptions within the MTFS. These assumptions will assist members, committees and officers in developing proposals for consultation as part of the process to set the 2026-2030 MTFS.

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

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

Total Service Budgets

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

2 Pension rates are included for 2025/26 at the latest triennial valuation carried out during 2022, covering the period 1 April 2023 to March 2026. The forecast was for a further reduction for 2025/26 of 1.5% taking the pension payover total to 23.7% for employees in the Local Government Pension Scheme. Future years pension rates are forecast to reduce in line with early estimates for the next triannual valuation. Payover rates are anticipated to drop to 20%/19%/18% respectively for 2026/27 to 2028/29.

3 Income from fees and charges and service specific grants is also included in the net service budgets. There is no mandatory central increase applied to all fees and charges. Instead, services complete a Charging strategy to assist in optimising the level of income received from fees and charges based on market forces and user behaviour. This is under review during 2025/26 to consider a change to a blanket inflationary increase where possible. Grants that relate to a specific service are treated as service income as conditions apply that will prevent spending on such grants on other services. A full list of grants is included as an appendix in the MTFS.

Central Budgets

4 **Capital Financing**: The Capital Financing budget represents the revenue implications of the capital programme. It includes interest payments on borrowing for example but also includes the revenue income from investments. High inflation, high interest rates on borrowing, including the interest that the Council is paying for holding

the Dedicated Schools Grant deficit on the balance sheet (estimated at £6.4m for 2026/27) and a large capital programme results in increased need for annual revenue. In addition, EFS also adds a further revenue requirement to the capital financing budget and these factors together are projected to cause a significant budget increase for 2026 onwards.

5 The current assumption on project delays is that unspent capital budgets will automatically be slipped into the next financial year unless re-profiled to future years. The assumption for 2026/27 will be that the MTFS 2025-29 approved budget of £173.1m and the slippage from 2024/25 of £56.3m is the revised budget for 2025/26.

6 **Income from Capital Receipts**: Sale of Council assets usually provides a capital receipt. The Council is permitted to use such receipts to fund transformation costs or fund items within the Capital Programme. The 2025/26 to 2028/29 MTFS proposes the continued annual use of £1m to support transformation costs. Expectation of annual receipts at this level is reasonable based on recent trends of income from Right-to-Buy properties and Farms Estate sales and assets no longer required by the Council (surplus assets). There is a disposals programme underway which is seeking to bring in greater capital receipts over the next few years than those currently built into the balancing of the MTFS. Due to the uncertainty of the timings of these receipts no assumption is currently included on their use but the intention is that they will be utilised in the most beneficial way to support the council's financial position. This may be through supporting the revenue of EFS, capital projects currently planned to be funded from borrowing or towards the revenue cost of transformational projects (as flexible capital receipts).

7 **Contingency Budget:** A central contingency budget has been created in order to mitigate the risks around inflation for the Council. This is alongside growth in the budget for demographic pressures, as well as an adjustment to recognise the existing pressures on the care budget. This will not be distributed to service budgets until fully identified and agreed. If any of this is unused at the end of the relevant financial year the priority for this should be to consider whether earlier replenishment of reserves would be financially beneficial in the medium-term. A virement from this budget of up to £0.7m to the Children and Families budget to cover inflationary pressures in 2025/26 was approved by Finance Sub Committee in March 2025, plus a virement of up to £8m to the Adults and Health budget to cover inflationary pressures in 2025/26 (subject to approval at full Council) was recommended to be approved at that same committee meeting.

8 **Risk Budget:** Additional to the contingency budget a risk budget to mitigate against non-delivery of any savings or delay in delivery has been included from 2026/27.

9 **Central Pension adjustment:** This item is the opposite income budget to the growth item in the Environment and Communities area which brings the service budgets for all staffing up to the same point regarding pension contributions after the bringing back in house of ANSA. This has a net nil impact for the Council as a whole.

10 **Use of / Contribution to Reserves**: this is the planned top up of the General fund reserve back up to £20m by the end of the medium term. In later years there is also the plan to reinstate other Earmarked reserves of the Insurance and PFI reserves. For further information on reserves levels see Annex 8 of the MTFS.

Funded By:

11 **Council Tax**: The level of income the Council receives from Council Tax is based on two main variables; Council Tax levels set by Cheshire East Council and the number of properties charged, referred to as the taxbase. Appendix A1 sets out the specifics that make up the Council Tax budget. This includes the following items –

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

(b) Percentage increase (ASC precept) – additional flexibility to raise income to support Adult Social Care has once again been granted by Central Government.

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

(d) Taxbase – the taxbase calculation is the number of Band D equivalent properties in the borough after taking account of reductions for discounts, exemptions, collection rates, council tax support payments and premium property income. There has been a steady increase in the taxbase per annum due to increased house building in line with, or in some cases exceeding, the Local Plan targets. The medium term includes estimated increases at c.0.9% as house building appears to be levelling off more in line with the Local plan estimates of 1,800 p.a.

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

(f) Empty Homes Premium - In common with most Billing Authorities, Cheshire East Council charges a Council Tax premium of 100% on property that has been empty for 1 year or more in order to encourage homes to be brought back into use. The Local Government Finance Act 1992 (amended) enables Councils to charge a premium on empty properties. Cheshire East now charges the following premiums for empty properties:

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

(g) The Government's Levelling Up and Regeneration Bill received royal ascent on 26 October 2023 and included a further discretionary option for the application of Council Tax premiums on furnished second homes subject to a 12 month notice period. This was approved as part of the MTFS 2023-27 in February 2023 subject to the passing of the Bill. Therefore, the introduction of the 100% premium on furnished second homes will come into effect on 1 April 2025. The additional income due to be raised from the introduction of this premium (subject to some exclusions to the premium) is estimated to be £1.2m and has been included in the calculation of the taxbase for 2025/26.

(h) No changes are proposed to the Council Tax Support scheme for 2025/26 other than to increase the income bands and non-dependant deductions in line with CPI. This continues the higher levels of support for those on the lowest income. The scheme will be reviewed again during 2025/26 ready for 2026/27.

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

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

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

12 **Business Rates Retention**: the current scheme is very complex and the system of tariff, levies and compensation grants makes it extremely challenging to estimate business rates with any great certainty. The budget for business rates is therefore forecast to remain static over the medium term and any fluctuations are managed through the Collection Fund earmarked reserve. Current values for each of the discounts and exemptions are set out in Appendix A1. The government intend to review business rate retention including a reset of the business rates baseline in time for 2026/27.

13 **Revenue Support Grant**: this is currently very low at £0.8m per annum (increased by £0.4m on the 2024/25 level due to the rolling in of some other grants). The government intends to review this grant as part of the Fairer Funding Review, now due to be implemented in time for 2026/27.

14 **Specific Unringenced Grants**: Appendix A1 lists the main specific grants receivable and current values. Only the unringfenced grants are included in the funding envelope as shown in Table 1. These total £37.1m for 2025/26.

15 **Exceptional Financial Support (EFS):** EFS is temporary financial assistance provided by the UK government to local authorities facing severe financial difficulties. This support helps councils meet immediate financial obligations and avoid insolvency. Local authorities must demonstrate that they have exhausted all other options before receiving EFS. This will be in the form of a capitalisation direction. This allows local authorities to treat certain revenue expenditures as capital expenditure. This means these costs can be funded by borrowing or from capital receipts (e.g., from the sale of assets) instead of the revenue budget, which must be balanced annually. The value applied to balance the 2025/26 budget is £25.3m. If further in year betterment can be made to reduce this value then that will reduce borrowing costs associated with using this vehicle for funding.