

Cabinet

Date of Meeting: 05 February 2019

Report Title: Medium Term Financial Strategy 2019-22

Portfolio Holder: Cllr Paul Bates - Finance and Communication

Senior Officer: Alex Thompson – Head of Finance and Performance (Acting Section 151 Officer)

1. Report Summary

- 1.1. This report presents the Medium Term Financial Strategy for Cheshire East Council for the years 2019/20 to 2021/22.
- 1.2. Cheshire East Council arranges delivery of 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:
 - We continue to be in the top 10% of all local authorities for our 55% recycling rate,
 - A high proportion of parents/carers were given their first choice of school for their child in September 2018 – 92% receiving their first choice, and 98.5% were offered a place at a primary school of their choice,
 - 8 Green Flag Awards have been awarded for our parks and open spaces.
- 1.3. The provisional announcements from government on 13th December 2018 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 up to the increased referendum limit of 3%. The reduction in central government grant that was reported in the Council's Pre-Budget Consultation (October 2018) 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 375,000 local people. Following

extensive consultation the proposed revenue budget is balanced for 2019/20 with net revenue spending of £281.2m and total capital investment aspirations of £450m is identified over the next three financial years. The individual status of schemes within this ambitious programme is summarised within **Appendix C, Annex 11**.

- 1.5. In proposing a balanced budget for 2019/20 the Council has recognised the requirement to respond to both cost and demand pressures for our Social Care Services. Removal of the remaining Revenue Support grant for 2019/20 (£5.4m) was based on the continued assumption, by the Government, that the Council's ability to raise Council Tax levels could go some way to replace the cessation of this grant.
- 1.6. The ability to raise additional Council Tax for use solely on Adult Social Care (ASC) was accepted in 2017/18, and 2018/19. Local authorities could raise up to 3% in any year from 2017/18 to 2019/20, but subject to a maximum of 6% over the three year period. Cheshire East applied this increase equally over the first two years therefore no further increase can be applied in 2019/20 to be ringfenced for this purpose.
- 1.7. Nationally, Children's Services are under increased financial pressure to sustain effective services to keep children safe and to meet their educational needs. There is a current financial pressure in Cheshire East's Children and Families Service of circa £2.3m in 2018/19. Permanent investment is needed to maintain effective services.
- 1.8. The provisional local government finance settlement announced the referendum limit on base increases was to be maintained at 3% in line with inflation, as such, it is proposed that Council Tax is increased by 2.99% (including 1% ringfenced for Children's Social Care pressures) for 2019/20 to give a Band D charge of £1,446.27 for 2019/20. This equates to a £0.78 increase per week for an average property.
- 1.9. The Medium Term Financial Strategy 2019/20 to 2021/22 is currently forecasting on the assumption that the Council Tax could also increase by a further 1.99% in 2020/21 and then 1.99% in 2021/22. These planning forecasts may be subject to change when Council is asked to set the annual budget in February each year.
- 1.10. 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 £13.1m to deliver a balanced position in 2019/20.
 - Value for money will continue to be supported through prudent management of Council investments.
 - Central Government unringfenced grants will reduce by £2.8m overall.
 - Funding for essential local services will require a proposed Council tax increase of 2.99% from £1,404.28 to £1,446.27 for a Band D property.

- £270m is estimated to be spent over the next three years on improving our highways network.

1.11. This report sets out how the Council will approach the financial challenges over the medium term and forecasts a balanced budget for 2019/20.

Budget 2019-22

- 1.12. Following months of development and consultation, the budget change proposals contained in this report are robust and provide a balanced budget for consideration.
- 1.13. 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.
- 1.14. 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.
- 1.15. This report summarises the resolutions that Cabinet are requested to recommend to Council at **Appendix A**.
- 1.16. This report provides the Medium Term Financial Strategy (MTFS) Report (containing the Budget) for the period 2019/20 to 2021/22 at **Appendix C**.
- 1.17. The document is the result of the Business Planning Process led by the Council from May 2018 to February 2019, which included regular review from the Council's Scrutiny Committees, concluding with a final review by the Corporate Overview and Scrutiny Committee on 4th February 2019. The MTFS Report is being submitted to Cabinet on 5th February 2019 for recommendation to Council for approval.
- 1.18. 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**.
- 1.19. The MTFS also includes four linked strategies at Annexes 11 to 14. The strategies cover longer term approaches to maintaining the Council's financial stability through the appropriate management of assets and liabilities.

2. Recommendations

That Cabinet:

- 2.1. Recommend to Council the items at **Appendix A**.

Cabinet notes:

- 2.2. 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**).
- 2.3. The comments of the Council's Acting 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 Acting Section 151 Officer**).
- 2.4. The Council's Finance Procedure Rules provide a control framework to support decisions should any changes in spending requirements be identified and for specific spending over certain limits. (**Appendix C**).

3. Reasons for Recommendations

- 3.1. The Council's Budget (as contained in the MTFS Report) requires Council approval. A copy of the MTFS Report is attached at **Appendix C**.
- 3.2. 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 2019-22.
- 3.3. The Council's Acting 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, he is satisfied with the robustness of the estimates making up the Council Tax Requirement of £216,242,427. This is based on a total 2.99% Band D increase, which includes a 1% precept specifically for Childrens and Families services and he is satisfied with the adequacy of the financial reserves for the Council.
- 3.4. Further to the above statement it can be reported that the Medium Term Financial Strategy Report 2019/20 to 2021/22 (**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.

4. Other Options Considered

- 4.1. 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 2019-22.
- 4.2. 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.

5. Background

- 5.1. The Budget Setting Process 2019-22 was developed and endorsed by the Cabinet and Corporate Leadership Team in May 2018.
- 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 joint Corporate Leadership Team and Cabinet budget sessions in May, July and September 2018. Overview and Scrutiny Committees were briefed in December 2018, with final consideration of the package of proposals presented to the Corporate Overview and Scrutiny Committee on 4th February 2019.
- 5.4. This exercise has been undertaken against a background of significant reductions in funding levels from Central Government and the Authority continuing to deliver against its commitment to continue to be 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 1st April 2019, as well as forecast estimates for the 2020/21 and 2021/22 financial years.
- 5.6. The MTFs Report is based on the Provisional Local Government Finance Settlement for 2019/20. This was released on 13th December 2018. The final settlement is expected in early February 2019 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 2018/19 and this will continue during 2019/20.
- 5.9. The MTFS Report 2019-22 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 21st February 2019.

6. Implications of the Recommendations

6.1. Legal Implications

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

6.2. Finance Implications

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

6.3. Policy Implications

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

6.4. Equality Implications

6.4.1. The Council has a statutory duty to understand the equality impacts of its decisions, policies, strategies and functions.

6.4.2. 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.

6.4.3. 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.

6.4.4. Completed equality assessments form part of any detailed Business Cases.

6.5. Human Resources Implications

6.5.1. See Workforce Development Section (**Appendix C, Annex 4**).

6.6. Risk Management Implications

6.6.1. 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 2019/20 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.

6.6.2. 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.

6.6.3. 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.

6.7. Rural Communities Implications

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

6.8. Implications for Children & Young People

6.8.1. See **Section 1, Outcome 3 part of Appendix C.**

6.9. Public Health Implications

6.9.1. See **Section 1, Outcome 5 part of Appendix C.**

7. Ward Members Affected

7.1. Not applicable.

8. Consultation & Engagement

8.1. Please see **Appendix B.**

9. Access to Information

9.1. The following are links to key background documents:

[2017/18 Outturn Report](#)

[Budget Book 2018/19](#)

[Medium Term Financial Strategy 2018/21](#)

[Mid Year Review of Performance 2018/19](#)

[Pre Budget Consultation released 19th October 2018](#)

[Corporate Overview and Scrutiny Committee 1st November 2018](#)
[Council 13th December 2018: Domestic Taxbase Reports](#)
[2018/19 Third Quarter Review of Performance](#)

10. Contact Information

10.1. Any questions relating to this report should be directed to the following officer:

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