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## **Highways and Transport Committee**

**Thursday, 23 November 2023**

### **Medium-Term Financial Strategy Consultation 2024/25 - 2027/28 (Highways and Transport Committee)**

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**Report of: Alex Thompson, Director of Finance and Customer Services (s151 Officer)**

**Report Reference No: HTC/24/23-24**

**Ward(s) Affected: All Wards;**

#### **Purpose of Report**

- 1 The Highways and Transport Committee is being asked to note the indicative financial envelope for this committee to support consultation on the development of the Cheshire East Medium-Term Financial Strategy 2024/25 to 2027/28.
- 2 The Medium-Term Financial Strategy (MTFS) sets out how the Council will resource the achievement of the Corporate Plan and is subject to consultation and approval on an annual basis. The Finance Sub-committee approved the financial assumptions for the future MTFS at their meeting in June 2023, and this report goes further in recognising the need for financial targets that enable further development of the MTFS.
- 3 Developing the MTFS requires a wide range of stakeholder engagement. Members are key stakeholders in their capacity as community leaders, but also in their capacity as decision makers in setting the Council's budget. During this financial planning cycle there has been a series of all Member events to look at the current and future financial position. The Finance-Sub Committee formed a working group to scrutinise the financial assumptions underpinning the current MTFS.

- 4 Individual Committees are being asked to review the in-year budget positions and consider how this performance, and achieving the MTFS financial envelopes, will impact on services they are responsible for.
- 5 Public engagement will follow when financial proposals have been identified that could balance the Council's budget. The January cycle of Committee meetings will be the forum to scrutinise the draft balanced proposals put forward, alongside other feedback from consultees. All feedback will be collated and provided as evidence to the Corporate Policy Committee on 8 February 2024.
- 6 Final approval of the 2024/25 budget will take place at full Council on 27 February 2024 following recommendation from the Corporate Policy Committee.

### **Executive Summary**

- 7 Financial strategies underpin how Cheshire East Council will allocate resources, achieve the Corporate Plan and provide in the region of 500 local services every day. The strategies must be affordable, based on robust estimates and balanced against adequate reserves.
- 8 In February 2021 the Council approved the Corporate Plan 2021-2025 which articulates the vision of how these services will make Cheshire East an Open, Fair and Green borough:
- 9 Open - We will provide strong community leadership and work transparently with our residents, businesses and partners to deliver our ambition in Cheshire East.
- 10 Fair - We aim to reduce inequalities, promote fairness and opportunity for all and support our most vulnerable residents.
- 11 Green - We will lead our communities to protect and enhance our environment, tackle the climate emergency and drive sustainable development.
- 12 A new Corporate Plan, referred to now as the Council Plan, is being developed to meet new criteria. These are identified as being: challenging but achievable; reflecting manifesto commitments to ensure that they are delivered to the electorate; to be co-created by a diverse range of stakeholders including Members, officers, residents, and partners; to be recognisable as uniquely Cheshire East, and; to have an outcomes framework that will allow measurement of results and review of success. The plan is expected to be approved alongside the budget in February 2024.

- 13 Committees are responsible for overseeing the achievement of the Council's priorities. Resources, including Revenue, Capital and Reserves were allocated by the Finance Sub-Committee in March 2023, following the budget Council. All resources are allocated to a specific Service Committee or the Finance Sub-Committee. This report sets out an early indication of the allocation of resources to support financial planning for the MTFS.
- 14 Each Committee is issued a separate report on the current forecast in-year financial position. As set out in the Second Financial Review report, at this point the forecast adverse variance of £18.7m represents a combination of the several issues:
- (i) National economic pressures facing all councils (such as pay inflation and interest rates).
  - (ii) Growing local demand for services which represents a permanent pressure, also being experienced locally in other councils.
  - (iii) Revised forecasts related to budget changes agreed through the MTFS process in 2022/23. This is a mix of additional growth pressures, or savings taking longer to achieve than originally envisaged.
- 15 The Second Financial Review forecasts are shown in the table below:

2023/24	Revised Budget	Forecast Outturn	Forecast Variance FR2	Forecast Variance FR1	Movement from FR1 to FR2
	(NET)				
	£m	£m	£m	£m	£m
<b>Service Committee</b>					
Adults and Health	136.5	141.2	4.7	0.3	4.4
Children and Families	80.3	91.0	10.8	7.0	3.8
Corporate Policy	41.2	40.7	(0.5)	0.9	(1.4)
Economy and Growth	24.8	22.9	(1.9)	(1.8)	(0.1)
Environment and Communities	48.7	52.3	3.5	4.2	(0.7)
Highways and Transport	11.2	12.4	1.2	1.2	(0.0)
<b>Sub-Committee</b>					
Finance Sub	(342.7)	(341.8)	0.9	1.1	(0.2)
<b>TOTAL</b>	-	18.7	18.7	12.8	5.9

- 16 Analysis of the in-year forecasts and reflecting on the outturn performance against the 2022/23 budget indicates that the most significant prevailing financial pressure is within Services that are the responsibility of the Children and Families Committee. This position is in line with top-tier Local Authorities across England where similar issues are being experienced.

- 17 The Second Financial Review also highlights the potential for very low levels of reserves being retained by the Council at year-end, with a potential £18.7m reduction being forecast. Any positive variations to the financial assumptions reviewed by the Committee should therefore be allocated to recover reserves in the first instance.
- 18 The adverse impacts in the financial review therefore need to be addressed through a re-allocation of resources from within the assumed budget for 2024/25 onwards. The immediate short-term risk to the Council's financial resilience must lead to a focus on budget setting for the 2024/25 budget only. Subsequent years of the medium term will present indicative values, with significant further work required to ensure a sustainable position can be achieved in the medium term. This is a position being widely experienced by councils across the country.
- 19 The initial reallocation of resources responds to pressure in the Children and Families committee, increasing the revenue budget for the committee by £7m compared to the MTFS presented to Council in February 2023. This transfer of resources results in a savings requirement in other Committee budgets to maintain the balanced budget requirement.
- 20 The Financial Reviews presented to Members raise awareness of the current financial position. The reports highlight that the Council has set up a series of Cheshire East Budget Emergency Response Team (CEBERT) workstreams to focus on various elements of spending and pricing controls. The work of CEBERT is focused on both the in-year position and the development of the 2024/25 budget.
- 21 This report sets out the indicative budget envelopes for all Committee budgets for 2024/25 and recommends that officers work with Members to develop further proposals to enable budgets to be set within each envelope for 2024/25.
- 22 The budget envelopes for 2024/25 for all Committees have been set as follows:

	<b>2023/24 Original Approved budget</b> £m	<b>2024/25 Policy proposals*</b> (as included in MTFS Feb 23) £m	<b>2023/24 Pay inflation shortfall</b> £m	<b>2024/25 Target growth / savings</b> £m	<b>2024/25 Revised budget envelope</b> £m
Adults and Health	136.3	+6.1	+0.8	-5.5	137.7
Children and Families	79.1	+2.9	+0.6	+6.4	89.0
Corporate	41.0	+1.0	+0.4	-1.2	41.2

Policy					
Economy and Growth	25.0	+2.4	+0.2	-0.7	27.0
Environment and Communities	48.3	-0.3	+0.7	-1.6	47.2
Highways and Transport	11.0	+1.5	+0.1	-0.4	12.3
Finance Sub (Central)	12.4	+6.1	-	-	18.4
<b>TOTAL</b>	<b>353.1</b>	<b>+19.6</b>	<b>+2.8</b>	<b>-2.8</b>	<b>372.7</b>

\*full list of existing budget proposals for 2024/25 is included at Appendix A

*Note – there may be roundings present in the table due to the presentation to one decimal place*

- 23 It is proposed that a more detailed report of service budgets is shared with Members, to support their further engagement and understanding of service-level expenditure and income, over the coming weeks.

#### RECOMMENDATIONS

The Highways and Transport Committee is recommended to:

- (a) Note the indicative budget envelope for this committee, as approved at the Finance Sub-Committee on 2 November, as a way of setting financial targets in support of achieving a balanced budget for 2024/25.
- (b) Note that officers will develop further proposals in consultation with Members to enable wider stakeholder consultation prior to approval by Council.
- (c) Note that Committees will be presented with the opportunity to further review financial proposals, designed to achieve a balanced budget, as part of their January cycle of meetings prior to recommendations being made to Council for approval.

## Background

- 24 The Council's financial resources are provided from a combination of local taxes, government grants, investment returns on assets and other direct contributions from individuals or organisations. Financial plans are based on estimated spending and income over the next four years and the report of the Chief Finance Officer brings Members' attention to the processes and risks associated with developing these estimates.
- 25 The Council aims to achieve value for money based on Economy (how much we pay for things), Efficiency (how well we use things) and Effectiveness (how we use things to achieve outcomes). Public feedback and internal and external scrutiny create the necessary framework to hold the Council to account for achieving these aims.
- 26 All councils are legally required to set a balanced budget each year and the immediate focus will be on balancing the 2024/25 financial year rather than on the whole medium term as has been the case previously. This reflects the extremely challenging circumstances all councils are facing currently.
- 27 Finance Sub-Committee received a report on 7 June setting out the MTFS 2024-28 planned timetable and budget assumptions underpinning the current MTFS. A working group from that Sub-Committee then met on 6 September to discuss these assumptions and their suitability for the medium term. Feedback from this session was then provided verbally to the Sub-Committee on 7 September.
- 28 The Budget Setting Process 2024-2028 has so far identified additional pressure on budgets across all committee areas, especially within the Children and Families area as reported in the First and Second Financial Reviews. We are not anticipating additional funding to be announced as part of the Provisional Local Government Finance settlement due to be announced, at the earliest, in December 2023.
- 29 Should any benefits emerge from the Local Government Settlement the Council should look to recover reserves that are likely to be depleted based on the current year forecasts. Service budgets must be therefore balance within the current funding envelope as reported in the MTFS in February 2023.
- 30 In response to local financial pressure, identified in the financial reviews, and reflected in a national trend, the Children and Families committee will be allocated an additional £7m compared to the current MTFS to support a response to demand in this area. Allocations have also been made across all committees to address the shortfall in the pay inflation budgeted for 2023/24. It must be noted that the final pay offer has not been agreed yet for "Green Book" employees, but the

calculation is based on the announced offer of an additional £1,925, or 3.88% (whichever is the greater) per employee.

- 31 To accommodate the changes related to the Children and Families Committee budget the remaining service committees have been reduced pro rata based on net spending to rebalance the Council's budget.
- 32 This has resulted in revised budget envelopes for 2024/25 for each service committee when compared to the published MTFS in February 2023. The revised budget envelope for the Highways and Transport Committee is included in the table above and at Appendix A – 2024/25 Budget Proposals as per MTFS February 2023, plus revised budget envelope.

### **Consultation and Engagement**

- 33 This report forms part of the consultation process for Members on the budget setting for 2024/25. Each committee will receive a similar report covering their own area of responsibilities.
- 34 Once a set of draft budget change proposals have been agreed upon there will be further opportunity during the January cycle of Committee meetings to give formal feedback from each Committee to the Corporate Policy Committee which will then lead on to the full Council meeting in February 2024.
- 35 There are plans for a series of engagement events with wider stakeholders to gather opinion and collate ideas on the final budget for 2024/25.

### **Reasons for Recommendations**

- 36 In accordance with the Constitution, Committees play an important role in planning, monitoring and reporting on the Council's finances. Each Committee has specific financial responsibilities.
- 37 The Council's annual budget must be balanced. The proposals within it must be robust and the strategy should be supported by adequate reserves. The assessment of these criteria is supported by each Committee having the opportunity to help develop the financial proposals before they are approved by Full Council.

### **Other Options Considered**

- 38 The Council has a legal duty to set a balanced annual budget taking regard of the report from the Chief Finance Officer. As such options cannot be considered that would breach this duty. Any feedback from

the Committee must still recognise the requirement for Council to fulfil this duty.

- 39 There is no option to “do nothing”. The Council has statutory obligations to provide certain services, which would be unaffordable if the Council failed to levy an appropriate Council Tax.

## **Implications and Comments**

### *Monitoring Officer/Legal*

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

### *Section 151 Officer/Finance*

- 41 The Council’s financial resources are agreed by Council on an annual basis and aligned to the achievement of stated outcomes for local residents and communities. Monitoring and managing performance helps to ensure that resources are used effectively, and that business planning and financial decision making are made in the right context.
- 42 Reserve levels are agreed, by Council, in February each year and are based on a risk assessment that considers the financial challenges facing the Council. If spending associated with in-year delivery of services is not contained within original forecasts for such activity it may be necessary to vire funds from reserves.
- 43 The unplanned use of financial reserves could require the Council to deliver a greater level of future savings to replenish reserve balances and/ or revise the level of risks associated with the development of the Reserves Strategy in future.
- 44 The risk associated with the scale of the current financial challenges both in year and in the setting of the 2024/25 budget is that the Council could act illegally, triggering the requirement for a s.114 report from the Chief Financial Officer. Illegal behaviour in this context could materialise from two distinct sources:
- (a) Spending decisions could be made that exceed the available resources of the Council. This would unbalance the budget, which is unlawful.
  - (b) Spending decisions to restrict or hide pressures could be made that avoid an immediate deficit, but in fact are based on unlawful activity.



- 45 The consequences of the Council undermining a budget with illegal activity, or planned illegal activity, is the requirement to issue a s.114 report. Under these circumstances statutory services will continue and existing contracts and commitments must be honoured. But any spending that is not essential or which can be postponed must not take place.
- 46 Further consequences would be highly likely and could include the appointment of Commissioners from the DLUHC, and potential restrictions on the decision-making powers of local leaders.

### *Policy*

- 47 The existing Corporate Plan and the new Council Plan due to be approved in February 2024 will drive and inform Council policy and priorities for service delivery. The priorities and actions may have direct policy implications and will be considered on a case-by-case basis.

### *Equality, Diversity and Inclusion*

- 48 Under the Equality Act 2010, decision makers must show “due regard” to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation;
  - (b) Advance equality of opportunity between those who share a protected characteristic and those who do not share it; and
  - (c) Foster good relations between those groups.
- 49 The protected characteristics are age, disability, sex, race, religion and belief, sexual orientation, gender re-assignment, pregnancy and maternity, and marriage and civil partnership.
- 50 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.
- 51 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.

- 52 The proposals within the MTFS include positive and negative impacts. A separate Equality Impact Assessment for the budget as a whole is routinely included in the full MTFS report each year.
- 53 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.

#### *Human Resources*

- 54 Consultation on the budget change proposals will include staff. Any changes involving staff will be managed in consultation with staff and Trade Unions.

#### *Risk Management*

- 55 Cheshire East recognises that in pursuit of its objectives and outcomes it may choose to accept an increased degree of risk. Where the Council chooses to accept an increased level of risk it will do so, subject always to ensuring that the potential benefits and threats are fully understood before developments are authorised, that it has sufficient risk capacity and that sensible measures to mitigate risk are established.
- 56 The Council also establishes a level of reserves that are adequate to protect the Council against financial risks, such as emergencies, which are not specifically budgeted for in individual years.
- 57 The Council will continue to be flexible about investing revenue funding in maintaining sustainable services and reflecting changes to the risks facing the Council. The full Budget Report will include a revised Reserves Strategy for 2024/25 to provide further detail on estimated balances and the application of reserves in the medium term.

#### *Rural Communities*

- 58 There are no direct implications for rural communities.

#### *Children and Young People including Cared for Children, care leavers and Children with special educational needs and disabilities (SEND)*

- 59 Budget change proposals and further mitigations that need to be identified which will affect the Children's area of the budget have been set out in the report to the Children and Families Committee.

#### *Public Health*

60 There are no direct implications for Public Health due to the nature of this budget being ringfenced.

*Climate Change*

61 The current Corporate Plan has a very strong environmental thread throughout with a specific aim for the Council to be 'Greener'.

62 Budget change proposals which will support the Council's commitment of being carbon neutral by 2025 will be included in the relevant Committee report to which they relate.

<b>Access to Information</b>	
Contact Officer:	Alex Thompson, Paul Goodwin, Honor Field  alex.thompson@cheshireeast.gov.uk, paul.goodwin@cheshireeast.gov.uk, honor.field@cheshireeast.gov.uk
Appendices:	Appendix A –2024/25 proposals as per MTFS February 2023, plus revised budget envelope (separate Appendix A per Committee area)
Background Papers:	<a href="#">Outturn Report 2022/23</a>  <a href="#">Medium Term Financial Strategy 2023-27</a>  <a href="#">First Financial Review 2023/24</a>  <a href="#">Second Financial Review 2023/24</a>