

Cheshire West and Chester

Report to Cabinet

Date of Meeting: 12 October 2022

Report of: Mark Wynn, Chief Operating Officer (as S151 Officer) and Debbie Hall, Director of Finance

Cabinet Member: Carol Gahan, Cabinet Member for Legal & Finance

Title: Medium Term Financial Strategy 2023-27

Is this a Key Decision?

No

1. What is the report about?

- 1.1. The Medium Term Financial Strategy (MTFS) is presented to Members each year with a view to outlining the strategic approach that the Council will take to managing its financial matters. As with previous years, this plan will need to take account of the significant change that is being experienced within Local Government both in terms of the manner and level of funding that is made available to councils and also the roles and responsibilities that it is required to fulfil.
- 1.2. This report sets out the specific financial challenges facing the Council over the next four years and how it plans to meet these. The approach to setting the Council's four year revenue budget for the period 2023-27 and four year capital programme for 2023-27 is set out in the report.
- 1.3. Following the three year Spending Review covering 2022 – 2025, Central Government announced earlier this year that councils would be receiving a two-year financial settlement for 2023-24 and 2024-25 to provide "financial certainty" and allow them to plan ahead. However, given the recent changes within the Government, coupled with the challenging economic circumstances this is now considered less likely. Announcements are expected in Autumn 2022 with the full detail of the settlement expected at council level before Christmas 2022.
- 1.4. A full MTFS update for future years will be included within the Budget report and approved by Full Council in February 2023. This Cabinet report provides Members with the latest information available to support 2023-24 budget planning and initial assumptions for future years. These assumptions will need to be continually reviewed as new information and intelligence becomes available.

2. Recommendations

Cabinet note the following items:

- i. Note the Medium Term Financial Strategy as detailed in this report including the development of a budget package for the period 2023-25 and a full review of existing reserves and balances.
- ii. Note the latest estimated funding gap for the Council for the period 2023-27 (paragraphs 4.14 – 4.23);
- iii. Note the Council's position in relation to its financial resilience (paragraphs 4.36 – 4.42); and
- iv. Note the level of risk on the Council's balance sheet relating to major developments and commercial investments (paragraphs 4.46-4.52).

Cabinet approve the following items:

- v. Approve the proposed stakeholder engagement process on the Council's budget plans for 2023-25 (paragraphs 4.33 – 4.35).

3. Reasons for the recommendations

- 3.1. In approving the recommendations laid out in this report, the Council will continue to ensure resources are well managed and reflect the key priorities of the residents of Cheshire West and Chester.
- 3.2. It is not considered appropriate to seek approval for a Medium Term Financial Strategy at this stage, given the significant changes to the Council's financial position that could arise between now and the time the budget is set in February. This report is therefore being presented as an update to the Cabinet at this stage and the Medium Term Financial Strategy will instead be approved by Council as part of the Budget Report in February 2023.

4. Report details

- 4.1. The Council has a history of excellent financial management which has enabled the delivery of significant savings to the local taxpayer whilst still investing in priority services. It has continued to deliver significant savings year on year whilst maintaining delivery of high quality services to its residents. This has recently been recognised in the feedback from the Local Government Association (LGA) Peer Review.
- 4.2. The Council is facing significant challenges in the current financial year as a result of the high levels of inflation and continued pressures within both adults and children's social care. The First Review of Performance 2022-23 report, considered by Cabinet in September, set out in detail the latest position in relation to these challenges.
- 4.3. Challenges facing the Council over the coming four years are equally as significant. It is expected that the Council will continue to receive less Central Government funding in future years and be increasingly reliant on income generation through local growth and specifically business rates. The impact

that Covid-19 has had on the wider economy has been significant and coupled with the current cost of living crisis it is expected that the economy may take many years to recover, with the longer term impact being unclear at the present time. This situation brings with it an even greater level of uncertainty over the future financial position of the Council.

- 4.4. The sections that follow will set out the national challenges facing all councils, the Council's forecast position and the steps taken to set a budget for the next two years.

The National Picture

- 4.5. This Medium Term Financial Strategy sits against a backdrop of continued financial uncertainty and challenge for local authorities. The announcement that councils would be receiving a two-year Local Government Finance Settlement for 2023-24 and 2024-25 was welcomed by the sector and would, if confirmed, provide much needed certainty. It is now considered more likely that there will once again be a single year settlement, as has been commonplace in recent years. At the time of writing this report the detail of the settlement is not yet known and funding allocations for 2023-24 are not expected to be announced until December 2022.
- 4.6. The key challenges nationally can be summarised as follows:
- **Significant inflationary pressures.** The UK, along with the rest of the world, is currently experiencing higher than average inflation levels, driven by fuel and energy costs in the wake of the Covid-19 pandemic, and exacerbated by the Russian invasion of Ukraine. The Consumer Price Index (CPI) is currently at 9.9%, up from 3.2% at the same point last year and the Retail Price Index (RPI) at 12.3%, up from 4.8% last year. This is directly impacting on the costs of providing services and capital investment of all councils as well as having an impact on the wider economy and the cost of living for residents.
 - **Continued cost pressures relating to Adult Social Care and Children's Social Care.** The demand for and cost of social care continues to increase across both adults and children. The long awaited plans to address funding for the adult social care system were announced last year with £5.4bn of additional funding for adult social care reform over three years with £1.4bn to enable local authorities to move towards paying providers a Fair Cost of Care and £2.2bn to reform the Adult Social Care charging system by extending the means test, the cap on care costs and implementation and additional assessments. Central Government have recently consulted on the methodology for the distribution of the £2.2bn and funding allocations should be finalised as part of the provisional Local Government Finance Settlement in December 2022. The proposals do not directly address the existing local government social care funding gap and there is concern across the sector that the additional funding will not be sufficient to cover the anticipated costs.
 - **The longer term impacts of Covid-19** and the financial impacts of economic recovery including the role of councils in supporting the recovery process.

- **The long awaited Fair Funding Review** was due to review and reset councils' funding baselines according to local need. It has been delayed for several years by Central Government and had been expected to be the subject of consultation in Spring 2022 but there has been limited progress and it is now unlikely to be implemented in 2023-24. It was expected to create gainers and losers, but the local impacts are not yet known.
- **The Fundamental Review of Business Rates** concluded at the 2021 Autumn Budget a move from five to three yearly revaluations starting from 2023-24 and the cancellation of the previously anticipated move to 75% Business Rates.
- The level at which the **Council Tax referendum limit** will be set over this financial planning period has not yet been confirmed, but Central Government's working assumption for planning purposes remains at 2% for increases in basic Council Tax each year, with an additional 1% for the Adult Social Care precept in 2023-24 and 2024-25.
- **Health Integration** - Integrated Care Systems (ICS) were placed on a statutory basis from July 2022. They are responsible for bringing together local NHS and Local Government functions/services, such as social care, mental health services and public health advice, to deliver 'joined up care' for its local population, improve people's health & wellbeing and reduce health inequalities. As the priorities for each local area emerge, councils will need to have due regard for any financial implications on their medium term financial planning.

4.7. The level of uncertainty nationally makes planning ahead for the medium term very difficult and this level of uncertainty makes it one of the most difficult years to be setting a budget. It is important that councils ensure they are appropriately prepared for a range of outcomes.

Cheshire West and Chester Council Position

- 4.8. As previously mentioned, the Council has an excellent track record of financial management but faces increasingly significant financial challenges. Due to continued financial uncertainty, challenging levels of inflation and increasing demand pressures there is a need for the Council to make significant savings.
- 4.9. There continues to be a financial impact of the Covid-19 pandemic in the current year. As reported in the First Review of Performance 2022-23 report considered by Cabinet in September 2022, the forecast costs to the end of March 2023 in respect of the Covid-19 response are estimated at £92.5m, with £92.2m of Central Government funding announced to fund this, leaving a shortfall of £0.3m that will need to be funded from Council reserves.
- 4.10. The Budget Report approved in February 2022 set out an estimated net funding gap over the period 2023-25 in the region of £1.3m - after taking account of existing savings proposals of £16.5m and locally generated income of £22.7m for that period. In developing this Medium Term Financial Strategy the Council has sought to update this overall financial position based upon the latest information available. Central to this exercise has been a review of all assumptions underpinning the funding shortfall including all funding streams,

both centrally allocated and locally generated, and all inflationary and demand led cost pressures.

4.11. As with any financial forecast the assumptions contained within it will be continually updated as additional information becomes available or assumptions are confirmed. Particular consideration must be given to the impact on future year budget requirements of the pressures emerging in year linked to inflation. Members will be informed at regular intervals of the budget setting process as to the impact of any of these changes.

4.12. Some of the areas that will be the subject of continued review during this period will include the financial impact arising from:

- Inflation, including the impact of workforce shortages in some areas on pay levels
- Pay awards
- Level of contingencies required
- Use of reserves
- Capital financing;
- Trading position of Council companies
- Ongoing impacts of Covid-19 on both costs and income
- Demand led pressures relating to Adult Social Care and Children’s Social Care; and
- Impact of regeneration and other Council sponsored major developments.

4.13. A summary of the key planning assumptions is attached at Appendix A for information.

Funding Gap 2023-27

4.14. Taking into account the latest available information relating to funding, and having considered and refreshed all other planning assumptions, the estimated overall gross funding gap facing the Council over the next four years is in the region of £105m. This is summarised in the following table (table 1).

Table 1: Funding Gap facing the Council

Year	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	Total £m
Reduction in Government Funding	5.0	0.1	5.4	-	10.5
Budget Pressures in Directorates	18.6	9.2	7.8	8.5	44.1
Council Wide Pressures	15.5	13.4	9.2	12.2	50.3
Gross Funding Gap	39.1	22.7	22.4	20.7	104.9

4.15. Appendix A sets out the Council’s current assumptions for funding allocations over the four year period. As the funding position for 2023-24 and future years remains so uncertain at present, the gap set out in this report may be subject to change. The intention of this report is to update on the latest known

position, and it will be refreshed as and when further Government announcements are made.

- 4.16. There are £50m of Council wide cost pressures including the following:
- Contractual price inflation on council contracts £10m (in addition to £13m inflation on Adult Social Care contracts included in the Directorate pressures)
 - Allowance for national pay awards and pension contributions £13m; and
 - Contingency allocations to fund any unforeseen events or additional funding pressures £11m.
- 4.17. There are £44m of budget pressures within Directorates which predominantly relate to demand led pressures in Adults Social Care and Children’s services. Within this position there is £26m of growth in Adults services and £16m in Childrens services to address these pressures.
- 4.18. The gross funding gap of £105m is before taking into consideration any locally generated income in the form of Council Tax and Business Rates, which is expected to increase by £44m over the period. This includes additional Council Tax income of £35m and additional Business Rates income of £9m.
- 4.19. A 2% increase in the Council Tax rate is assumed each year in line with Central Government’s national planning assumptions, along with a refreshed council taxbase reflecting forecast housing growth, collection rates and the anticipated cost of the Council Tax Reduction Scheme. A 1% Adult Social Care Precept is assumed for 2023-24 and 2024-25 in line with the latest announcements.
- 4.20. The growth in business rates reflects an annual increase in the nationally set Multiplier which is directly linked to the Consumer Price Index. In recent years businesses have been protected from these inflationary increases and Central Government has reimbursed councils via a grant for the lost income and it is assumed that this will continue to be the case, being cost neutral to the Council. These assumptions will be kept under review.
- 4.21. The additional locally generated income reduces the gross funding gap of around £105m to a net funding gap of around £61m as shown in the following table (table 2).

Table 2: Funding Gap After Locally Generated Income

Year	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	Total £m
Gross Funding Gap	39.1	22.7	22.4	20.7	104.9
Locally Generated Income	(14.6)	(11.8)	(8.7)	(9.2)	(44.3)
Net Funding Gap	24.5	10.9	13.7	11.5	60.6

- 4.22. The net funding gap of around £61m has increased from the £18m originally estimated in the Budget Report considered by Members in February 2022.

This is a result of the position being projected forward a further two years and the figures for each year being further refined based on the latest information now available. As stated previously, forecasts will continue to be refined as further government announcements are made and clarity received on funding streams and cost pressures.

- 4.23. Members will recall that in February 2022 the budget package included £16.5m of savings proposals to be delivered across 2023-25. Through the ongoing budget management process these proposals have been refined as new information has become available, and delivery plans are being developed and finalised. Following the latest review of deliverability, savings proposals now total £18m over the period to 2027, which results in a residual funding gap of around £42m, as set out in the following table (table 3).

Table 3: Residual Funding Gap

Year	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	Total £m
Net Funding Gap	24.5	10.9	13.7	11.5	60.6
Existing Savings Proposals	(11.3)	(4.9)	(2.2)	(0.1)	(18.5)
Residual Funding Gap	13.2	6.0	11.5	11.4	42.1

Developing the Budget Setting Strategy 2023-25

- 4.24. In light of the anticipated funding reductions and funding gap going forward, the Council is developing strategies in order to meet the challenges faced. Given the financial uncertainty the focus will be on developing a balanced budget for the next two years.
- 4.25. As discussed earlier in this report, the Council has a demonstrable track record in developing deliverable budget packages that facilitate the delivery of sustainable services to the residents of the borough, and ensure effective and efficient financial management, but this is becoming increasingly challenging. In approaching this budget cycle, the Council will once again require a comprehensive approach to developing a budget package as the size of the financial challenge is significant, and the quicker and arguably easier efficiency opportunities have already been identified and released.
- 4.26. The scale of the financial challenge facing the Council over the next four years will require key long term policy decisions to be made at the earliest opportunity if the Council is to remain financially well managed. In order to ensure the Council is sustainable in the longer term it will be important to develop invest to save initiatives that will manage and reduce future demand for Council services.
- 4.27. The Council Plan for 2020 – 2024 ‘Play your Part to Thrive’ and the Stronger Futures Plan for Recovery and Renewal set out the borough’s key challenges, which will guide the development of the budget package to ensure it is closely aligned to these priorities. These are:

- Tackle the climate emergency
- Grow a local economy that delivers good local jobs
- Support more children and young people to make the best start in life
- Enable more adults to live longer, healthier and happier lives
- Make all neighbourhoods even better places to call home
- An efficient and empowering council; and
- Tackle the poverty emergency.

4.28. As noted in table 3, the estimated residual funding gap over the next two years is currently £19m and officers and Members are exploring further proposals to bridge this gap.

4.29. The process must, as always, remain a careful balance between balancing the budget in the short term whilst still maintaining prudent financial management over the longer term.

Member Engagement in the Budget Setting Process

4.30. In order to facilitate the development of a budget package the Council utilises budget planning sessions involving Cabinet Members and key officers. A series of these sessions will be held throughout the budget cycle with Cabinet Members, on both an individual and collective basis, and in advance of February 2023 Budget Council in order that a progressive and informed budget package is developed.

4.31. Engagement with all Members as part of this process is vital and there will be briefing sessions arranged for the Cabinet, Cheshire West and Chester Overview and Scrutiny Committee, individual Members and groups as appropriate.

4.32. The final budget package is currently scheduled in the committee diary to be considered by Cheshire West and Chester Overview and Scrutiny Committee on 6 February 2023, Cabinet on 8 February 2023, and Council on 16 February 2023.

Budget Engagement

4.33. A public engagement exercise 'Facing the Future' took place in 2021 on the three-year budget plans for 2022-25 and the budget package approved in February 2022 reflects the feedback received.

4.34. Another public engagement exercise to update on the refreshed package of savings and investment proposals for 2023-25 will take place from October to December 2022. As usual it will invite feedback from a wide range of Council stakeholders including residents, partners, staff and equalities groups. It will be focused on:

- o A proposals booklet and questionnaire to feedback views available online on Participate Now and in hardcopy
- o An interactive budget simulator where participants can attempt to set the Council's budget

- A cascade of materials to key stakeholders including digital citizens panel, partners, town and parish councils, community groups, etc
 - Hardcopies and easy read copies of the booklet and questionnaire available to download, in all libraries and on request via the contact centre; and
 - Dedicated email, telephone number, postal address and social media channels for responses.
- 4.35. The results of the engagement will be widely shared and inform the budget package put forward to be agreed by Council in February 2023.

Financial Resilience

- 4.36. The financial resilience of councils is something that has gained a higher profile in recent years, with an increasing number of councils now facing financial difficulties. This has resulted in a number of Section 114 notices being issued in the current financial year. In addition to the continued uncertainty surrounding Local Government funding and the pressures facing social care services for both adults and children, the current cost of living crisis and increasing inflationary pressures, within a backdrop of economic recovery from Covid-19, has the potential to impact further on the financial resilience of many councils.
- 4.37. The Council's Reserves Strategy aids longer-term financial stability and mitigates the potential impact of future events or developments which may cause financial difficulty. As detailed later in this report, the Council ensures it has sufficient resources in both general and earmarked reserves to fund costs that will arise as a result of existing plans and commitments, to fund future investments and to safeguard against unforeseen circumstances. These reserves are not relied upon to fund routine council expenditure. General and earmarked reserves are a key measure of the financial resilience of the Council. Any use of General Fund reserves would need to be reimbursed over the medium term planning period to ensure that the Council continues to hold a level of reserves within the risk assessed range. Further information on the current level of reserves is set out later in this report.
- 4.38. The Council closely monitors its finances with routine reports being considered by Members on a quarterly basis and remedial action being taken whenever required to offset emerging budget pressures. All savings proposals are regularly reviewed for deliverability and risk assessed by officers throughout the year. The Council undertakes regular reviews of its balance sheet risks and takes appropriate action as necessary. This includes the longer term sustainability of the Council's major regeneration schemes, such as Northgate, which are regularly reviewed as part of ongoing resilience reviews, and formally reported on twice a year (in the Mid-Year Review and Budget Report).
- 4.39. The Council has a very strong record of sound financial management and has continued to deliver budget savings each year throughout the recent periods

of austerity. These have ensured that it has been able to protect core service provision and remain in a strong position financially.

- 4.40. Planning ahead for the medium term enables the Council to make strategic and well considered decisions in relation to its finances and service provision. There continues to be uncertainty about the future funding levels for the Council going forward alongside the significant impact caused by the current cost of living crisis and increased inflation, making this approach more important than ever.
- 4.41. The Chartered Institute of Public Finance and Accountancy (CIPFA) publish a Financial Resilience Index that measures the financial resilience of councils. The latest results were announced in February 2022 based on data from financial year 2020-21. The picture for the Council continues to be largely positive compared to other councils, with no key issues to address at this time. This will be kept under review as further updates are published.
- 4.42. The Council does not underestimate the significant challenges faced both nationally by the Local Government sector as well as locally. Whilst it is considered that the Council is in a relatively strong position compared to some other councils, it also recognises that dealing with these challenges is becoming increasingly difficult against a backdrop of uncertainty around economic recovery and Central Government support.

Capital Programme

- 4.43. In addition to developing a revenue budget package the Council also needs a capital programme that continues to invest in both existing operational assets and the development of larger infrastructure projects that will enhance facilities for everyone within the Council's boundaries.
- 4.44. As part of the budget package agreed in February 2022 an indicative capital programme for 2023-26 was approved. A ten year capital vision is now under development and consideration will need to be given to ensure it remains affordable and deliverable and in particular that:
 - the capital programme is set within Prudential borrowing limits and in line with the Council's capital financing strategy as approved by Members in February 2022;
 - the investment supports the delivery of the Council Plan, the Recovery and Reform Plan and supports investment to transform and sustain the Council; reducing pressures on the revenue budget;
 - the programme reflects the future structure of the Council; and
 - the programme considers projects which could deliver a return to the Council on an invest to save basis.
- 4.45. The Council's current fiscal policy limits the amount of its net expenditure that can be allocated to support historic, current and future capital programmes. It currently commits £21m of its available revenue resources to supporting capital schemes.

Commercial Investment Strategy

- 4.46. As well as ensuring that it can afford to fund core services and meet its capital investment priorities the Council also needs to consider how it uses its assets and influence to enable growth and generate income for reinvestment into future services. The Commercial Investment Strategy outlines how the Council will undertake and manage such investments and provides a framework against which it can manage its risk exposure. The Strategy is updated as part of the Budget Report each year.
- 4.47. **New Investment** - While the Investment Strategy allows for new investment where value for money criteria can be met; given the volatility in the economy at present, the current focus is on sustaining existing income sources and reducing risks over the longer term. This is also consistent with tightening government controls which seek to discourage speculative investment that does not directly benefit the borough.
- 4.48. During the last year commercial investment has been limited. The primary areas of investment include providing £3m of loans to support local business growth within enterprise zones (to be recovered via the Local Enterprise Partnership) and commencement of a programme to rebalance the Council's commercial property portfolio, in order to reduce costs and improve the sustainability of the £9m of income these assets generate.
- 4.49. **Investment Risks** - The investment strategy also considers the performance of, and risk associated with, existing Council investments. The Council regularly carries out resilience reviews on the future value of such investments to ensure that they remain capable of meeting any repayments or income targets associated with them, and if not, ensuring it has made sufficient provision for any potential shortfall in its revenue budgets.
- 4.50. The most significant of these are the previous investments to regenerate key sites at Baron's Quay and Winsford Cross and the scheme nearing completion at Northgate. Collectively these sites represent an investment of over £160m and they are expected to generate trading surpluses, which will fund (or contribute towards) the cost of financing their development costs. Any shortfall from these targets will create budget pressures on the Council.
- **Barons Quay (Northwich)** –Despite some loss of traders during the pandemic, positive steps are being made toward filling long-standing voids at the site, and in 2022-23 the scheme is expected to be able to begin paying down historic debts for the first time. The latest financial resilience review affirmed that there was no change in the underlying value of the scheme, and the £2.1m risk funding already included within the Council's budget remains appropriate
 - **Winsford Cross (Winsford)** - Work is currently underway to consolidate and reduce the number of units in Winsford Cross as part of the wider Winsford Future High Street Fund development. On completion this will enhance the value of the scheme as the number of empty units are reduced but in the interim, this will create short term cost pressures (£0.2m

deficit in 2022-23). Despite such costs, there is no material change to the underlying value of the site, and the existing £0.8m resilience budget is sufficient to reflect risks.

- **Northgate Development (Chester)** – The Northgate scheme, comprising a multi-storey car park, cinema, market and restaurants, is due to open in late 2022. Once fully established, the development is expected to generate a net annual operating surplus of £2.6m, which will part fund the upfront cost of development. While the site is not yet open, and significant risks remain, good progress has been made and initial demand for units has been strong; it is currently expected that the net income target will be achievable. As some risks (e.g. parking demand, footfall, trading performance) cannot be fully assessed until the site is operational, and some units are not yet fully let, the existing resilience risk budget of £0.5m is still considered necessary.

4.51. **Balance Sheet Risks** - Outside of these key commercial developments, the Council also carries risks where it has exposure to potential losses or liabilities. For example, where it provides loan support to other bodies, the repayment of which is dependent on the success of those organisations, or where it underwrites risks through providing pension guarantees. A holistic review of such arrangements is carried out every six months.

4.52. In the latest review the overall level for such risks marginally reduced. This reflects a reduction in the level of outstanding loans with Council companies, continued recovery of compensatory payments due from the Council's former waste collection provider and positive pension valuations for supported entities. Total unfunded risk remains below £5m and at such a level is considered to be manageable from within the Council's wider reserves.

Council Companies

4.53. The Council owns outright or has material interests in a number of separate bodies who provide services to the Council or on its behalf. While they operate at arms-length from the Council, the Council ultimately remains at least partially responsible for their performance and can be impacted by financial pressures they face and risks they carry. As such it is prudent for the Council to recognise potential cost pressures the companies face in its financial scenario, to the extent that they may affect the Council's future budgets.

4.54. The main risk over the current financial planning period will relate to Brio, and the health, wellbeing, and leisure services they provide. Brio is facing challenges to both their income, which has yet to fully recover from Covid, and their cost base which is particularly vulnerable to high cost inflation on energy, wages, and maintenance costs. The recent First Review report highlighted an underlying deficit of £4m in 2022-23.

4.55. The Council is working with Brio on options to mitigate these pressures as part of a recovery plan. The outcomes of that work will be reflected in the Council's budget report in February. It is not anticipated that the deficit will be

fully addressed for 2023-24, and Brio may require additional financial support while savings are delivered. This risk has been reflected in the financial scenario in this report.

4.56. Other Council companies are also facing budget pressures as a result of cost and wage inflation and a squeeze on schools' funding. Where the Council ordinarily funds such services, those costs are reflected as inflation pressures in the Council's budget planning process. Where they are reliant on third party funding, they represent a risk that will need to be managed.

4.57. The Council continues to work closely with all of its companies experiencing income or cost pressures so that it can consider any actions that the companies may need to take to manage these costs.

Next Steps/Timetable

4.58. Given the period covered by the existing Spending Review is up to 2024-25 the intention is to use the stability provided by those national headlines to set a two year budget for 2023-24 and 2024-25.

4.59. The key next steps are as follows:

- Cabinet budget planning sessions to refine the budget package and bridge the funding gap;
- Continue to review and refine the financial scenario in light of the latest information available;
- Budget engagement;
- Consider the budget package in light of the Provisional Local Government Financial Settlement expected in December 2022; and
- Finalise a budget package in early January 2023 with the draft Budget Report to be considered by Cheshire West and Chester Overview and Scrutiny Committee and Cabinet before full Council.

Reserves and Balances

4.60. As part of its financial management process the Council ensures it has set aside resources in reserves to fund costs that will arise as a result of existing plans and commitments, to fund future investments and to safeguard against unforeseen circumstances. The Council's approach to managing these reserves and provisions was set out in the Budget Report approved by Council in February 2022.

4.61. Following the risk assessment undertaken at that time it was considered an appropriate level of general reserves for the Council would be in the region of 7.5% of the net revenue budget and 3% of the gross revenue budget. Allowing some flexibility around this figure for changing circumstances, a General Fund balance between £24.3m and £27.3m would be considered prudent as a target for March 2023.

4.62. As at March 2022 the Council held general reserves of £25.5m (£24.7m in 2020-21) and earmarked reserves of £148.4m (£183.5m in 2020-21). At

March 2023 the forecast balance on General Reserves is £24.7m, which is within the risk assessed range. Earmarked reserves are set aside for specific purposes which could be determined by statute (e.g. schools funding), by the Council to coincide with policy objectives or agreed with partners who also contribute to the reserve. There is a risk that the current year's financial pressures may impact on this position.

- 4.63. As part of this budget setting process the Council will review all of its reserves and balances with due regard being given to the impact of any emerging issues and any other strategic financial decisions that will be made over the next four years.

Debt/Borrowing

- 4.64. Members will recall from the Treasury Management Strategy approved in February 2022 that since the Council came into being on 1 April 2009, due to the prevailing market conditions, the Council has chosen not to undertake any long term borrowing to support its capital expenditure. This is with the exception of the Northgate and Barons Quay regeneration projects and the buy-out from the HRA subsidy system as a result of the implementation of self financing. The Council has instead chosen to temporarily fund capital expenditure by internally borrowing resources from its existing reserves, provisions and the excess of creditors over debtors.
- 4.65. When long term interest rates (which determine interest payable on new long term loans) are significantly higher than short term interest rates, and this situation is expected to prevail for the foreseeable future, then a policy of internal borrowing is appropriate as it minimises the net cost of interest payable to the revenue account over the medium term. A policy of internal borrowing also reduces the credit risk faced by the Council.
- 4.66. When the Council's cash balances have reduced to levels such that it can no longer internally borrow, and it needs to raise new long term loans, then it can do so either for a shorter or a longer period. In situations where long term interest rates are below short term interest rates and are forecast to remain so then the approach would be to borrow for a longer period. In periods when long term interest rates are higher than short term rates or are at exceptionally high levels and are expected to fall back, then the approach will be to borrow for a short period (possibly only for a few months at a time), on a repeated basis until such time as long term interest rates fall back. At that point the option of borrowing for a longer period would be considered. This approach would accord with advice from the Council's treasury management advisor, Arlingclose.
- 4.67. At 31 March 2022 the Council had £292m of external borrowing (loans advanced from the Public Works Loan Board (PWLB), commercial banks and local councils) and £255m of internal borrowing. Of the £255m, £134m was inherited from the legacy councils at Local Government Reorganisation, which incurs £5.9m interest per year.

- 4.68. The advice from Arlingclose is that the Council should continue with its existing policy of internally borrowing rather than undertaking significant new long term borrowing to repay the internal borrowing for as long as it is possible. The capital financing budget for the Council will therefore reflect this policy. Officers will, however, continue to liaise with Arlingclose on this issue and should the advice received change Members will be advised accordingly.

5. How does the decision contribute to the Council's Plan?

- 5.1. The decision will contribute towards ensuring the Council's resources are well managed and reflect the outcomes its residents want it to achieve.
- 5.2. It will allow the Council to plan its financial management over the four year period, maintain financial stability and focus on delivering first class services built around the needs of its residents. It will facilitate the move towards being a modern and efficient council, with an improved customer experience and improved performance.
- 5.3. It will further strengthen financial controls and risk management as the Council seeks to continue to invest in and regenerate the borough during a period of reducing revenue expenditure by ensuring that the balance between revenue and capital expenditure is kept under regular review.

6. How does the decision contribute to closer working with Partners?

- 6.1. The Council Plan and accompanying budget package to which this strategy is an extension include considerable partnership working including the exploration of further integration with Health and close collaboration across the wider sub-region to encourage growth across the Borough.

7. What will it cost?

- 7.1. The financial consequences of this report have been set out in the main body of the report.

8. What are the legal aspects?

- 8.1. The Medium Term Financial Strategy is a part of the Council's Budget and Policy Framework and as such requires approval by Council.
- 8.2. Any legal implications for the Council relating to matters referred to in this report will be addressed as part of the budget setting process.

9. What risks are there and how can they be reduced?

- 9.1. The key risks are in relation to the uncertainty around the funding position for the Council, the challenging levels of inflation, the impact of Covid-19, the risks around demand led budgets (in particular Adult Social Care) and the impact on service delivery of delivering savings of this magnitude over the

next four years. These will all be key considerations that will be taken into account throughout the budget setting process.

- 9.2. The in-year (2022-23) financial position of the Council will be kept under review and the impact of any in year budget pressures will be considered as part of the budget setting process.

10. How does the decision contribute to the “All Together Fairer” priorities?

- 10.1. This will be a consideration that is taken into account throughout the budget setting process and the proposed stakeholder engagement process as set out within this report.

11. What is the impact of the decision on Health Inequalities and Equality and Diversity issues?

- 11.1. This will be a consideration that is taken into account throughout the budget setting process and the proposed stakeholder engagement process as set out within this report.

12. What are the implications of the decision on Climate Change?

- 12.1. This will be a consideration that is taken into account throughout the budget setting process and not directly within this report.

13. Are there any other options?

- 13.1. No other option is being proposed as it is considered good practice that the Council sets out medium term financial forecasts in this way and outlines the approach that it will take in managing its resources over the next four years.

For further information:

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Background Documents:

Documents are available for inspection at: The Portal, Ellesmere Port