

OPEN

## **Finance Sub-Committee**

**02 June 2025**

### **Medium Term Financial Strategy Assumptions - update 2026/27 to 2029/30 (Finance Sub Committee)**

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**Report of: Executive Director of Resources and Section 151 Officer**

**Report Reference No: FSC/05/25-26**

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

**For Decision or Scrutiny: Both**

#### **Purpose of Report**

- 1 This report confirms the baseline assumptions for net revenue expenditure and core funding, to assist with development of the Medium-Term Financial Strategy (MTFS) 2026 to 2030.
- 2 The assumptions in this report provide early planning oversight for each Service Committee as part of the 2026/27 budget setting process. At this stage the figures are based on the MTFS approved at full Council on 26 February 2025 plus any known updates since that time. Approving these indicative figures now and providing a high-level timeline allows Members, Committees and Officers to begin early development of financial proposals for consultation in line with the Transformation work already underway.

#### **Executive Summary**

- 3 The Medium-Term Financial Strategy (MTFS) for Cheshire East Council for the four years 2025/26 to 2028/29 was approved by full Council on 26 February 2025.
- 4 The MTFS is underpinned by a set of assumptions around income, expenditure and core funding that result in a 4-year position. The budget could only be balanced for the 2025/26 financial year by the use of Exceptional Financial Support (£25.3m) by way of capitalisation

direction. This is not sustainable in the medium to long term and needs to be addressed urgently for the Council to be financially sustainable.

- 5 The gaps forecast in later years must be addressed as part of the business planning process this year as well as the Council learning to live within its means by delivering all savings and containing approved growth within 2025/26 otherwise this increases pressure in future years and widens the gap that will have to be closed.
- 6 These assumptions are reviewed on an annual basis and are adjusted for information as and when it becomes available including Central Government announcements as part of the Local Government Provisional Settlement in late December every year.
- 7 The UK Government announced in December 2024 that it would introduce a new assessment of need and resources starting from the 2026/27 financial year. This builds on the framework set out in the previous government's review of Relative Needs and Resources, originally known as the Fair Funding Review. The Local Government Association (LGA) has been actively collaborating with councils and the Government to advance these proposals. Further information is contained in paragraphs 23 to 27 below.
- 8 The Finance Sub-Committee are being asked to confirm the current assumptions and note the 2026/27 growth already identified against predicted funding levels, resulting in a **forecast shortfall of £21.6m**. All Committees areas are being asked to start to develop plans in preparation for budget consultation and engagement events in the autumn of 2025 as per the timeline set out in Appendix B to start to address the new year gap.
- 9 The Sub-Committee is also being asked to again form a Working Group to further review these assumptions over the summer with the aim of feeding back in September. Feedback will reflect any up-to-date information that could change the service or central budgets, or the funding envelope, before the launch of the Budget Consultation for 2026/27, including any firmer indications of changes as a result of the Fair Funding / Business Rates reset changes.
- 10 The Finance Sub-Committee are also being asked to approve the MTFS timeline at Appendix B which builds on the draft timetable that was approved at Finance Sub-Committee on 10 March 2025 and layers in the continuation of the transformation programme which runs alongside the business planning activity started in 2024/25.

## RECOMMENDATIONS

The Finance-Sub Committee is asked to:

1. Approve the budget assumptions underpinning the Medium-Term Financial Strategy for 2026-30, for planning purposes, as set out in **Appendix A1 and Appendix A2**.
2. Approve the setting up of a Finance Sub-Committee Assumptions Working Group to meet informally with the Chief Finance Officer/S151 to review the current assumptions and any information released regarding the Fairer Funding and Business Rates reset changes with the aim of feeding back to the September committee meeting. The group is to be made up of at least four members of the Sub-Committee.
3. Note the predicted shortfall for 2026/27 as shown in Table 1 and 4. All Committees areas are being asked to start to develop plans in preparation for budget consultation and engagement events in the autumn of 2025 to start to address the new year gap.
4. Approve the MTFS timeline for 2025/26 as set out in **Appendix B**.

## Background

- 11 The Medium-Term Financial Strategy (MTFS) for Cheshire East Council for the four years 2025/26 to 2028/29 was approved by full Council on 26 February 2025.
- 12 Table 1 below sets out the revenue budget estimates for the four years from 2025/26 to 2028/29.

<b>Table 1 – Revenue Budget</b> (See Appendix A2 for further commentary on budget rows)	<b>Approved Net Budget 2025/26</b> £m	<b>Estimated Position 2026/27</b> £m	<b>Estimated Position 2027/28</b> £m	<b>Estimated Position 2028/29</b> £m
<b>Total Service Budgets</b>	<b>377.1</b>	<b>362.6</b>	<b>356.3</b>	<b>366.1</b>
Central Budgets:				
Capital Financing	35.0	38.8	41.9	43.2
Income from Capital Receipts	(1.0)	(1.0)	(1.0)	(1.0)
Contingency Budget	16.0	30.9	42.8	55.7
Risk Budget	-	3.8	2.0	0.8
Pension/Bad Debt Provision adj	(0.8)	(0.8)	(0.8)	(0.8)
Use of (-) / Contribution to (+)	1.3	5.0	8.9	8.9
Reserves				
<b>Total Service and Central Budgets</b>	<b>427.6</b>	<b>439.3</b>	<b>450.0</b>	<b>473.0</b>
Funded by:				
Council Tax	(307.3)	(325.6)	(345.0)	(365.5)
Business Rate Retention	(57.1)	(57.1)	(57.1)	(57.1)
Revenue Support Grant	(0.8)	(0.8)	(0.8)	(0.8)
Specific Unringfenced Grants	(37.1)	(34.1)	(34.1)	(34.1)
<b>Total Funding</b>	<b>(402.4)</b>	<b>(417.7)</b>	<b>(437.0)</b>	<b>(457.6)</b>
<b>Exceptional Financial Support</b>	<b>(25.3)</b>			
<b>FUNDING POSITION (Cumulative)</b>	<b>-</b>	<b>21.6</b>	<b>13.0</b>	<b>15.5</b>

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

- 13 The table above highlights the fact that the Council still faces a four-year funding gap and was only balanced for 2025/26 by the use of Exceptional Financial Support totalling £25.3m. The medium term forecast also includes the plan to increase General Reserves to £20m to bring the Council up to more appropriate reserves levels to assist with future financial sustainability.
- 14 As was noted at the time of setting the MTFs, a factor affecting our future financial sustainability is the increasing cost of Capital over the life of the budget. This is impacted by a number of factors including increases in borrowing rates, where we have chosen to forward fund capital schemes before some monies are received, the impact of borrowing against our DSG deficit and the cost of financing Exceptional Financial Support via borrowing.
- 15 Table 2 sets out the revenue and capital budget for 2025/26 as split over the Committees:

Table 2: Revenue and capital budgets allocated to service committees as per the approved MTFS	Revenue Budget			Capital Budget	Total Revenue and Capital Budget
	Service Area	Expenditure £000	Income £000	Net Budget £000	£000
	Adults and Health	252,154	-92,705	159,449	389
	Children and Families	107,383	-10,095	97,288	37,723
	Corporate Policy	108,802	-66,014	42,788	12,745
	Corporate Policy – Council Wide Transformation	-12,702	-750	-13,452	
	Economy and Growth	38,144	-9,703	28,441	36,081
	Environment and Communities	68,964	-23,263	45,701	19,357
	Highways and Transport	28,370	-11,469	16,901	66,782
	Finance Sub – Central	54,012	-3,492	50,520	
	<b>Total Cost of Service</b>	<b>645,127</b>	<b>-217,491</b>	<b>427,636</b>	<b>173,077</b>
	<b>Total Funding</b>		<b>-402,375</b>	<b>-402,375</b>	
	Exceptional Financial Support	-25,261		-25,261	
	<b>Net Position</b>	<b>619,866</b>	<b>-619,866</b>	<b>-</b>	

- 16 Table 3 below sets out the capital budget and funding for the four years from 2025/26 to 2028/29.

Table 3 – Committed and New Capital Schemes	Prior Years £m	Four Year Forecast				Total £m
		2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	
<b>Expenditure</b>						
Adults and Health	0	0.4	0	0	0	0.4
Children and Families	41.3	37.7	24.1	20.7	0	123.8
Corporate Policy	68.4	12.7	4.9	3.8	0.6	90.5
Economy and Growth	135.5	36.1	30.7	42.4	45.8	290.3
Environment and Communities	14.5	19.4	2.3	5.5	10.0	51.6
Highways and Transport	309.9	66.8	55.5	51.6	124.1	607.8
<b>Total Expenditure</b>	<b>569.6</b>	<b>173.1</b>	<b>117.4</b>	<b>124.0</b>	<b>180.4</b>	<b>1164.4</b>
<b>Funding</b>						
Grants and Other Contributions	262.7	122.8	93.2	70.5	142.9	<b>692.1</b>
Capital Receipts	1.8	0.7	1.3	21.9	11.6	<b>37.3</b>
Borrowing	305.1	49.6	22.9	31.6	25.9	<b>435.0</b>
<b>Total Funding</b>	<b>569.6</b>	<b>173.1</b>	<b>117.4</b>	<b>124.0</b>	<b>180.4</b>	<b>1164.4</b>

### Budget Assumptions and Task Group

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

### Estimated budget envelopes for 2026/27

- 19 Table 4 below highlights the net change in budget envelopes for each Committee area as estimated within the MTFS 2025-29. Further work will need to be undertaken to help reduce the overall net growth level or identify further savings to help bring this forecast shortfall for 2026/27 to a balanced position.

- 20 The Council continues to engage external partners to work alongside officers and members to identify and deliver opportunities to transform the way the Council delivers its services. These will help the Council live within its means and can contribute to ensuring that committees are able to operate within the effective cash limits per committee.
- 21 For 2025/26 and 2026/27 this includes £13.5m and a further £20.7m of permanent cross Council savings that were included in the approved MTFS in February 2025. Further work to allocate out these savings across relevant committees is underway as part of the Transformation Board remit.

#### Fairer Funding Review and Business Rates Retention Baseline Reset

- 22 The Government has initiated a technical consultation on the approach to resetting business rates baselines, which began on 8 April 2025, and will close on 2 June 2025. The consultation seeks views on updating the Government's assessment of available business rates through revised baselines. The reset is scheduled to take effect from April 2026 alongside the resources and needs change in the rest of the settlement.
- 23 The 2026/27 Fair Funding Review and Business Rates Retention Reset will have several impacts on local councils:

#### Fair Funding Review:

- (a) **Redistribution of Funds:** The review aims to allocate funding more equitably based on updated assessments of need and resources. This could mean some councils receive more funding if they are identified as having greater needs.
- (b) **Financial Planning:** Councils will need to adapt their financial strategies to align with the new funding formulas. This might involve reassessing priorities and reallocating resources to meet the revised criteria.
- (c) **Service Provision:** Councils may need to adjust the services they provide, focusing more on areas identified as high-need. This could lead to changes in local services such as social care, education, and housing.

#### Business Rates Retention Reset:

- (d) **Revenue Changes:** The reset will update the baselines for business rates, potentially altering the amount of revenue councils can retain. This could impact their budgets and financial stability.

- (e) Incentives for Growth: Councils might be incentivised to boost local economic growth to increase their business rates revenue. This could lead to more initiatives aimed at attracting businesses and investment.
  - (f) Financial Uncertainty: The reset introduces a level of uncertainty as councils will need to adapt to new baselines and potentially fluctuating revenues.
- 24 Overall, these changes are designed to create a more balanced and fair distribution of resources, but they will require councils to be flexible and proactive in their financial planning and service delivery.
- 25 Councils will receive firmer details following the Spending Review announcement by the Chancellor on 11 June 2025. This review will set out the three-year budgets for government departments, including local councils, covering the period from 2026/27 to 2028/29.
- 26 The impact on the Council of the Fairer Funding Review and Business Rates Retention scheme reset is not yet known, but based on the final settlement for 2025/26 the direction of travel that the Government is taking is to direct greater levels of funding towards “deprived” areas and Metropolitan authorities. Therefore, the settlement funding levels estimated for 2026/27 could be less than currently anticipated. There is likely to be an element of Council Tax equalisation which considers how much revenue an authority can raise locally resulting in lower Government support if that level is deemed to be high. There will also be an element of “damping” within the scheme that will help to phase in any detrimental changes in funding levels.

Table 4	MTFS		
	2025/26 approved budget £m	2026/27 Net budget change £m	2026/27 forecast budget £m
Adults and Health	159.4	-2.2	157.2
Children and Families	97.3	-0.1	97.2
Corporate Policy	42.8	+4.4	47.2
Corporate Policy – Council Wide Transformation	-13.5	-20.7	-34.2
Economy and Growth	28.4	+0.7	29.1
Environment and Communities	45.7	+3.3	49.0
Highways and Transport	16.9	+0.2	17.1
Finance Sub (Central)	50.5	+26.1	76.6
Total Service Budget	427.6	+11.6	439.3
Finance Sub (Funding)	-402.4	-15.3	-417.7
<b>Net Position (+gap)</b>	<b>+25.3*</b>	<b>-3.6</b>	<b>+21.6</b>

\*Funded via Exceptional Financial Support

- 27 Finance Sub Committee, and all service committees are being asked to review these estimated budget positions and focus further transformation work and savings ideas generation work to reduce down the predicted shortfall in funding. Early ideas to close the gap are to be submitted by July/August as per the timeline at Appendix B and committees are encouraged to work together to achieve the balancing of the net budget in totality to match the overall funding envelope available.
- 28 Further detailed review work will continue during the first quarter of 2025/26 to fully analyse the 2024/25 outturn results and the impact that may have on the current financial year (2025/26) but also 2026/27 and beyond. Therefore, the indicative 2026/27 position will need to be kept under review and amended as further information comes to light.
- 29 As further information becomes available, including as a result of the Fairer Funding and Business Rates reset this will be factored into the overall position and appropriate Member briefings undertaken

#### Timeline

- 30 The MTFS timeline included at Appendix B for approval sets out the business planning process for the year through to setting of the 2026/27 budget at full Council in February 2026. The transformation work currently underway has been overlaid with the business as usual process to align the two and continue to deliver both projects in tandem and help avoid any duplication or gaps.

#### Update on 2025/26 budget

- 31 On 22 April 2025 there was an update from the National Employers regarding the LGS pay offer for 2025. They have made their final offers of a 3.20% pay increase to each of the negotiating groups they are responsible for that impact Cheshire East Council. This is above the level of pay inflation that was factored into the MTFS for 2025/26 (2.5%). Early estimates put the pressure at c.£1.6m. In the first instance this pressure will likely be funded from the central contingency budget which was set aside for such items. This permanent pressure will also have to be factored into the budget setting for 2026/27.

### **Consultation and Engagement**

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

consult with other stakeholder groups. The Council continues to carry out stakeholder analysis to identify the different groups involved in the budget setting process, what information they need from us, the information we currently provide these groups with, and where we can improve our engagement process.

- 33 The business planning process for 2025/26 consisted of a business community survey, mirroring the main public engagement survey, which closed on 2 February 2025.

## **Reasons for Recommendations**

- 34 The Finance Sub-Committee co-ordinates the management and oversight of the Council's finances, performance and corporate risk management arrangements. The Sub-Committee will make recommendations to the Corporate Policy Committee regarding the development of the Medium-Term Financial Strategy and the setting and monitoring of the Capital and Revenue Budgets in accordance with the Corporate Plan and the Policy Framework.
- 35 This report enables the Committee to understand the assumptions underpinning the current MTFS and the Working Group will be informed of any changes required to accurately develop a robust budget for the MTFS for 2026/27 and over the medium term.

## **Other Options Considered**

- 36 Not applicable.

## **Implications and Comments**

### *Monitoring Officer/Legal*

- 37 The legal implications surrounding the process of setting the 2025 to 2029 Medium-Term Financial Strategy were dealt with in the reports relating to that process.
- 38 This report deals with matters relating to the Council's budget and treasury management, which are within the committee's remit.

### *Section 151 Officer/Finance*

- 39 The financial assumptions and timetable within this report provide up to date information on the Council's MTFS process. Confirming baseline information at this stage does not create any limitations to the budget setting process for 2026/27. Approving baselines provides context and guidance that will help to develop consultation material. Providing a set

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

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

### *Human Resources*

- 41 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*

- 42 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 2025/26 budget and the assumptions underpinning it were factored into the 2025/26 financial scenario, budget and reserves strategy and reflected in the S151 Officers Section 25 statement.

### *Impact on other Committees*

- 43 There are no other Committee implications.

### *Policy*

- 44 The Cheshire East Plan sets the policy context for the MTFs and the two documents are aligned. Any policy implications that arise from activities funded by the budgets that this report deals with will be dealt with in the individual reports to Members or Officer Decision Records to which they relate.

### *Equality, Diversity and Inclusion*

- 45 Under the Equality Act 2010, decision makers must show 'due regard' to the need to:
- Eliminate unlawful discrimination, harassment and victimisation;
  - Advance equality of opportunity between those who share a protected characteristic and those who do not share it; and
  - Foster good relations between those groups.
- 46 The protected characteristics are age, disability, sex, race, religion and belief, sexual orientation, gender re-assignment, pregnancy and maternity, and marriage and civil partnership.

- 47 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.
- 48 The Council needs to ensure that in taking decisions on the Medium-Term Financial Strategy and the Budget that the impacts on those with protected characteristics are considered. The Council undertakes equality impact assessments where necessary and continues to do so as proposals and projects develop across the lifetime of the Corporate Plan. The process assists us to consider what actions could mitigate any adverse impacts identified. Completed equality impact assessments form part of any detailed Business Cases.
- 49 The Corporate Plan’s vision reinforces the Council’s commitment to meeting its equalities duties, promoting fairness and working openly for everyone. Cheshire East is a diverse place and we want to make sure that people are able to live, work and enjoy Cheshire East regardless of their background, needs or characteristics.

### *Consultation*

<b>Name of Consultee</b>	<b>Post held</b>	<b>Date sent</b>	<b>Date returned</b>
Statutory Officer (or deputy):			
Adele Taylor	S151 Officer	23/04/2025	01/05/2025
Janet Witkowski	Acting Monitoring Officer	13/05/2025	20/05/2025
Legal and Finance			
Name	See above	See above	See above
Other Consultees:			
Executive Directors/Directors:			
Name	Job Title		
CLT	Various	07/05/2025	07/05/2025

<b>Access to Information</b>	
Contact Officer:	<p>Adele Taylor</p> <p>Interim Executive Director of Resources (Section 151 Officer)</p> <p><a href="mailto:adele.taylor@cheshireeast.gov.uk">adele.taylor@cheshireeast.gov.uk</a></p>
Appendices:	<p>Appendix A1 – MTFS Budget Assumptions 2025-29</p> <p>Appendix A2 – MTFS Budget Assumptions 2025-29 explanatory information</p> <p>Appendix B – MTFS Timeline</p>
Background Papers:	<p>The following are links to key background documents:</p> <p><a href="#">Medium-Term Financial Strategy 2025-29</a></p>