

OPEN

Highways and Transport Committee

Thursday, 21 November 2024

Medium Term Financial Strategy Update 2025/26 - 2028/29 (Highways & Transport Committee)

**Report of: Adele Taylor, Interim Executive Director of Resources,
Section 151 Officer**

Report Reference No: HT/22/24-25

Ward(s) Affected: All Wards

For Decision or Scrutiny: Scrutiny

Purpose of Report

- 1 The Medium-Term Financial Strategy (MTFS) sets out how the Council will resource the achievement of the Council Plan and is subject to consultation and approval on an annual basis. The Finance Sub-committee approved the financial assumptions underpinning the current MTFS at their meeting in June 2024, with a further funding update received in September 2024.
- 2 This report sets out progress since that time and further development activity required before the final MTFS 2025-29 is presented for approval to the budget setting Council in February 2025.
- 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. 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 position and consider how this performance will impact on services they

are responsible for (see Second Financial Review Report on the Agenda).

- 5 Stakeholder engagement will follow when financial proposals have been considered and identified for consultation; it is planned that this will be approved at the meeting of the Corporate Policy Committee on 28 November. The January cycle of Committee meetings will be the forum to scrutinise the draft proposals put forward, alongside other feedback from consultees. All feedback will be collated and provided as evidence to the Corporate Policy Committee on 6 February 2025.
- 6 This paper, depending on the individual service committee, is being published just before or a little after the new Chancellor's budget on Wednesday 30 October. This budget had the potential of having an impact on some of the assumptions underpinning the MTFs and officers are working to assess the impact of the announcements made. The formal Local Government Finance settlement will follow, which will include more specific details for individual councils; this is likely to be in mid-to late December. At the meeting of Finance Sub-Committee, officers will provide an update on any potential consequences that are known at the time of the meeting itself.
- 7 Final approval of the 2025/26 budget will take place at full Council on 26 February 2025, following recommendation from the Corporate Policy Committee.

Executive Summary

- 8 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.
- 9 There have been two previous reports to Finance Sub-Committee during 2024 setting out the budget assumptions underpinning the MTFs, including assumptions relating to funding, based on current expectations.
- 10 There has been a significant amount of work since that time to capture all the proposed budget changes required for 2025/26 and over the medium term, both from the transformation work and also outside of that programme, to ensure that a complete picture is being recorded.
- 11 The proposed budget changes put forward to date have been scrutinised in a series of officer challenge sessions to ensure accuracy, completeness and likelihood of success, to ensure that any future budget estimates are robust.

- 12 The proposed changes that have been compiled to date do not yet go far enough to balancing the budget in line with the revised funding envelope for 2025/26 as it is currently known. Further information on the coming years funding allocations and other important underpinning funding assumptions will be announced at the Budget on 30 October, but more detail will follow, most likely as part of the Provisional Local Government Finance Settlement in late December.
- 13 The Second Financial Review (FR2) forecasts (separate report on the agenda) have shown an improvement of £6.5m compared to FR1 (reported to September committee meetings) but are still projecting an in-year adverse variance of £20.1m - this remains a significant financial challenge for the Council. The FR2 forecast reserves, after agreed movements budgeted for in the 2024-28 MTFS, are currently £10.0m, being £0.5m of General Fund Reserves (including the forecast use of £4m for transformation costs) and £9.5m of Earmarked Reserves. The Council's level of reserves is therefore insufficient to cover the current forecast revenue outturn for the year without further action.
- 14 Both the in-year and future projections clearly show that further work needs to happen, at pace, if a balanced budget position is to be achieved by full Council in February 2025.

RECOMMENDATIONS

The Highways and Transport Committee is being asked to:

- (a) Note the progress to date on the development of the MTFS for 2025-29;
- (b) Note that officers will continue to challenge draft proposals and develop further proposals in consultation with Members prior to approval by Council;
- (c) Note that Committees will be presented with the opportunity to review the full set of 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

- 15 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.

- 16 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.
- 17 All councils are legally required to set a balanced budget each year and the immediate focus will be on balancing the 2025/26 financial year, rather than on the whole medium term, as has been the case previously. This replicates the focus last year and reflects the extremely challenging circumstances all councils are still facing.
- 18 Finance Sub-Committee received a report in June setting out the MTF5 2025-29 original planned timetable and budget assumptions underpinning the current MTF5. A working group then met during August to discuss these assumptions and their suitability for the medium term.
- 19 A further update report was then received in September setting out likely improvements to the funding envelope forecast over the medium term which reduced the overall 4-year target down from a savings position of c.£100m to c.£78m.

Table 3 – medium scenario	Estimated Position 2025/26 £m	Estimated Position 2026/27	Estimated Position 2027/28 £m
Revised Funding Position - June 2024	41.9	76.3	100.0
Social care unringfenced grant continuing over the medium term	(3.0)	(3.0)	(3.0)
New Homes Bonus – one year only	(3.5)	-	-
Additional Council Tax income	(5.9)	(12.3)	(19.3)
Revised Cumulative position	29.5	61.0	77.7

- 20 There have been some further refinements to the funding envelope for 2025/26 following the calculation of the taxbase for next year. Therefore, the revised funding envelope for 2025/26 has increased from £380.3m (as set out in the MTF5 in February 2024) to £394.8m as at October 2024. This is an increase of £14.5m. For context, the funding envelope for 2024/25 was approved at £375.7m.

- 21 Any further changes from the budget announcements by central Government on 30 October will be factored into the funding envelope where possible. It is more likely that actual allocation changes will have to wait until the Provisional Local Government Finance Settlement, which is due to be received in mid to late December 2024.
- 22 There has been a substantial amount of work undertaken since the September update to bring forward a list of proposed budget change items for 2025/26 and the later years. An internal management “MTFS tracker” system has been put in place to capture all proposals in one place. This includes all items identified by our transformation partner as per the Transformation Plan that was approved by the Corporate Policy Committee in August 2024.
- 23 Challenge sessions have since been held during October with every directorate to ensure that all proposals that have been put forward as changes for the next MTFS have been fully scrutinised for accuracy and completeness, including the ongoing effects of the pressures forecast for 2024/25. Some of the items that have been considered are as follows:
- Growth – demand/ complexity/ cost changes; to reflect elements that affect future years, respectively;
 - Contractual inflation;
 - Revenue effects of capital projects – central financing and service budgets as part of the ongoing Capital Programme Review; and to bring the programme back to an affordable position;
 - Housekeeping – items that are one-year only as opposed to permanent – to ensure correctly reflected in the tracker;
 - Fees and charges – price/ income increases – all years;
 - What discretionary services/ functions can be reduced/ stopped;
 - Savings – transformation/ other - clarity on the level of actual savings and the realistic profile to ensure that these savings are deliverable.
- 24 Transformation plan ideas have been reviewed with relevant officers and support from Inner Circle, our transformation partner, to understand, interpret and develop the ideas initially put forward. All transformation proposals in the MTFS tracker have been reviewed against the following criteria:

- Clarity around what can change; how/ when can it be delivered - is the phasing correct and deliverable;
 - Fully reflect the costs and benefits of change (net deliverable positions);
 - Reflect realistic and deliverable savings per year - important to consider/ document the detail, establish expenditure and income budget impacts.
- 25 The Second Financial Review (FR2) projections (separate report) have shown an improvement on FR1 of £6.5m; but are forecasting an in-year adverse variance of £20.1m – this remains a significant financial challenge for the Council.
- 26 FR2 forecast reserves, after agreed movements budgeted for in the 2024-28 MTFs, are currently £10.0m, being £0.5m of General Fund Reserves (including the forecast use of £4m for transformation costs) and £9.5m of Earmarked Reserves. The Council's level of reserves is therefore insufficient to cover the current forecast revenue outturn for the year without further action.
- 27 This forecast does not assume the use of the Exceptional Finance Support (EFS) that was requested in 2023/24 and 2024/25, or therefore the cost of borrowing to finance any related borrowing costs. The EFS was agreed in principle, subject to a number of conditions being satisfied, including the submission of a transformation plan by the end of August 2024.
- 28 Both the in-year and future projections clearly show that further work needs to happen, at pace, if a balanced budget position is to be achieved by full Council in February 2025.
- 29 The work identified to be done during November includes:
- Review of any impact from the Chancellor's budget on 30 October;
 - Determine the approach and commence budget consultation – to be approved at 28 November Corporate Policy Committee;
 - High Level Business Cases to be developed, to provide supporting information for each proposed budget change item;
 - Further challenge of current proposals, plus the identification of additional proposals, to help towards closing the gap for the 2025/26 budget;

- 30 It will also be important to determine whether a request for any additional Exceptional Financial Support needs to be made to central Government.

Consultation and Engagement

- 31 This report forms part of the pre consultation process for Members on the budget setting for 2025/26. Each committee will receive the same report to ensure transparency across all committee areas.
- 32 Once a set of draft budget change proposals have been prepared there will be opportunity during the January cycle of Committee meetings to give formal feedback, from each Committee, to the Corporate Policy Committee, ahead of the full Budget Council meeting in February 2025.
- 33 There are plans for a series of engagement events with wider stakeholders to gather opinion and collate ideas on the final budget for 2025/26.

Reasons for Recommendations

- 34 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.
- 35 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 budget and financial proposals before they are approved by Full Council.

Other Options Considered

- 36 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.
- 37 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

- 38 The Council must set the budget in accordance with the provisions of the Local Government Finance Act 1992 and approval of a balanced budget each year is a statutory responsibility. Sections 25 to 29 of the

Local Government Act 2003 impose duties on the Council in relation to how it sets and monitors its budget and require the Council to make prudent allowance for the risk and uncertainties in its budget and regularly monitor its finances during the year. The legislation leaves discretion to the Council about the allowances to be made and action to be taken.

- 39 The provisions of section 25 of the Local Government Act 2003, require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the chief finance (s.151) officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.
- 40 The Council should therefore have robust processes in place so that it can meet statutory requirements and fulfil its fiduciary duty. It must ensure that all available resources are directed towards the delivery of statutory functions, savings and efficiency plans. Local authorities are creatures of statute and are regulated through the legislative regime and whilst they have in more recent times been given a general power of competence, this must operate within that regime. Within the statutory framework there are specific obligations placed upon a local authority to support communities. These duties encompass general and specific duties and there is often significant local discretion in respect of how those services or duties are discharged. These will need to be assessed and advised on as each circumstance is considered.
- 41 The financial position of the Council must therefore be closely monitored, and Members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered, and that new expenditure is contained within the available resources. Accordingly, any proposals put forward must identify the realistic measures and mechanisms to produce those savings or alternative mitigations.
- 42 This report provides an update on progress for 2024/25.

Section 151 Officer/Finance

- 43 The current financial assumptions and revised timescales within this report provide up-to-date information on the Council's MTFs progress for the period 2025/26 to 2028/29, specifically aimed to setting the budget for 2025/26 which legally has to be completed by March 2025. Further details are contained within the body of this report.

Policy

- 44 The new Council Plan 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

- 45 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.
- 46 The protected characteristics are age, disability, sex, race, religion and belief, sexual orientation, gender re-assignment, pregnancy and maternity, and marriage and civil partnership.
- 47 Having “due regard” is a legal term which requires the Council to consider what is proportionate and relevant in terms of the decisions they take.
- 48 The Council needs to ensure that in taking decisions on the Medium-Term Financial Strategy and the Budget that the impacts on those with protected characteristics are considered. The Council undertakes equality impact assessments where necessary and continues to do so as proposals and projects develop across the lifetime of the Corporate Plan. The process assists us to consider what actions could mitigate any adverse impacts identified. Completed equality impact assessments form part of any detailed Business Cases.
- 49 The 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.
- 50 The Council 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

- 51 Any HR implications that arise from activities funded by the budgets that the budget report deals with will be dealt with in the individual reports to Members or Officer Decision Records to which they relate.

Risk Management

- 52 Financial risks are assessed and reported on a regular basis, and remedial action taken if and when required. Risks associated with the achievement of the 2024/25 budget and the assumptions underpinning it were factored into the 2024/25 financial scenario, budget and reserves strategy.

Rural Communities

- 53 The budget report, as approved at Council on 27 February 2024, provides details of service provision across the borough.

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

- 54 The budget report, as approved at Council on 27 February 2024, provides details of service provision across the borough.

Public Health

- 55 Public health implications that arise from activities that the budget report deals with will be dealt with as separate reports to Members or Officer Decision Records as required.

Climate Change

- 56 Any climate change implications that arise from activities funded by the budgets that the budget report deals with will be dealt within the individual reports to Members or Officer Decision Records to which they relate.

Access to Information	
Contact Officer:	Adele Taylor Interim Director of Finance and Customer Services (Section 151 Officer) adele.taylor@cheshireeast.gov.uk
Appendices:	None
Background Papers:	The following are links to key background documents:

	<p><u>Medium-Term Financial Strategy 2024-28</u></p> <p><u>Corporate Policy Committee 21 August 2024 - Approved Transformation Plan</u></p> <p><u>Finance Sub Committee 24 June 2024 Agenda</u></p> <p><u>Finance Sub Committee 12 September 2024 Agenda</u></p>
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