

# Cheshire East Council

## Cabinet

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<b>Date of Meeting:</b>	<b>6<sup>th</sup> February 2018</b>
<b>Report of:</b>	<b>Jan Willis, Interim Executive Director of Corporate Services</b>
<b>Subject/Title:</b>	<b>Medium Term Financial Strategy 2018/21</b>
<b>Portfolio Holder:</b>	<b>Cllr Paul Bates</b>

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### 1. Report Summary

- 1.1 This report presents the Medium Term Financial Strategy for Cheshire East Council for the years 2018/19 to 2020/21.
- 1.2 Cheshire East Council arranges the delivery in the region of 500 local services every day and the Council's achievements in making Cheshire East such a great place to live are reflected in a range of local indicators, some headlines include:
  - 94% of Cheshire East schools were 'good' or 'outstanding' based on their most recent inspection as of March 2017,
  - Only 2.2 per cent of young people are not in education or training (NEET) and 'not known' in Cheshire East, compared to a national average of 6%. Cheshire East has achieved the third-lowest level of NEETs in the UK.
  - 8 Green Flag Awards have been awarded for our parks and open spaces
- 1.3 The provisional announcements from government on 19<sup>th</sup> December 2017 confirmed that local government funding will continue to reduce through to 2019/20 with no confirmation yet for future funding levels. Central Government's approach continues to rely on local tax raising powers to fund services and this has been supported by continuing to allow flexibility in the council tax charge to support Adult Social Care of up to 6% over the period 2017/18 to 2019/20. There has been further flexibility for 2018/19 with the announcement that the base level of council tax can increase up to 3% (from 2%) before a referendum is required. The reduction in central government grant that was reported in the Council's [Pre-Budget Consultation](#) (November 2017) has also been confirmed. This level was guaranteed by the completion of a [4-Year Efficiency Plan](#) (submitted to Government in October 2016)
- 1.4 Cheshire East is the third largest council in the Northwest of England, providing services for a population of over 370,000 local people. Following extensive consultation the proposed revenue budget is balanced for 2018/19 with net revenue spending of £267.9m and total capital investment aspirations of £326.1m is identified over the next three financial years. The individual status of schemes within this ambitious programme is summarised within Appendix C, Annex 10.

- 1.5 In proposing a balanced budget for 2018/19 the Council has recognised the requirement to respond to both cost and demand pressures in Adult Social Care and Childrens Social Care Services. Revenue Support grant reductions of £8m in 2018/19, were based on an assumption, by the Government, that the Council's ability to raise Council Tax levels could go some way to replace this reduction in grant. The clear local, regional and national pressure within the overall Health and Social Care system led to the introduction of additional flexibility to increase Council Tax levels within the Local Government Settlement in December 2016.
- 1.6 In response to these issues and assumptions from Central Government the Council is proposing to increase the Adult Social Care (ASC) Precept by 3% in 2018/19 after levying a rate of 3% in 2017/18. This is designed to not only protect Adult Social Care investment, but can also fund a net increase in spending in this area. The ASC precept is in addition to a general Council Tax increase of 2.99%. This means an overall Council Tax increase of 5.99% in 2018/19 is proposed which equates to a £1.28 increase per week for an average Band D property.
- 1.7 The Medium Term Financial Strategy 2018/19 to 2020/21 is currently forecasting on the assumption that the Council Tax could also increase by a further 1.99% in 2019/20 and then 1.99% in 2020/21. These planning forecasts may be subject to change when Council is asked to set the annual budget in February each year.
- 1.8 This report is based on the Provisional Settlement, which therefore still requires parliamentary approval, and includes the following headlines:
- Overall net revenue spending on services is being increased by £4.1m to deliver a balanced position in 2018/19.
  - Value for money will continue to be supported through prudent management of Council investments.
  - Central Government grants will reduce by £12.9m.
  - Funding for essential local services will require a proposed Council tax increase of 5.99% from £1,324.92 to £1,404.28 for a Band D property.
  - £197m is estimated to be spent over the next three years on improving our highways network.
- 1.9 This report sets out how the Council will approach the financial challenges over the medium term and forecasts a balanced budget for 2018/19.

### **Budget 2018/21**

- 1.10 Following months of development and consultation, the budget change proposals contained in this report are robust and provide a balanced budget for consideration.
- 1.11 Like most local authorities the Council had significant budget deficits to tackle over the medium term, caused by major grant reductions in local government funding. This is Central Government's clear strategy to try to deal with the

scale of the national deficit. Our local response to these pressures continues to focus on innovation and creativity with a clear emphasis on improving efficiency, productivity and establishing more effective local service delivery arrangements.

- 1.12 Our ability to create the best conditions for private sector investment, economic growth and prosperity will be critical to the continued success of the Borough as the Council's reliance on locally generated income increases.
- 1.13 This report summarises the resolutions that Cabinet are requested to recommend to Council at **Appendix A**.
- 1.14 This report provides the Medium Term Financial Strategy (MTFS) Report (containing the Budget) for the period 2018/19 to 2020/21 at **Appendix C**.
- 1.15 The document is the result of the Business Planning Process led by the Council from June 2017 to February 2018, which included regular review from the Council's Scrutiny Committees, concluding with a final review by the Corporate Overview and Scrutiny Committee on 1<sup>st</sup> February 2018. The MTFS Report is being submitted to Cabinet on 6<sup>th</sup> February 2018 for recommendation to Council for approval.
- 1.16 The business planning process involved engagement with local people and organisations and details of how this process was managed is included within **Appendix C, Annex 2** and a summary of the results is provided in **Appendix B**.

## 2. Recommendations

- 2.1. That Cabinet recommend to Council the items at **Appendix A**.
- 2.2. That Cabinet notes:
  - a) The summary results of the Budget Consultation, attached at **Appendix B** and the Budget Engagement exercise undertaken by the Council, as set out in the attached (**Appendix C, Annex 2**).
  - b) The comments of the Council's Interim Executive Director of Corporate Services (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 C, Comment from the Interim Executive Director of Corporate Services**).
  - c) The risk assessment detailed in the MTFS Report (**Appendix C, Annex 5**).
  - d) The development of a Capital Strategy as set out in the attached (**Appendix C, Annex 10**). This is linked to the Treasury Management and Investment Strategies and these will continue to be developed in

accordance with the revised guidance for local authority investments during 2018/19. The strategy contains the programme of capital investment for 2018/19 to 2020/21. The programme may vary to take advantage of external funding opportunities, maximise private sector investment, prudential borrowing considerations, operational capacity and to ensure optimal delivery of the overall programme

- e) The Council's Finance Procedure Rules will always apply should any changes in spending requirements be identified (**Appendix C, Annex 10**).
- f) That Corporate Overview and Scrutiny Committee supports the proposal to earmark £2m to create a specific "New Homes Bonus Community Fund" to be used over the next two financial years. To also note that the Corporate Overview and Scrutiny Committee are willing to assist Cabinet by working on the details of a specific scheme to allocate funds.

### **3. Other Options Considered**

- 3.1. The Business Planning Process enables the Council to develop options, consider the best approach, produce Business Cases and share these options via the [Pre-Budget Consultation](#) 2018/21.
- 3.2. The engagement process and feedback on the [Pre-Budget Consultation](#) plus funding announcements and on-going refinement, informs the set of proposals in this report. For the second time the Council included options that were considered during the preparation of the consultation material, but were not currently being proposed for inclusion in the medium term forecasts. This increased level of transparency allowed stakeholders to comment on a wider set of considerations.

### **4. Reasons for Recommendation**

- 4.1. The Council's Budget (as contained in the MTFS Report) requires Council approval. A copy of the MTFS Report is attached at **Appendix C**.
- 4.2. In accordance with the Budget and Policy Framework Rules of Procedure, Cabinet is requested to recommend this report to Council to approve the MTFS Report for 2018/21.
- 4.3. The Council's Interim Executive Director of Corporate Services (Section 151 Officer) reports that, 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, she is satisfied with the robustness of the estimates making up the Council Tax Requirement of £206,434,889. This is based on a total 5.99% Band D

increase, which includes a 3% precept specifically for Adult Social Care (based on the Provisional Finance Settlement and subject to change from the Final Settlement) and she is satisfied with the adequacy of the financial reserves for the Council.

- 4.4. Further to the above statement it can be reported that the Medium Term Financial Strategy Report 2018/19 to 2020/21 (**Appendix C**) is based on sound financial principles and reflects sufficiently detailed plans that can maintain the financial resilience and viability of the Council in the medium term.

## **5. Background / Chronology**

- 5.1. The Budget Setting Process 2018/21 was developed and endorsed by the Cabinet and Corporate Leadership Team in June 2017.
- 5.2. This 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.
- 5.3. 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 Cabinet in June, September, November, December 2017 and February 2018. Overview and Scrutiny Committees were briefed in July and November 2017, and January 2018 with final consideration of the package of proposals presented to the Corporate Overview and Scrutiny Committee on 1<sup>st</sup> February 2018. All Members were invited to two finance briefings on 28<sup>th</sup> November 2017 and 12<sup>th</sup> December 2017.
- 5.4. This exercise has been undertaken against a background of significant reductions in funding levels from Central Government, implementing the new Corporate Plan and the Authority continuing to deliver against its commitment to become a commissioning council through its 'Best Fit' model of service delivery.
- 5.5. The MTFS Report provides financial background as well as setting out further details of the on-going approach to funding the Outcomes set out in the Corporate Plan. It highlights the spending plans and income targets for the financial year starting 1<sup>st</sup> April 2018, as well as forecast estimates for the 2019/20 and 2020/21 financial years.
- 5.6. The MTFS Report is based on the Provisional Local Government Finance Settlement for 2018/19. This was released on 19<sup>th</sup> December 2017. The final settlement is expected in early February 2018 with a debate by Members of Parliament in the House of Commons expected in mid February (after the publication date of this report to Cabinet) to agree the position. The Settlement included some changes to national policies which the Council has responded to.

- 5.7. Adding to or amending the change programmes has been an important focus of the budget setting process, ensuring that the Council focuses its energy and resources on those areas of change which will help build sustainable communities and a Council that remains fit for the future.
- 5.8. Progress in terms of delivery of the proposals has been monitored and reported at regular intervals during 2017/18 and this will continue during 2018/19.
- 5.9. The MTFS Report 2018/21 is attached at **Appendix C**.
- 5.10. The MTFS Report continues to include estimated grant allocations in relation to several Specific Grants (**Annex 8**). These will be refined as appropriate in due course.
- 5.11. Any resulting impact of these issues in terms of changes to funding will be managed through General Reserves. Therefore, a balanced budget position will be maintained. Should there be any changes these will be notified to Members at the earliest opportunity.
- 5.12. Any changes made as a result of the engagement process and further debate will be reported to Members at the Council meeting on 22<sup>nd</sup> February 2018.

## **6. Wards Affected and Local Ward Members**

- 6.1. Not applicable.

## **7. Implications of Recommendation**

### **7.1. Policy Implications**

- 7.1.1. The report outlines policy and budget proposals which will impact on service delivery arrangements.

### **7.2. Legal Implications**

- 7.2.1. The Council should have robust processes so that it can meet statutory requirements and fulfil its fiduciary duty.

### **7.3. Financial Implications**

- 7.3.1. Please see Sections 1 and 5 of this report.

### **7.4. Equality Implications**

- 7.4.1. The Council has a statutory duty to understand the equality impacts of its decisions, policies, strategies and functions.
- 7.4.2. The Council needs to ensure that its budget decisions do not discriminate against any group and promote equality of opportunity and good community relations. The Council undertakes equality assessments where necessary, and continues to do so as projects develop across the lifetime of the Corporate Plan. This process helps us to understand if our budget proposals:
- Have an adverse impact on any of the protected characteristics listed in the 2010 Equality Act.
  - Result in direct or indirect discrimination.
- 7.4.3. The process assists us to consider what actions could address or alleviate any adverse impact and help us to recognise where investment could alleviate an adverse impact from a saving.
- 7.4.4. Completed equality assessments form part of any detailed Business Cases.

#### **7.5. Rural Community Implications**

- 7.5.1. The report outlines policy and budget proposals which will impact on service delivery across the Borough.

#### **7.6. Human Resources Implications**

- 7.6.1. Please see Workforce Development Section – **Appendix C, Annex 4.**

#### **7.7. Public Health Implications**

- 7.7.1. Please see Section 1, Outcome 5 part of **Appendix C.**

#### **7.8. Other Implications (Please Specify)**

- 7.8.1. The Council has a statutory duty to consult with certain groups on its Budget Proposals and as part of the implementation of certain items. Further details are provided in **Appendix C, Annex 2.**

### **8. Risk Management**

- 8.1. 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 2018/19 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.
- 8.2. 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.
- 8.3. 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.

## 9. Access to Information / Bibliography

*Please see the following financial reports:*

[2016/17 Outturn Report](#)

[2017/18 First Quarter Review of Performance](#)

[2017/18 Mid-Year Review of Performance](#)

[2018/21 Pre-Budget Consultation](#) released 7<sup>th</sup> November 2017

[Corporate Overview and Scrutiny Committee 15th November 2017](#)

[Council 14th December 2017: Domestic and Non Domestic Rate Taxbase Reports](#)

[2017/18 Third Quarter Review of Performance](#)

## 10. Contact Information

Contact details for this report are as follows:-

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## Appendix A

### Recommendations to Council from Cabinet - February 2018

*That Council approve:*

- 1 The Revenue estimates for the 2018/19 budget and the medium term Capital Programme estimates 2018/21, as detailed in the Medium Term Financial Strategy Report (MTFS) 2018/21 (**Appendix C**).
- 2 Band D Council Tax of £1,404.28 representing an increase of 5.99%. This is below the referendum limit and arises from the provisional finance settlement allowing a 3% additional charge to fund Adult Social Care pressures (**Appendix C, Section 2**).
- 4 The 2018/19 non ring-fenced Specific Grants, and that any amendments to particular grants will be reported to Council if further information is received from Government Departments or other funding bodies (**Appendix C, Annex 8**).
- 5 The 2018/19 Capital Grants, and that any amendments to particular grants will be reported to Council if further information is received from Government Departments or other funding bodies (**Appendix C, Annex 9**).
- 6 The relevant Portfolio Holder to agree the use of additional Specific Grants received in conjunction with the Finance Portfolio Holder as further updates to the 2018/19 funding position are received.
- 7 The recommended Prudential Indicators for Capital Financing (**Appendix C, Annex 10**).
- 8 The Children and Families Portfolio Holder to agree any necessary amendment to the 2018/19 Dedicated Schools Grant (DSG) of £144m and the associated policy proposals, in the light of further information received from DfE, pupil number changes, further academy transfers and the actual balance brought forward from 2017/18 (**Appendix C, Annex 8**).
- 9 The recommended Reserves Strategy (**Appendix C, Annex 12**).
- 10 That £2m be allocated to a specific “New Homes Bonus Community Fund” to be used over the next two financial years.

*That Council recognises that Cabinet has noted:*

- 11 The Budget Engagement exercise undertaken by the Council, as set out in the attached (**Appendix C, Annex 2**).
- 12 The results of the Budget Consultation (**Appendix B**).

- 13 The comments of the Council's Interim Executive Director of Corporate Services (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 C, Comment from the Interim Executive Director of Corporate Services**).
- 14 The risk assessment detailed in the MTFS Report (**Appendix C, Annex 5**).
- 15 The Capital Strategy as set out in the attached (**Appendix C, Annex 10**). This is linked to the Treasury Management and Investment Strategies and these will continue to be developed in accordance with the revised guidance for local authority investments during 2018/19. The strategy contains the programme of capital investment for 2018/19 to 2020/21. The programme may vary to take advantage of external funding opportunities, maximise private sector investment, prudential borrowing considerations, operational capacity and to ensure optimal delivery of the overall programme
- 16 The Council's Finance Procedure Rules will always apply should any changes in spending requirements be identified (**Appendix C, Annex 10**).